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# **MONTHLY REVIEW**

**Federal Reserve Bank of Atlanta**

**1976**  
**December**

## Fair Credit Billing

The Federal Reserve Bank will soon have available for distribution a new educational leaflet entitled "Fair Credit Billing." Requests for supplies should be sent to the Bank and Public Services Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303. Orders should specify number of leaflets desired and should include a complete mailing address.

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There are signs that the economy is still expanding.

Director of Research: Harry Brandt  
Editor: Teresa Wright Wiggins  
Graphics: Susan F. Pope; Eddie Lee, Jr.

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# Moderate Economic Expansion

*by Harry Brandt*

The last recession ended and the current economic expansion began in the spring of 1975. Twenty months or so later, where does this expansion stand compared to the recession bottom and pre-recession high? Real output (GNP corrected for inflation) is well above its past peak. In other words, the recession loss by this yardstick has not only been restored, but the upswing was strong enough to carry the nation's economy to a new high. Nonfarm employment is also above its previous high, and, after a severe decline, industrial production has bounced back to where it is nearly at that point (see Chart 1).

But changes in the economy have taken place so that there is still a long way to go before it is truly on higher ground; moreover, the pace of economic activity has slowed. One of the most publicized statistics, the unemployment rate, stood at 7.9 percent of the labor force in October. This is a high figure when compared to the 5-percent rate of 1973 and early 1974. Moreover, the unemployment rate has risen for three of the last four months.

**Employment Paradox?** The combination of job growth and high unemployment may seem like a paradox, but there is a partial explanation.

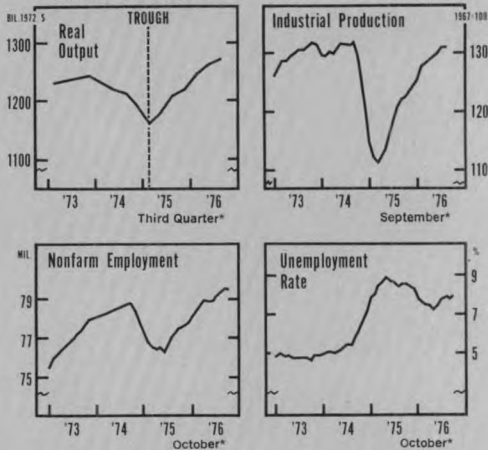
Job gains during the current economic expansion, although sizable, have been too small to absorb the unusually large increase in women and, to a lesser extent, youths seeking work. The total civilian labor force, persons either working or seeking work, grew at a faster rate in this recovery than in previous ones. As a result, the total number of people out of work remained high, hovering around 7<sup>1</sup>/<sub>2</sub> million (see Chart 2).

Yet layoffs have become less frequent during the past year so that the number of job losers among the unemployed has declined to nearly 50 percent. This is an improvement over the almost 60-percent figure of mid-1975.

Interestingly, job gains for women during this period have been greater than for men. But since more women have entered the labor force than men, the unemployment rate for women has declined less.

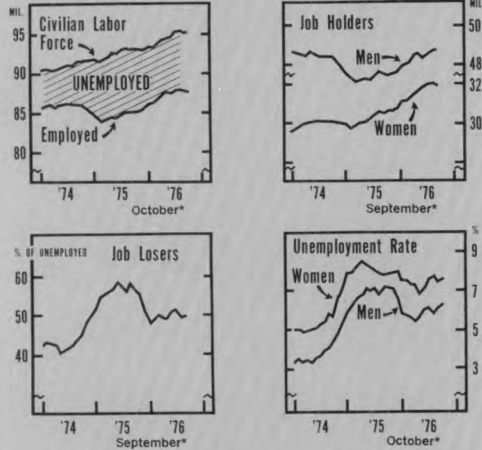
So far, it's been largely a consumer recovery (see Chart 3). Consumer spending surged dramatically after the tax cut in early 1975; residential construction has been a sporadic but improving performer. More than anything else, the change in inventories from liquidation to accumulation may have been a driving

### ECONOMIC EXPANSION (1)



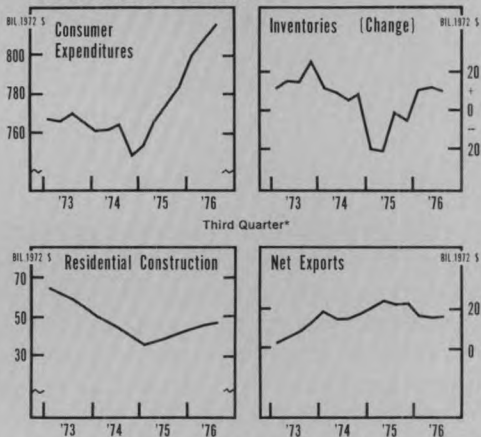
Source: Dept. of Commerce, Board of Governors, Federal Reserve System, and Dept. of Labor.

### PARADOX? (2)



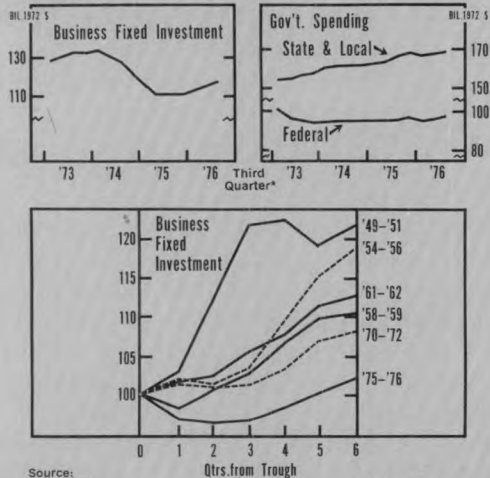
Source: Dept. of Labor

### FORCES BEHIND RECOVERY (3)



Source: Dept. of Commerce

### SECTORS (4)



Source: Dept. of Commerce

\*Latest Plotting

force in the recovery's early stages. Inventories continued to add an important dimension to overall demand until early 1976. Net exports of goods and services also boosted the U. S. economy's initial recovery considerably, but faltered in 1976.

Business fixed investment, usually a slow riser after a trough in general business activity, is making its slowest postwar comeback of any comparable period (see Chart 4). State and local government spending, as well as direct federal government spending on goods and services, have increased only slightly. Federal outlays in the third quarter, in fact, fell surprisingly short of budget projections, contributing to a slower pace in the economy.

One prominent signal of the economic slowdown after a fast start was the declining growth in industrial production (see Chart 5). A retail-buying pause seemed largely responsible, although strike activity also influenced the August and September figures. Retail sales, corrected for higher prices, grew slowly in April and declined in May, July and September. This flattening in retail sales slowed the momentum of economic recovery as much as anything else.

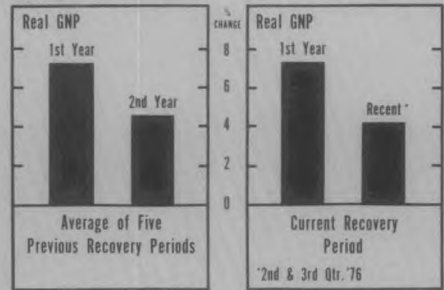
**A Pause, Not a Stall.** When placed in perspective, such pauses in the recovery are common (see Chart 6). Real GNP, on the average, has risen at a faster rate in the first year of five previous recovery periods than in the second

### SLOWDOWN



Source: Board of Governors, Federal Reserve System, and Dept. of Commerce

### PAUSE



Source: Dept. of Commerce

\*Latest Plotting

year. Correspondingly, real GNP increased 7 percent in the first year and slowed to a 4-percent annual rate in the most recent two quarters. So, recent performance is similar to the past; it does not necessarily mean the current recovery is about to abort. Only in the recovery from the 1958 recession was a year of sharp growth followed by low growth and relapse into another recession.

Few experts think this will happen. Four factors that have contributed, in varying degree, to other downturns do not exist today (see Chart 7). Inventories are not abnormally high. Defense orders are on a slight uptrend. Interest rates have been coming down and credit is readily available. The rate of inflation, measured by the broadest price measure (GNP deflator), has decelerated from 12 percent per annum in late 1974 to 4½ percent in third quarter 1976.

Although recession may not be in the near-term economic outlook, prospective price developments could be crucial to the life of this expansion. Many believe double-digit inflation was an important factor in the last recession, since it cut into purchasing power and then into spending. Price prospects may therefore be a key to future consumer spending and the ultimate staying power of the recovery.

