FEDERAL RESERVE

press release

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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 18, 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 March 18, 1975

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services was continuing to fall sharply in the first quarter of 1975, that the rise in prices was moderating, and that nominal GNP was declining. Staff projections, like those of a month earlier, suggested that real economic activity would recede further in the second quarter and that price increases would continue to moderate; they also suggested that activity would turn up later in the year.

In February retail sales had risen slightly, according to the advance estimate. Largely because of continuing efforts by business to liquidate inventories, however, cutbacks in production were again substantial and widespread. Curtailments in employment also were substantial, particularly in manufacturing establishments, and the factory workweek was reduced sharply. Although unemployment rates increased for adult males and heads of households, the over-all rate was unchanged, at 8.2 per cent, as the civilian labor force declined sharply.

The advance in the index of average hourly earnings for private nonfarm production workers accelerated somewhat in February, but it remained considerably less rapid than in the spring and summer of last year. Wholesale prices of industrial commodities again increased moderately--although the rise in prices of both consumer and producer finished goods slowed--and wholesale prices of farm and food products declined sharply further. In January, as in December, the increase in the consumer price index had not been so large as in most months in 1974.

Staff projections suggested that the decline in real GNP would not be nearly so sharp in the second quarter as in the first, in large part because of the behavior of business inventories; it was anticipated that inventories, after shifting from heavy accumulation in the fourth quarter of 1974 to substantial liquidation in the current quarter, would decline at only a moderately faster pace in the second quarter. The extent of the inventory liquidation expected in the first half--along with the improved conditions in credit markets and the stimulative fiscal measures in prospect--strengthened the probabilities of an upturn in economic activity in the second half.

Exchange rates for the dollar against leading foreign currencies--which had rallied in early February, owing in part to official intervention purchases of dollars--declined during the remainder of the month. However, the dollar strengthened again in early March, as short-term interest rates abroad continued to decline relative to rates in the United States and as market attitudes toward the dollar were improved somewhat by, among other things, moderation of the rise in U.S. prices. In January the U.S. foreign trade deficit had been only moderately above the rate in the fourth quarter of 1974, despite a large bulge in recorded imports of oil in advance of the February 1 increase of $1 per barrel in import fees. Net outflows of capital reported by banks continued large as foreigners drew down deposits in U.S. offices.

Total loans and investments at U.S. commercial banks grew very little from the end of January to the end of February. Outstanding bank loans to business declined, as business demands for short-term credit remained weak both at banks and in the commercial paper market. Consumer loans at banks also declined, while real estate loans edged up. Bank holdings of U.S. Government securities expanded sharply.

The narrowly defined money stock (M_1)--which had expanded at an annual rate of about 4.5 per cent in the fourth quarter of 1974 and then had declined at a rate of about 9 per cent in January--grew at a rate of about 7 per cent in February. Net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions were particularly large, and broader measures of the money stock (M_2 and M_3) increased at substantial rates.

Banks reduced the outstanding volume of large-denomination CD's and Euro-dollar borrowings, reflecting the growth in demand deposits and in time deposits other than CD's as well as the weakness in loan demand.

System open market operations since the February 19 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with 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. Accordingly, operations had been directed toward a gradual further easing in bank reserve and money market conditions. The Federal funds rate, which had averaged 6-1/4 per cent in the statement week ending February 19, had declined to about 5-1/2 per cent in the days preceding this meeting.

Private short-term market interest rates declined a little further over the inter-meeting period, in response to the easing in money market conditions and the weakening in private demands for short-term credit, but the declines were small, as market participants apparently came to expect that money market conditions would not ease much further in the near future. Treasury bill rates rose somewhat over the period despite strong demands for bills, because the Treasury had enlarged the supply in the weekly and monthly auctions. On the day before this meeting the market rate on 3-month Treasury bills was 5.39 per cent, compared with 5.32 per cent on the day before the last meeting. Effective March 10, Federal Reserve discount rates were reduced from 6-3/4 to 6-1/4 per cent at 10 Reserve Banks; shortly thereafter, rates were reduced at the remaining two Banks.