In terms of total consumer prices, inflation in recent months leveled off somewhere between 5 and 6 percent, while food prices moved unevenly (see Chart 8). They declined in early 1976 and then rose slowly, leveling off in September. The most recent Department

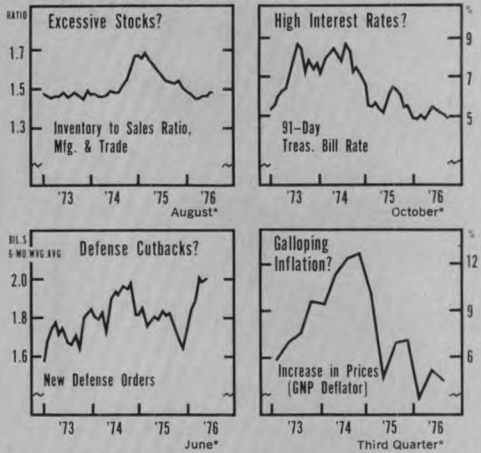
of Agriculture report still forecasts a banner year for corn production and a near record for wheat, suggesting that the near-term outlook for food production and prices remains favorable. But the lifespan of this trend is unknown. The reduction in the cattle supply is already exerting upward pressure on wholesale beef prices.

Meanwhile, increases in nonfood commodity prices speeded up this summer before slowing in September. Consumer service prices continued to rise at a moderately high rate, partly because of increasing utility rates and medical costs.

Prospects for consumer spending seem favorable, as long as inflation is kept in check and earnings keep rising. It is, therefore, disappointing that per capita disposable income (that is, income adjusted for taxes and inflation) flattened in the third quarter (see Chart 9). But on the plus side, consumer savings are still rising, judging from the enormous savings flows into nonbank thrift institutions. Consumers have reduced their installment debt relative to income, indicating that they can take on more debt. Consumer sentiment has remained fairly optimistic, further suggesting that consumer spending is likely to keep increasing, but not necessarily at a rapid clip.

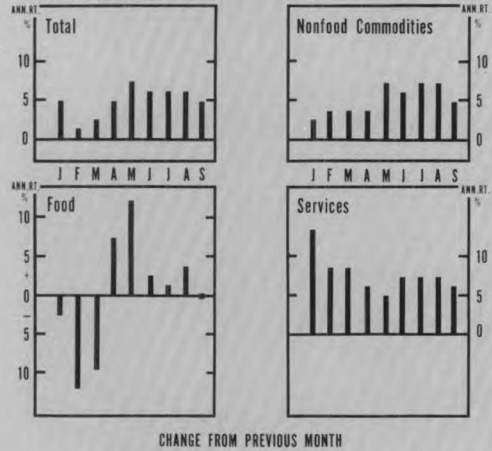
**Car Sales A Key.** Whether the economy is about to regain some of its momentum depends on several strategic sectors, notably autos (see Chart 10). Domestic auto sales in recent months have been kept down by inadequate dealer supplies

### ECONOMIC DOWNTURNS (7)



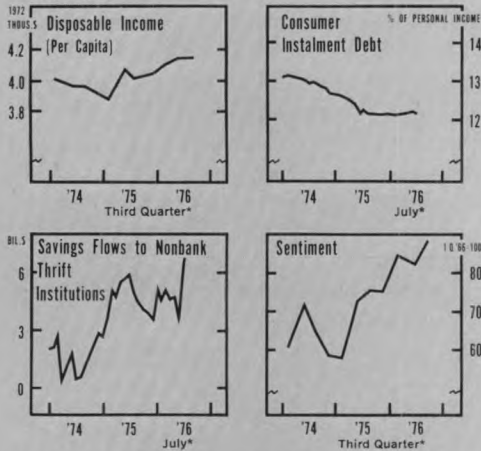
Source: Dept. of Commerce, and Board of Governors, Federal Reserve System

### CONSUMER PRICES, 1976 (8)



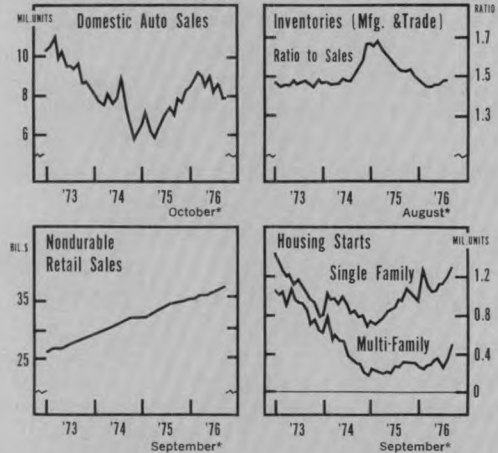
Source: Dept. of Labor

### CONSUMER (9)



Source: Dept. of Commerce, Board of Governors, Federal Reserve System, and University of Michigan

### STRATEGIC SECTORS (10)



Source: Motor Vehicle Mfrs., Dept. of Commerce \*Latest Plotting

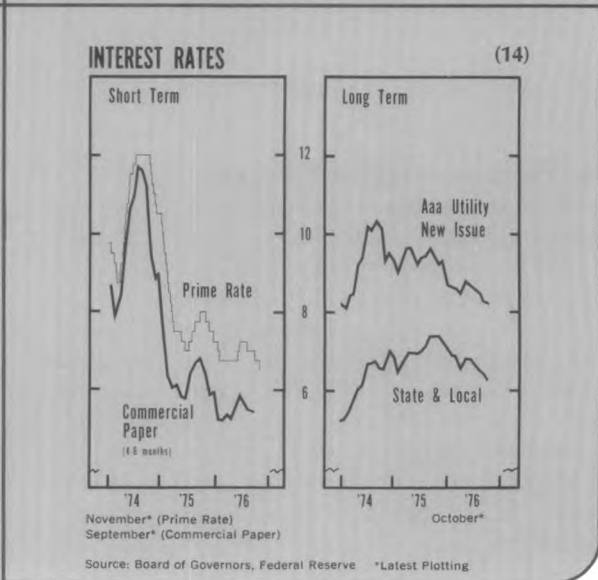
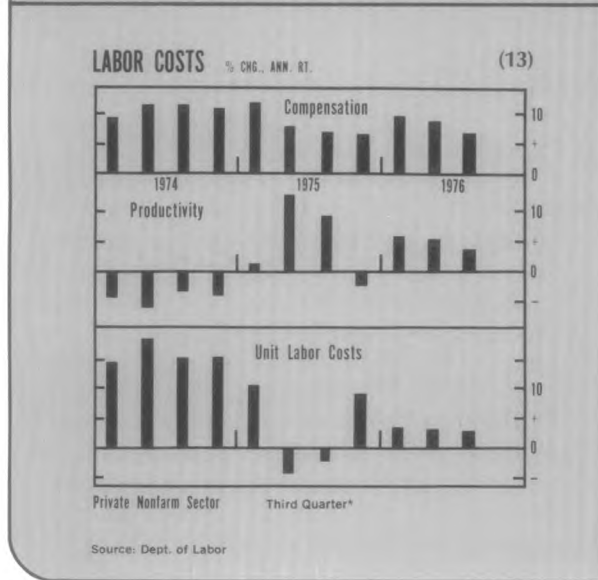
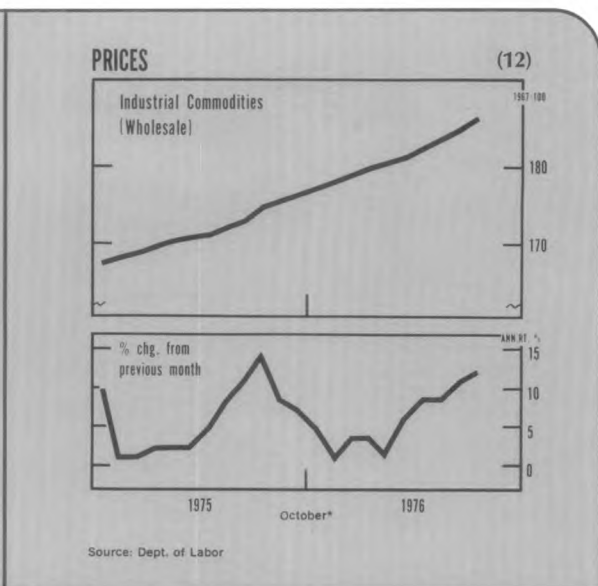
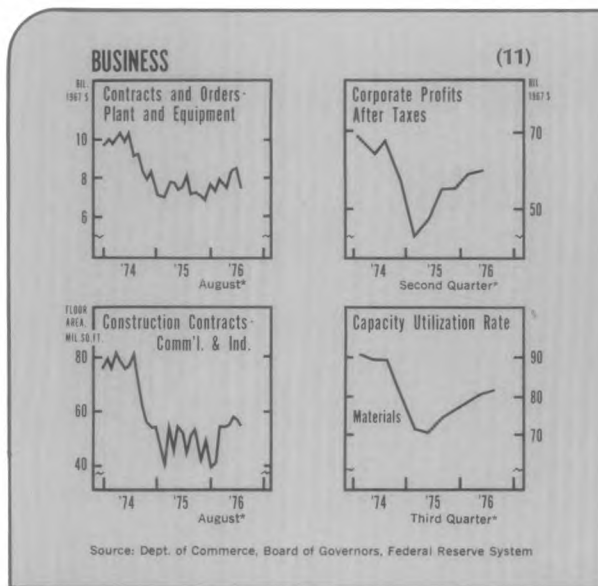
of popular intermediate and large-size cars and later by shortages caused by the Ford strike, while smaller automobiles have continued to sell slowly. Detroit's manufacturers think the gas-saving 1977 models should stimulate sales. They also hope that consumers will like the trend toward less bulky automobiles and not balk at the '77 models' price boosts, which (for other than low-priced models) were greater than the '76 increases.

Nondurable retail sales, such as food and clothing, may be another important area to watch for spending clues. These sales have shown only moderate increases lately.

Single-family housing starts, meanwhile, have

been rising from a low recession level, although the high price of homes continues to dampen demand. Construction has been brisk in some parts of the country, weak in others. Multifamily starts, on the other hand, have remained in the doldrums, except for a sharp increase in September, due to new federal commitments for low-income apartments. Earlier overbuilding, lagging rents and high construction costs have held down new apartment building.

Business decision-makers have been watching consumer spending trends, perhaps even more closely than usual. Businesses have recently been particularly cautious in their



inventory policies, adjusting stocks quickly as consumer demand changed pace. They have also been slow to increase their capital spending.

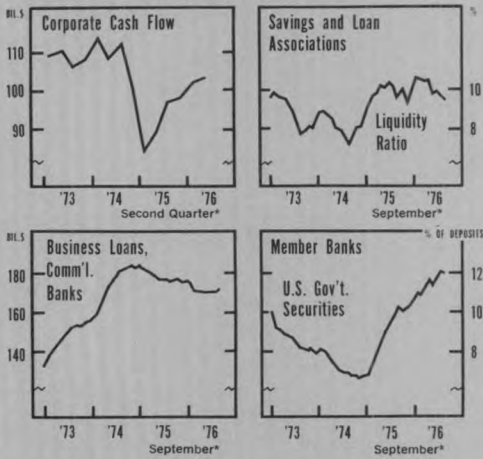
Yet considerable evidence points to brighter prospects for business spending over what it was six months ago, especially for machinery (see Chart 11). Contracts and orders for plants and equipment, an early indicator of business fixed investment spending, have been on an uptrend since late 1975. Construction contracts, representing commercial and industrial floor areas to be built, have moved up irregularly.

Rising corporate profits and a decrease in ex-

cess plant capacity are other factors favoring capital spending. In third quarter 1976, the capacity utilization rate for materials industries slightly exceeded 80 percent, compared to 70 percent in mid-1975, and a few industries are already close to what they consider ideal capacity. Nevertheless, the shortages of 1973-74 do not exist today, although bottlenecks in the economy could develop rapidly if key industries run out of excess capacity and critical supplies from overseas become scarce or are cut off.

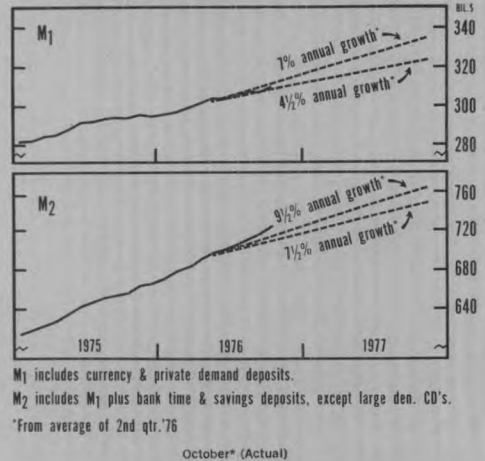
The economy may be vulnerable to pressures on prices of industrial commodities. Price changes for this key group flared up briefly

### CREDIT DEMAND AND LIQUIDITY (15)



Source: Dept. of Commerce, Federal Home Loan Bank Board, and Board of Governors, Federal Reserve System

### MONEY GROWTH & FEDERAL RESERVE TARGETS (16)



Source: Board of Governors, Federal Reserve System \*Latest Plotting

last autumn, moderated this spring and accelerated in recent months, even in the face of soft markets (see Chart 12). Some of these price hikes have recently been canceled. But industrial prices could speed up if producers succeed in passing more of their cost increases on to their customers. Industrial prices depend on many influences, including OPEC's upcoming decision on oil prices, the future strength of domestic and foreign demand, fear of price controls, the speed with which U. S. production approaches capacity and labor costs.

So far, increases in hourly compensation have not accelerated, despite boosts in some large negotiated settlements (see Chart 13). Unemployment has acted as a restraint, especially in construction, where wage increases have been much less generous than in previous years. Productivity, also crucial to labor costs, showed good gains in the first half of 1976. It typically slows as business recovers mature and production approaches capacity. As a result, it is no surprise that productivity gains slowed in the third quarter. If this development continues, unit labor costs, which so far have risen modestly, are likely to increase more rapidly. Then the upward pressure of labor costs on prices would be stronger.

**Credit Costs Drop.** A surprising development has been the continued decline in the cost of credit. Atypically, interest rates now are lower than earlier in the economic recovery (see Chart 14). Decreases have not been limited to short-term rates; they have extended to longer-term rates as well, partly reflecting the reduction in inflation and inflationary expectations.

Other developments contributed to this downward pressure on interest rates. First, the internal corporate cash flow has been large, holding down short-term private credit demands (see Chart 15). Largely for this reason, the demand for commercial bank business loans has been unusually weak for this stage of the economic upturn. Credit demands from other sectors, except the U. S. Treasury, have been moderate. Second, the liquidity of financial institutions has vastly strengthened, permitting them to accommodate credit needs at lower interest rates. Nonbank thrift institutions, including savings and loan associations, have enjoyed sharply improving liquidity ratios, as have commercial banks. Life insurance companies and pension funds have also experienced enormous cash flows. So, large sums of loanable funds are available. Third, the decline in interest rates partly reflects monetary policy measures aimed at encouraging sustainable economic recovery



without aggravating inflation (see Chart 16). While the economy has lost some of its momentum, the financial climate remains conducive to a prolonged expansion.

In retrospect, the economy's slowdown seems more like a pause than a full stop. True, it remains vulnerable to sudden shifts in expectations and influences abroad. How-

ever, good progress has been made in holding down inflation and should buoy consumer spending. Capital spending and housing should then add strength. Excessive inventories are not currently a threat, and financial conditions support continued economic expansion. ■

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# Monetary Growth Objectives

by *Stuart G. Hoffman*

Recently, there has been considerable interest in monetary aggregate growth in relation to the monetary growth objectives adopted by the Federal Open Market Committee (FOMC).<sup>1</sup> This article reviews the FOMC's success in achieving its monetary growth objectives since first publicly announcing its longer-run monetary aggregate growth ranges in May 1975. To make such an assessment, it is necessary to first distinguish between the FOMC's longer-run and short-run monetary growth intentions. To accomplish this, we begin with a "primer" on the monetary policy process. Its aim is to convey broadly how the process works without delving extensively into either the theoretical underpinnings or technical details, both of which

have been covered in other Federal Reserve publications.<sup>2</sup> This primer, just as any other, runs the danger of making a complicated and sophisticated process seem much simpler and more mechanical than it really is. Monetary policy involves much more than simply tracking monetary aggregate growth, although that is a very important part of the process. An abstraction from many of the difficulties and subtleties is made so that the basic process is more understandable.