Yields on longer-term bonds increased during the inter-meeting period, in response to continuation of a large volume of offerings. On February 24 the Treasury announced that over the period to mid-April it would raise about $7 billion in new cash by auctioning coupon issues. Public offerings of corporate bonds remained heavy in February, and a substantial increase was in prospect for March. Actual and prospective offerings of State and local government issues during March and April also were large; in addition, the market for such securities was being adversely affected by the financial problems of a major State corporation. In the home mortgage market, yields declined somewhat further.

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 the demand for money would be weak in the near term--in association with the expected weakness in economic activity--and that money market conditions would have to ease slightly further in the period immediately ahead if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates. Some further increase in net inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions was anticipated, in response to lower short-term interest rates. While private demands for short-term credit were likely to remain weak, the Treasury would be borrowing sizable amounts of new cash over the months ahead.

The Committee decided that growth in M_1 and M_2 over the March-April period at annual rates within ranges of tolerance of 5 to 7-1/2 per cent and 8 to 10 per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The members concluded that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of 3-1/2 to 5-1/2 per cent. They agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion in a range of 4-3/4 to 5-3/4 per cent, if necessary in the course of seeking monetary growth rates within the ranges specified. The members also agreed that in the conduct of operations, account should be taken of developments in domestic and international financial markets.

of growth in both M_1 and M_2 would be above the upper limits of the ranges of tolerance that had been specified by the Committee. During the latest statement week the Federal funds rate had averaged about 5-1/2 per cent. In light of the behavior of the aggregates, the System Account Manager would, under normal circumstances, have permitted the weekly average Federal funds rate to rise to the upper limit of its range of tolerance--namely, 5-3/4 per cent. However, members of the Committee--with the exception of Mr. Sheehan--concurred in the Chairman's recommendation of March 27 that, in view of the weakness in the economy and of the sensitive conditions in financial markets, particularly bond markets, the Manager be instructed to treat 5-1/2 per cent as the approximate upper limit for the weekly average funds rate for the time being. Mr. Sheehan did not concur because he believed that, in light of past shortfalls in monetary growth and of sensitive conditions in the bond market, the Committee should continue its easing posture by gradually reducing the funds rate.

2. Authorization for domestic open market operations

On March 10 Committee members 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. This action

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

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 more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

Votes for this action: Messrs. Burns, Hayes, Baughman, Coldwell, Holland, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: Messrs. Bucher, Eastburn, and Sheehan.

Messrs. Bucher, Eastburn, and Sheehan dissented from this action because they believed that the economic situation and outlook together with recent slow growth in the monetary aggregates called for more aggressive efforts in the near term to achieve the Committee's longer-run objectives for the aggregates. In particular, they favored higher upper limits on the 2-month ranges of tolerance for the monetary aggregates and a lower inter-meeting range for the Federal funds rate than adopted by the Committee.

Subsequent to the meeting, on March 27, the available data suggested that in the March-April period the annual rates of growth in both M_1 and M_2 would be above the upper limits of the ranges of tolerance that had been specified by the Committee. During the latest statement week the Federal funds rate had averaged about 5-1/2 per cent. In light of the behavior of the aggregates, the System Account Manager would, under normal circumstances, have permitted the weekly average Federal funds rate to rise to the upper limit of its range of tolerance--namely, 5-3/4 per cent. However, members of the Committee--with the exception of Mr. Sheehan--concurred in the Chairman's recommendation of March 27 that, in view of the weakness in the economy and of the sensitive conditions in financial markets, particularly bond markets, the Manager be instructed to treat 5-1/2 per cent as the approximate upper limit for the weekly average funds rate for the time being. Mr. Sheehan did not concur because he believed that, in light of past shortfalls in monetary growth and of sensitive conditions in the bond market, the Committee should continue its easing posture by gradually reducing the funds rate.

2. Authorization for domestic open market operations

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> Votes for this action: Messrs. Burns, Hayes, Baughman, Bucher, Coldwell, Eastburn, MacLaury, Mayo, Mitchell, Sheehan, and Wallich. Vote against this action: Mr. Holland.

Mr. Holland dissented from this action because he preferred to tailor the ceiling more closely to changing needs on a month-to-month basis.

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, 1975, 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, Hayes, Baughman, Bucher, Coldwell, Eastburn, Holland, MacLaury, Mayo, Mitchell, Sheehan, and Wallich. Votes against these actions: None.