## LONGER-RUN STRATEGY

This examination of the monetary policy process begins with the Fed's longer-run

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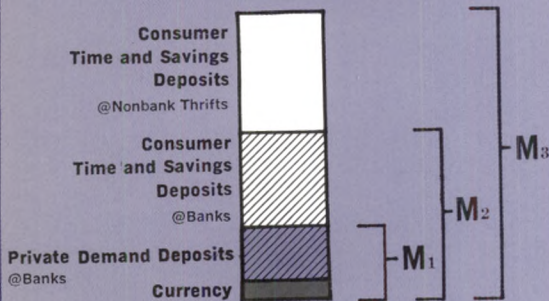
<sup>1</sup>The 12-member FOMC consists of the seven members of the System's Board of Governors, the president of the Federal Reserve Bank of New York and four other regional Reserve Bank presidents on a rotating basis. The seven nonvoting Reserve Bank presidents participate fully in FOMC discussions.

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<sup>2</sup>For more technical descriptions of the monetary policy process, see Raymond E. Lombra and Raymond G. Torto, "The Strategy of Monetary Policy," *Economic Review*, Federal Reserve Bank of Richmond, September/October 1975; William Poole, "The Making of Monetary Policy: Description and Analysis," *New England Economic Review*, Federal Reserve Bank of Boston, March/April 1975; "Numerical Specifications of Financial Variables and their Role in Monetary Policy," *Federal Reserve Bulletin*, May 1974, pp. 333-37.

Figure 1

Money Stock Definitions



strategy for monetary growth. Since May 1975, in accordance with House Concurrent Resolution 133, Chairman Burns has been testifying quarterly to Congress about the longer-run monetary growth ranges adopted by the FOMC for the period four quarters ahead. At approximate quarterly intervals, therefore, the FOMC reviews its longer-run monetary growth ranges in light of interim economic and financial developments. The Committee is aided in its discussion by staff projections of the likely differential effects of alternative monetary growth paths on the rates of unemployment, inflation and real economic growth four to six quarters into the future. After thorough deliberation, during which any FOMC member may question the staff's projections and put forth his own, specific longer-run monetary and credit growth objectives are adopted. The selected growth ranges reflect the FOMC's best assessment of the ranges most consistent at that time with the nation's broad economic goals of price stability, low unemployment and sustained real economic growth. The monetary and credit objectives are expressed as percentage growth rate ranges for the M<sub>1</sub>, M<sub>2</sub> and M<sub>3</sub> definitions of the nation's money stock

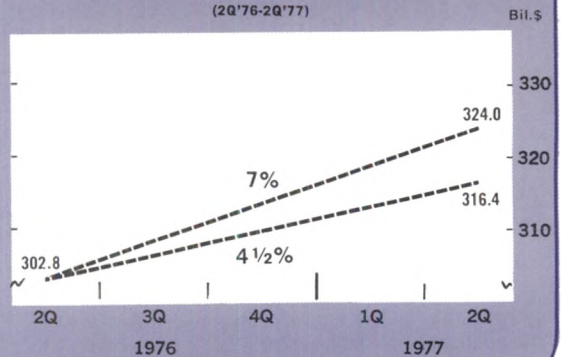
Figure 2

FOMC Longer-Run (4Q) Growth Ranges\*  
(2Q'76-2Q'77)

MONEY STOCK	GROWTH RANGES
M <sub>1</sub>	4½-7%
M <sub>2</sub>	7½-9½%
M <sub>3</sub>	9-11%

\*Adopted by the FOMC at its July 1976 meeting

Longer-Run (4Q) M<sub>1</sub> Growth Paths  
(2Q'76-2Q'77)



and for the bank credit proxy for the upcoming four-quarter period. (See Figure 1 for definitions of M<sub>1</sub>, M<sub>2</sub>, M<sub>3</sub>.)

The top box in Figure 2 shows the longer-run monetary growth ranges adopted by the FOMC at its July 1976 meeting for the second quarter of 1976 to the second quarter of 1977 period. The M<sub>1</sub> range was set at 4½ to 7 percent; M<sub>2</sub> at 7½ to 9½ percent; M<sub>3</sub> at 9 to 11 percent; and the bank credit proxy at 5 to 8 percent, all based on their second-quarter 1976 averages. The bottom panel in Figure 2 illustrates the growth range for M<sub>1</sub> with a "growth ray." The upper path represents a 7-percent growth, and the lower path a 4½-percent growth in M<sub>1</sub> from its second-quarter 1976 average of \$303 billion (the apex of the ray). The FOMC expected actual growth of M<sub>1</sub> to fall somewhere between the upper and lower growth paths, implying that the level of M<sub>1</sub> should average somewhere between \$316 billion and

\$324 billion in the second quarter of 1977. Similar growth rays are constructed for  $M_2$ ,  $M_3$  and the bank credit proxy.

## SHORT-RUN STRATEGY

Having selected a set of longer-run monetary objectives thought to be consistent with its broad economic goals, the FOMC must then develop short-run operating instructions for the Open Market Trading Desk, located at the Federal Reserve Bank of New York. These instructions are designed to achieve the Committee's longer-run monetary growth ranges with a minimum of short-run interest rate variability. Meeting each month, the FOMC reviews recent economic and financial developments, both domestically and internationally. The Committee also considers the likely influence of transitory factors, such as Treasury cash management behavior, on near-term monetary growth and the current levels of  $M_1$  and  $M_2$  relative to their respective longer-run growth paths. The FOMC discusses several alternative short-run  $M_1$  and  $M_2$  growth ranges, each consistent with the ultimate attainment of the Committee's longer-run growth objectives for  $M_1$  and  $M_2$ , but following different near-term growth patterns. Combining judgmental evaluations with econometric estimates of the past relationship between monetary aggregate growth and money market conditions, the Committee's staff estimates a federal funds rate range it believes is consistent with each alternative set of  $M_1$  and  $M_2$  short-run growth ranges. At the conclusion of these discussions, the FOMC selects a preferred set of short-run  $M_1$  and  $M_2$  growth ranges, often somewhat different from the alternative short-run monetary growth ranges presented by its staff. The short-run growth ranges are expressed as two-month average growth bands covering the month of the meeting and the following month. The FOMC then directs the Desk Manager to conduct open market operations aimed at maintaining the Federal funds rate within the range associated with the selected set of short-run  $M_1$  and  $M_2$  growth ranges<sup>3</sup>. If it subsequently becomes apparent that the short-run monetary growth and Federal

funds rate ranges are turning out to be inconsistent, the Desk Manager notifies the Committee Chairman. If an intermeeting change in the funds rate range seems necessary, the Chairman will resolve the question with other FOMC members in a special telephone conference or by telegram. Intermeeting adjustments of this type occur infrequently.

## FOMC DIRECTIVE

The Fed funds rate is the "handle" the FOMC uses to try to achieve its short-run monetary growth targets. The Desk will ordinarily be directed to hold the funds rate near its prevailing level so long as  $M_1$  and  $M_2$  are projected by the staff to grow within their specified two-month ranges. If, as the intermeeting period progresses, the projected  $M_1$  and  $M_2$  growth rates appear to move above (below) the upper (lower) ends of their respective two-month tolerance ranges, the Desk would ordinarily adjust reserve availability consistent with pushing the funds rate toward the upper (lower) end of its target range. However, the FOMC may instruct the Desk to maintain the prevailing funds rate even when projected monetary growth is outside its short-run growth range if (1) the Committee prefers to give priority to money market conditions or (2) the Committee questions the accuracy of the two-month  $M_1$  and  $M_2$  projections and prefers to wait for more confirming data on monetary growth.

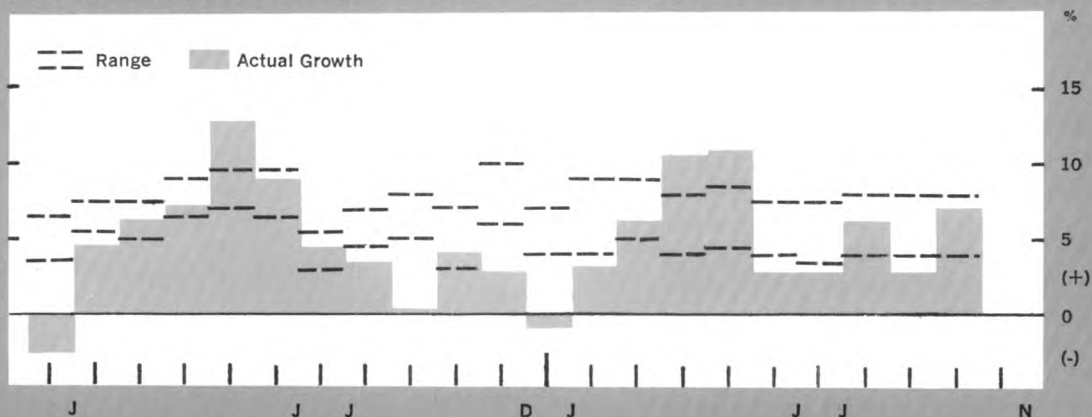
Desk open market operations—primarily purchases or sales of U. S. government securities—affect the amount of reserves available to the banking system and, thereby, influence movements in the Federal funds rate. Other policy tools, such as reserve requirement ratios and the discount rate, are available and are used occasionally, but open market operations provide the most flexible and frequently used means for implementing policy.

An example illustrates how this process

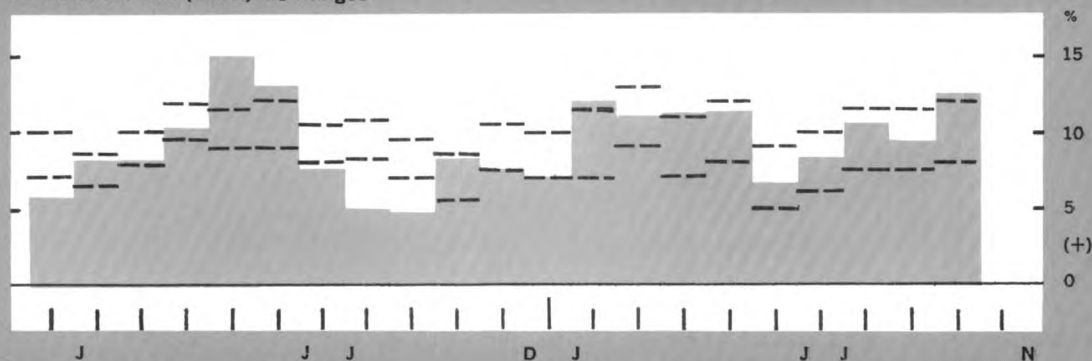
<sup>3</sup>As an example, at the September 1976 meeting, the FOMC specified that  $M_1$  should grow between 4 and 8 percent and  $M_2$  between 8 and 12 percent at an annual rate in the September-October period. A funds rate between 4<sup>3</sup>/<sub>4</sub> and 5<sup>1</sup>/<sub>2</sub> percent in the intermeeting period was considered to be consistent with those short-run monetary growth bands.

Figure 3

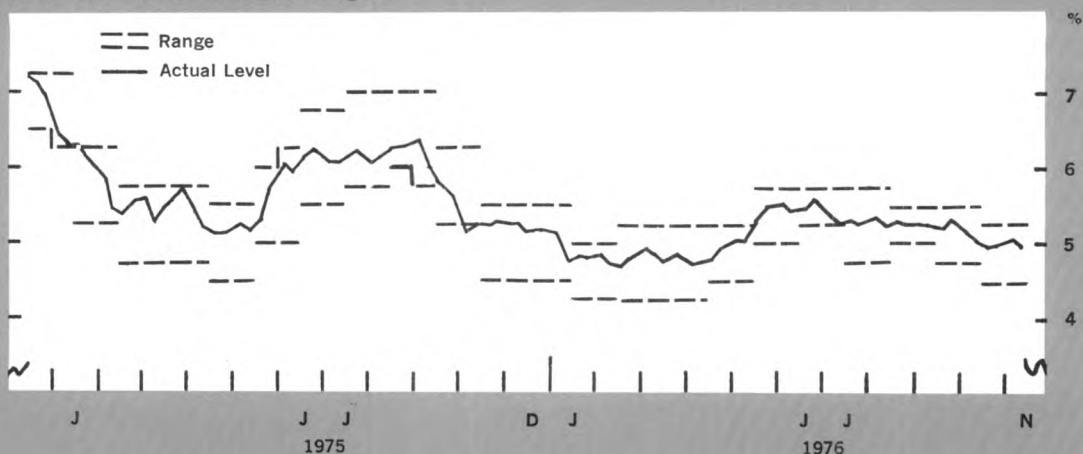
FOMC Short-Run (2-Mo.)  $M_1$  Ranges



FOMC Short-Run (2-Mo.)  $M_2$  Ranges



FOMC Short-Run Fed Funds Ranges



works. Assume that  $M_1$  and  $M_2$  are projected to grow within their respective two-month tolerance ranges and the Desk is instructed to maintain the funds rate at about its prevailing level. If other factors, such as

changes in float or U. S. Treasury cash balances, are draining reserves from the banking system and putting upward pressure on the funds rate, the Desk would *buy* U. S. government securities from U. S. government securities dealers,

a so-called open market *purchase*.<sup>4</sup> The Fed normally pays for the securities with immediately available funds, which the selling bond dealer deposits in his bank, increasing the bank's reserves and, in turn, reserves in the commercial banking system. This mitigates the reserve drain from other sources and helps relieve the upward pressure on the funds rate. In the opposite case, where changes in these other factors are supplying reserves to the banking system and putting downward pressure on the funds rate, the Desk would *sell* U. S. government securities to the dealers, a so-called open market *sale*.<sup>5</sup> When each dealer pays for his acquired securities, this decreases the dealer's bank's reserves and thus decreases reserves in the commercial banking system. This helps offset the reserves supplied by other factors and tends to relieve the downward pressure on the Fed funds rate.

## SHORT-RUN GROWTH RANGES

The top panel in Figure 3 illustrates the actual growth in  $M_1$  and its short-run (two-month) growth bands specified by the FOMC since early 1975. The height of each vertical bar represents the annualized two-month growth in  $M_1$  during the two months in which that bar is centered. The dashed horizontal lines illustrate the upper- and lower-tolerance boundaries set by the FOMC for each two-month period. The middle panel shows similar information for  $M_2$ . These charts clearly show that the Fed has had some difficulty achieving its two-month monetary growth ranges. In the 21 two-month periods since the beginning of 1975,  $M_1$  and  $M_2$  growth fell within their respective ranges only eight and 12 times, respectively. The Fed has undershot its short-run  $M_1$  range in 10 of the other 13 bimonthly periods, while the nine other two-month periods for  $M_2$  are nearly evenly split between

<sup>4</sup>The Desk often buys U. S. government securities under the condition that the dealers agree to buy the securities back within a short time period. Such an arrangement is referred to as a Repurchase Agreement (RP). It has the advantage of temporarily supplying reserves to the banking system when the Fed feels those reserves are needed for only a short period of time.

<sup>5</sup>If the Desk agrees to buy the securities back from the dealers after a short period of time, this transaction is referred to as a matched sale-purchase transaction.

over- and undershoots. The Desk's success has been much greater in achieving the FOMC's Federal funds rate range, as the bottom panel in Figure 3 clearly shows. Almost without exception, the weekly average Fed funds rate has been within its tolerance range since the beginning of 1975.

Although the Desk has consistently achieved the FOMC's prescribed funds rate range, monetary growth has more often than not been outside the FOMC's short-run ranges. These monetary-growth misses have at least two different causes. First, the FOMC and Desk Manager must act on preliminary money stock data available to them at the time. Subsequent data revisions and benchmarks sometimes change the  $M_1$  and  $M_2$  growth rates, causing them to fall outside their respective short-run ranges. Second, and more importantly, the relationship between the Fed funds rate and monetary growth is not precise over periods as short as two months. Other factors influencing monetary growth, such as the national income growth and Treasury cash balances, shift erratically during such a short period of time. Additionally, changes in the Fed funds rate are generally thought to affect growth in  $M_1$  and  $M_2$  with a lag that runs beyond the two-month control period. Closer short-run control could probably be exercised over monetary growth if the FOMC were willing to tolerate larger and more erratic intermeeting movements in the Fed funds rate by establishing a wider range of tolerance for it. However, the greater variation in the Fed funds rate would likely contribute to greater interest rate variability in other financial markets as well, in conflict with the FOMC's desire to avoid widely fluctuating money and capital market conditions in the short-run.

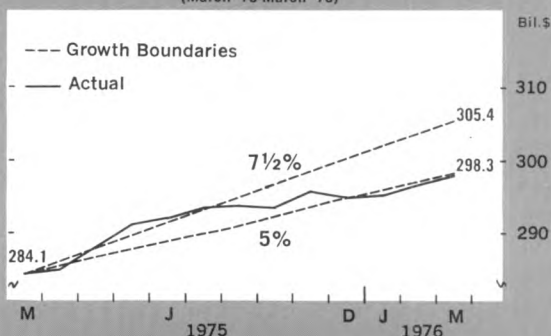
## LONGER-RUN GROWTH RANGES

The method used here to assess the degree to which the Federal Reserve has achieved its longer-run monetary objectives is to compare the levels of  $M_1$ ,  $M_2$  and  $M_3$  to those implied by their respective upper and lower growth paths at the *end* of the period to which those growth ranges apply. This allows an assessment to be made only after each period ends and thus the discussion is limited to the first three

Figure 4

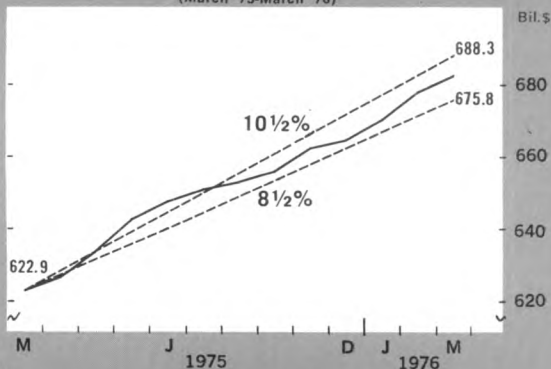
Initial FOMC Longer-Run (12-Mo.)  $M_1$  Growth Range

(March '75-March '76)



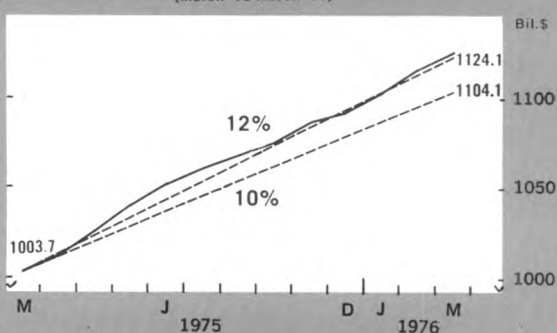
Initial FOMC Longer-Run (12-Mo.)  $M_2$  Growth Range

(March '75-March '76)



Initial FOMC Longer-Run (12-Mo.)  $M_3$  Growth Range

(March '75-March '76)



sets of longer-run monetary objectives adopted by the FOMC. One drawback of this approach is that it does not take explicit account of the interim growth path of the monetary aggregates between the beginning and end of each period. However, tentative evidence suggests that fairly large monthly or quarterly deviations from the longer-run objectives do no significant harm to the economy, if monetary growth over perhaps a four-quarter period averages out within the FOMC's growth ranges. While the assessment here gives greater emphasis to end-of-period levels compared to those levels implied by the FOMC's upper and lower growth paths, the "growth ray" diagram outlined earlier is used to illustrate the interim pattern of monetary aggregate growth.

At its April 1975 meeting, the FOMC adopted initial longer-run (12-month) growth ranges of 5 to 7 1/2 percent for  $M_1$ , 8 1/2 to 10 1/2 percent for  $M_2$ , and 10 to 12 percent for  $M_3$ , based on their March 1975 levels. Figure 4 shows the March 1975 to March 1976 growth of  $M_1$  (top panel),  $M_2$  (middle panel) and  $M_3$  (bottom panel) in relation to their respective longer-run "growth rays." Despite fluctuations in the month-to-month growth rates during this period, the March 1976 level of  $M_1$  was nearly equal to that called for by its lower path; the March 1976 level of  $M_2$  was at the midpoint of its longer-run growth range; and the March 1976 level of  $M_3$  was just slightly above that consistent with its upper growth path.

At its July 1975 meeting, the FOMC considered the economic situation essentially unchanged from several months earlier and, therefore, maintained the 5- to 7 1/2, 8 1/2- to 10 1/2- and 10- to 12-percent longer-run ranges for  $M_1$ ,  $M_2$  and  $M_3$ , respectively. However, the base period was changed to the second quarter of 1975, instead of the final month of the base quarter. At its October 1975 meeting, the FOMC again retained a 5- to 7 1/2-percent range for  $M_1$  and moved its base period ahead to the third quarter of 1975. Both the  $M_2$  and  $M_3$  longer-run growth ranges were widened by a one-percentage-point reduction in the lower end and were also based on the third quarter of 1975. These adjustments were made because a rise in market interest rates from heavy Treasury borrowings was expected to moderate savings inflows to depository institutions.

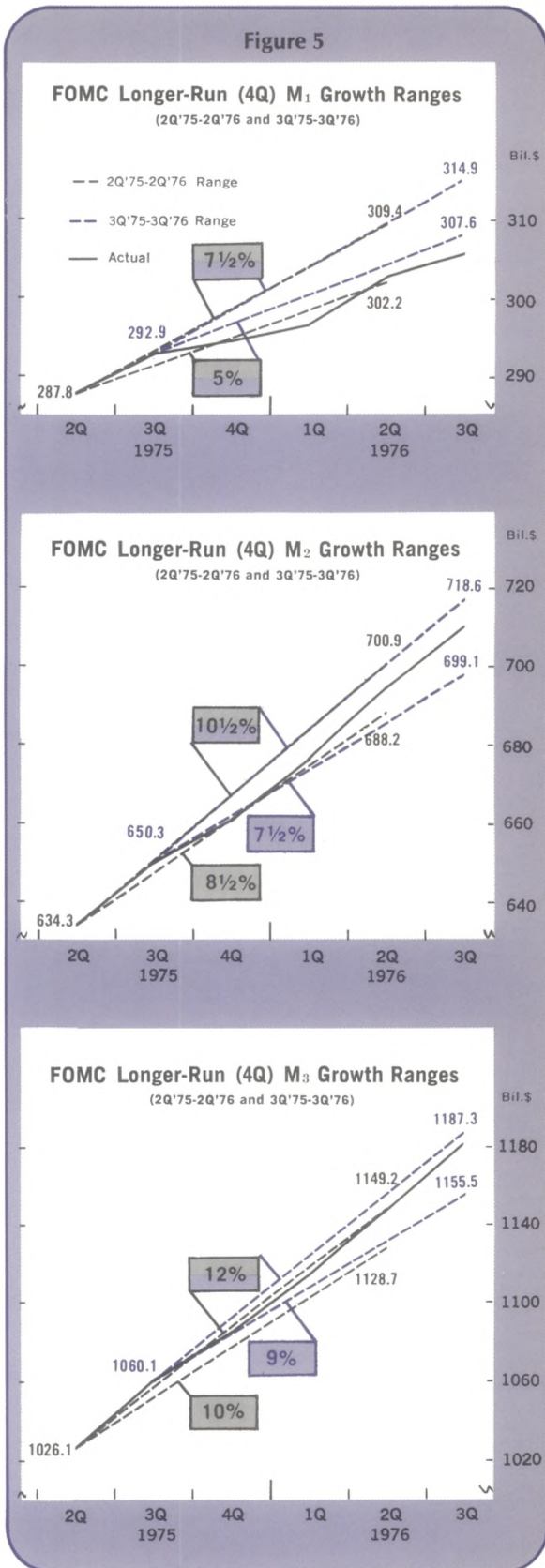
Figure 5 shows the actual quarterly average



growth of  $M_1$ ,  $M_2$  and  $M_3$  relative to their respective longer-run ranges for the second quarter 1975-second quarter 1976 (2Q '75-'76) and third quarter 1975-third quarter 1976 (3Q '75-'76) periods. The top panel shows  $M_1$  averaged \$302.8 billion in the second quarter of 1976, within but very near the lower end of its range. In the third quarter of 1976,  $M_1$  averaged \$305.9 billion, about \$1½ billion below the level consistent with the lower end of its longer-run growth range. In other words,  $M_1$  grew by 4½ percent in the 3Q '75-'76 period, slightly less than its 5-percent lower growth rate. The middle panel of Figure 5 indicates that  $M_2$  equaled \$695.0 billion in the second quarter and \$710.9 billion in the third quarter of 1976. This means that  $M_2$  grew 9½ percent in the 2Q '75-'76 period, at the midpoint of its growth range.  $M_2$  grew at a rate slightly above the midpoint of its growth range in the 3Q '75-'76 period. This panel clearly shows second and third quarter 1976 levels of  $M_2$  comfortably within the FOMC's longer-run growth ranges. The bottom panel of Figure 5 shows that the second and third quarter 1976 levels of  $M_3$  were about equal to the levels consistent with the upper ends of the Committee's longer-run growth ranges. That is,  $M_3$  grew by 12 and 11½ percent in the 2Q '75-'76 and 3Q '75-'76 periods, respectively, at the upper limits of the Committee's desired longer-run growth ranges<sup>6</sup>.

An overall assessment of the System's performance in attaining its monetary objectives is complicated by the existence of multiple monetary aggregate growth ranges and multiple time periods to which those ranges apply. However, the results suggest that the FOMC basically achieved its first three sets of publicly announced longer-run monetary growth objectives. ■

<sup>6</sup>At the time of this writing, the FOMC has adopted three other sets of longer-run monetary growth ranges, in every case moving the base period forward one quarter, for time periods not yet ended. Interim comparisons of  $M_1$ ,  $M_2$  and  $M_3$  growth relative to their respective longer-run "growth rays" suggest the same pattern noted above:  $M_1$  growth has been about equal to its lower growth rate,  $M_2$  growth has remained within, but toward the upper end of, its growth range and  $M_3$  growth has been at the top of its growth range.



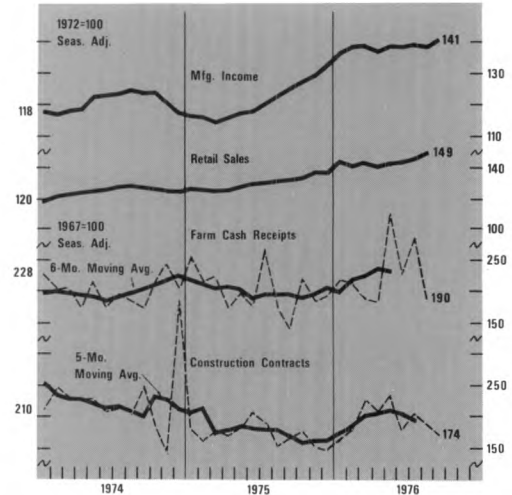
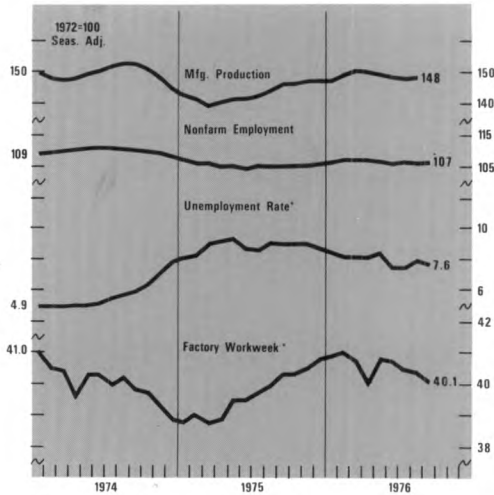
# Sixth District Statistics

Seasonally Adjusted  
(All data are indexes, unless indicated otherwise.)

	Latest Month 1976	One Month Ago	Two Months Ago	One Year Ago		Latest Month 1976	One Month Ago	Two Months Ago	One Year Ago
<b>SIXTH DISTRICT</b>					<b>Unemployment Rate</b> (Percent of Work Force)*** . . . . . Sept. 6.8 7.0 6.9 7.9				
<b>INCOME AND SPENDING</b>					<b>Average Weekly Hours in Mfg. (Hrs.)</b> . . . . . Sept. 40.6 40.5 40.7 40.2				
Manufacturing Income . . . . .	Sept. 140.8	138.0	138.8	125.8	<b>FINANCE AND BANKING</b>				
Farm Cash Receipts . . . . .	Aug. 189.9	287.7	228.0	176.8	Member Bank Loans . . . . . Oct. 308 304 295 269				
Crops . . . . .	Aug. 165.0	480.3	290.4	151.6	Member Bank Deposits . . . . . Oct. 251 247 242 226				
Livestock . . . . .	Aug. 200.9	215.6	211.8	184.9	Bank Debits** . . . . . Sept. 346 332 319 293				
Installment Credit at Banks*† (Mil. \$)					<b>FLORIDA</b>				
New Loans . . . . .	Sept. 806	869	819	791	<b>INCOME</b>				
Repayments . . . . .	Sept. 779	789	723	730	Manufacturing Income . . . . . Sept. 139.0 137.6 135.5 122.0				
Retail Sales . . . . .	Aug. 149.0	146.5r	145.5r	132.6	Farm Cash Receipts . . . . . Aug. 197.2 442.4 240.1 148.1				
<b>EMPLOYMENT AND PRODUCTION</b>					<b>EMPLOYMENT</b>				
Nonfarm Employment . . . . .	Sept. 106.5	106.1	106.7	105.3	Nonfarm Employment . . . . . Sept. 109.0 109.1 109.9 108.8				
Manufacturing . . . . .	Sept. 97.7	96.8	97.3	94.6	Manufacturing . . . . . Sept. 99.0 97.9 97.5 94.6				
Nondurable Goods . . . . .	Sept. 98.8	98.0	98.1	96.1	Nonmanufacturing . . . . . Sept. 110.6 110.9 111.9 111.1				
Food . . . . .	Sept. 96.5	95.7	95.9	95.7	Construction . . . . . Sept. 62.7 61.8 62.3 71.2				
Textiles . . . . .	Sept. 95.3	95.3	96.5	92.4	Farm Employment . . . . . Sept. 98.6 99.2 107.8 100.1				
Apparel . . . . .	Sept. 96.1	97.3	96.3	93.8	<b>Unemployment Rate</b> (Percent of Work Force)*** . . . . . Sept. 9.4 9.6 9.2 11.2				
Paper . . . . .	Sept. 98.8	98.8	98.9	95.0	<b>Average Weekly Hours in Mfg. (Hrs.)</b> . . . . . Sept. 39.9 40.7 40.9 39.7				
Printing and Publishing . . . . .	Sept. 105.9	106.0	106.0	103.8	<b>FINANCE AND BANKING</b>				
Chemicals . . . . .	Sept. 104.6	104.6	104.5	101.0	Member Bank Loans . . . . . Oct. 300 297 295 285				
Durable Goods . . . . .	Sept. 96.4	95.3	96.3	92.6	Member Bank Deposits . . . . . Oct. 264 264 262 247				
Lbr., Woods Prods., Furn. & Fix. . . . .	Sept. 88.7	87.3	88.0	85.3	Bank Debits** . . . . . Sept. 379 403 367 322				
Stone, Clay, and Glass . . . . .	Sept. 91.6	91.0	90.9	91.0	<b>GEORGIA</b>				
Primary Metals . . . . .	Sept. 98.4	98.2	98.2	92.7	<b>INCOME</b>				
Fabricated Metals . . . . .	Sept. 95.3	94.8	96.3	95.2	Manufacturing Income . . . . . Sept. 132.0 128.8 133.0 119.3				
Machinery . . . . .	Sept. 108.2	107.8	108.5	102.6	Farm Cash Receipts . . . . . Aug. 132.3 264.8 202.8 111.6				
Transportation Equipment . . . . .	Sept. 93.9	91.4	94.5	90.2	<b>EMPLOYMENT</b>				
Nonmanufacturing . . . . .	Sept. 109.2	109.0	109.7	108.7	Nonfarm Employment . . . . . Sept. 103.1 102.7 103.0 100.9				
Construction . . . . .	Sept. 81.2	80.3	80.3	86.1	Manufacturing . . . . . Sept. 95.9 94.9 95.9 91.8				
Transportation . . . . .	Sept. 104.4	104.3	104.2	101.5	Nonmanufacturing . . . . . Sept. 105.9 105.7 105.7 104.5				
Trade . . . . .	Sept. 107.6	107.8	108.3	105.9	Construction . . . . . Sept. 73.0 72.2 72.7 76.5				
Fin., ins., and real est. . . . .	Sept. 113.3	112.9	112.7	112.9	Farm Employment . . . . . Sept. 106.2 115.7 112.8 102.3				
Services . . . . .	Sept. 116.8	116.3	116.6	115.6	<b>Unemployment Rate</b> (Percent of Work Force) . . . . . Sept. 6.2 6.5 6.2 8.2				
Federal Government . . . . .	Sept. 106.9	106.6	106.5	106.8	<b>Average Weekly Hours in Mfg. (Hrs.)</b> . . . . . Sept. 39.5 40.0 40.1 40.1				
State and Local Government . . . . .	Sept. 118.2	119.0	121.2	116.9	<b>FINANCE AND BANKING</b>				
Farm Employment . . . . .	Sept. 91.9	94.5	97.5	90.5	Member Bank Loans . . . . . Oct. 258 250 256 240				
<b>Unemployment Rate</b> (Percent of Work Force) . . . . .	Sept. 7.6	7.8	7.4	9.0	Member Bank Deposits . . . . . Oct. 200 198 195 193				
<b>Insured Unemployment</b> (Percent of Gov. Emp.) . . . . .	Sept. 3.8	3.8	3.8	5.0	Bank Debits** . . . . . Sept. 442 432 407 402				
<b>Average Weekly Hours in Mfg. (Hrs.)</b> . . . . .	Sept. 40.1	40.4	40.5	40.3	<b>LOUISIANA</b>				
Construction Contracts* . . . . .	Sept. 174	190	205	168	<b>INCOME</b>				
Residential . . . . .	Sept. 168	184	175	147	Manufacturing Income . . . . . Sept. 147.6 142.2 142.1 132.3				
All Other . . . . .	Sept. 179	195	234	188	Farm Cash Receipts . . . . . Aug. 191.0 200.8 209.4 351.6				
Cotton Consumption** . . . . .	Aug. 74.9	65.3	79.3	69.5	<b>EMPLOYMENT</b>				
Petroleum Production† . . . . .	Sept. 88.0	86.6	86.3	91.5	Nonfarm Employment . . . . . Sept. 106.1 105.1 105.4 105.4				
Manufacturing Production . . . . .	Aug. 148.1	148.0	148.1	144.0	Manufacturing . . . . . Sept. 101.2 101.2 100.7 100.7				
Nondurable Goods . . . . .	Aug. 146.0	146.3	147.3	145.6	Nonmanufacturing . . . . . Sept. 107.0 105.8 106.3 106.3				
Food . . . . .	Aug. 125.1	126.8	129.7	126.5	Construction . . . . . Sept. 104.0 101.9 102.7 103.2				
Textiles . . . . .	Aug. 146.5	149.7	146.2	142.4	Farm Employment . . . . . Sept. 67.8 71.8 76.7 71.4				
Apparel . . . . .	Aug. 125.7	126.9	133.3	128.1	<b>Unemployment Rate</b> (Percent of Work Force)*** . . . . . Sept. 7.2 7.7 7.8 7.1				
Paper . . . . .	Aug. 146.6	146.0	145.4	138.0	<b>Average Weekly Hours in Mfg. (Hrs.)</b> . . . . . Sept. 41.8 41.2 41.5 41.9				
Printing and Publishing . . . . .	Aug. 129.7	129.6	129.4	127.8	<b>FINANCE AND BANKING</b>				
Chemicals . . . . .	Aug. 165.8	163.9	163.1	161.8	Member Bank Loans* . . . . . Oct. 249 245 245 241				
Durable Goods . . . . .	Aug. 151.7	150.8	149.7	141.5	Member Bank Deposits* . . . . . Oct. 227 220 220 207				
Lumber and Wood . . . . .	Aug. 163.5	162.1	160.7	146.4	Bank Debits** . . . . . Sept. 301 295 275 279				
Furniture and Fixtures . . . . .	Aug. 132.8	133.5	135.6	132.6	<b>MISSISSIPPI</b>				
Stone, Clay, and Glass . . . . .	Aug. 140.8	138.8	137.3	144.3	<b>INCOME</b>				
Primary Metals . . . . .	Aug. 104.1	104.1	102.5	101.2	Manufacturing Income . . . . . Sept. 156.6 159.0 157.7 140.0				
Fabricated Metals . . . . .	Aug. 109.7	111.8	112.2	112.1	Farm Cash Receipts . . . . . Aug. 252.3 279.3 276.6 200.8				
Nonelectrical Machinery . . . . .	Aug. 159.5	157.9	157.7	145.6	<b>EMPLOYMENT</b>				
Electrical Machinery . . . . .	Aug. 257.7	254.9	253.5	227.7	Nonfarm Employment . . . . . Sept. 106.5 106.7 107.2 104.3				
Transportation Equipment . . . . .	Aug. 151.5	150.7	147.2	134.9	Manufacturing . . . . . Sept. 99.5 99.2 100.0 96.7				
<b>FINANCE AND BANKING</b>					Nonmanufacturing . . . . . Sept. 109.9 110.3 110.6 108.0				
Loans* . . . . .					Construction . . . . . Sept. 100.8 99.4 98.6 93.9				
All Member Banks . . . . .	Oct. 282	277	275	263	Farm Employment . . . . . Sept. 78.3 73.5 87.4 67.8				
Large Banks . . . . .	Oct. 221	220	220	225					
Deposits* . . . . .									
All Member Banks . . . . .	Oct. 239	237	235	223					
Large Banks . . . . .	Oct. 199	197	195	190					
Bank Debits** . . . . .	Sept. 366	373	346	322					
<b>ALABAMA</b>									
<b>INCOME</b>									
Manufacturing Income . . . . .	Sept. 144.0	139.6	141.6	129.1					
Farm Cash Receipts . . . . .	Aug. 232.2	304.9	267.9	219.2					
<b>EMPLOYMENT</b>									
Nonfarm Employment . . . . .	Sept. 110.2	108.9	110.0	107.6					
Manufacturing . . . . .	Sept. 100.1	98.1	98.8	97.6					
Nonmanufacturing . . . . .	Sept. 114.7	113.7	115.0	112.0					
Construction . . . . .	Sept. 121.6	121.7	118.4	121.9					
Farm Employment . . . . .	Sept. 108.2	117.7	116.7	110.1					



# District Business Conditions



\*Seas. adj. figure; not an index

Latest plotting: September, except mfg. production, retail sales, and farm cash receipts, August.

Scattered signs of expansion are reappearing in the Southeast's economy. Employment rebounded, posting particularly strong gains in the manufacturing and construction sectors. Income and retail sales advances were stronger than in previous months. Farm income prospects were buoyed by increases in farm prices and good harvesting progress. However, bank lending remains languid and construction contract awards declined.

The number of total nonfarm jobs rose in September, and the unemployment rate declined in four of the five states reporting. Manufacturing employment grew both in the durable and nondurable sectors, but factory hours decreased. Job strength was particularly solid in the transportation equipment, lumber, furniture and food industries. Construction employment gains more than offset reductions in state and local government jobs.

During September, manufacturing income posted its first sizable advance since February. Retail sales were up during August, although department store sales were down slightly. Bank extensions of consumer installment credit surged; major increases occurred for auto credit, check credit and other retail consumer goods credit. Declines were registered in mobile home credit and personal loans. Consumer price increases in the second quarter moved above the national rate, following two quarters of below-national increases.

The economic position of farmers brightened with a continuation of price increases received from September to October. Preliminary data showed mid-October increases for cattle, grains and cotton, primarily reflecting improved market demand. Of-

ferings of feeder cattle appeared to be slowing down. The squeeze on hog producers was tightened by rising corn and falling hog prices. Crop harvests progressed rapidly, and recently planted small grain crops were growing well. Credit use continued to expand as some major lenders cut interest rates on loans.

Bank lending continues to advance slowly and is strongest at the medium- and small-size banks. During September, large loan gains were reported by member banks in the Knoxville, Birmingham and Jackson areas. During early October, many District banks reduced their prime lending rate to 6-3/4 percent, although in some areas a higher rate is predominant. After reducing holdings of tax-exempt municipals for nearly two years, District banks on balance began adding to their holdings in September.

Construction activity declined for the second month in September. The value of residential contract awards dropped in most parts of the region; nonresidential activity was flat. Flows into District savings and loan associations were moderate, and mortgage interest rates continued to drift downward.

Note: Data on which statements are based have been adjusted whenever possible to eliminate seasonal influences.