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 June 16-17, 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 June 16-17, 1975[1/]

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services--which had fallen sharply during the two preceding quarters--had leveled off in the second quarter of 1975 and that the rise in prices had moderated further. Staff projections continued to suggest that real economic activity would expand in the second half of the year and that the rise in prices would continue to slow somewhat further.

In May retail sales increased strongly, most likely in response to the disbursement of a large volume of rebates on Federal income tax liabilities for 1974 and to a reduction in current income tax withholdings. Industrial production declined slightly further, as producers and distributors in many industries continued their efforts to liquidate inventories; total business inventories had declined appreciably in both March and April. Nonfarm payroll employment increased in May, after having changed little in April, and total employment advanced for the second consecutive month. Nevertheless, the unemployment rate rose further, from 8.9 to 9.2 per cent, as the civilian labor force continued to grow at a rapid pace.

1/ This meeting was held over a 2-day period, beginning on the afternoon of June 16.

The index of average hourly earnings for private nonfarm production workers rebounded in May, after having declined slightly in April, but over the first 5 months of the year the rate of advance in the index was considerably less rapid than the rate during the second half of 1974. Average wholesale prices of industrial commodities rose slightly in May--by about as much as over the preceding 2 months--while prices of farm and food products increased moderately further. In April the rise in the consumer price index had picked up, but the average rise over the first 4 months of the year had remained well below the pace during 1974.

Staff projections for the second half of 1975 suggested moderate recovery in real output and substantial gains in nominal GNP. It was anticipated that the recovery would be spurred by rapid growth in consumption expenditures in response to the expansive income tax measures; by increases in residential construction; and by a considerable slowing in the rate of business inventory liquidation. On the other hand, it was anticipated that business fixed investment would decline somewhat further in real terms and that, as a result of the recovery in business activity in this country, imports would rise at a faster pace than exports.

Since mid-May the average exchange value of the dollar against leading foreign currencies had changed little in relatively light trading. In April the U.S. foreign trade balance remained in surplus; however, the surplus was well below the first-quarter rate, reflecting a substantially lower rate of exports. Banks' liabilities to foreigners rose more than claims in April, resulting in a small net inflow of funds compared with a large net outflow in the first quarter of the year.

Total loans and investments at U.S. commercial banks continued to expand at a slow pace during May. Outstanding loans to business declined markedly further--as did the outstanding volume of commercial paper issued by nonfinancial businesses--in association with inventory liquidation and a continued large volume of corporate financing in the capital market. As in the preceding 3 months, banks added substantially to their holdings of U.S. Government securities.

Growth in deposits was exceptionally strong at banks and at nonbank thrift institutions in May, reflecting in part the large volume of income tax rebates disbursed during the month, and M_1, M_2, and M_3 all increased substantially. Banks continued to reduce the outstanding volume of large-denomination CD's in response to the growth in other deposits and to the continued weakness in loan demand, and the bank credit proxy increased by only a small amount.

Interest rates in private short-term markets had changed little over the period since mid-May. Market rates on Treasury bills also changed little in the latter part of May, but they declined in early June, partly in response to the seasonal reduction in the supply of bills in prospect for the second half of the month. At the time of this meeting the market rate on 3-month Treasury bills was 4.88 per cent, compared with 5.11 per cent on the day before the May meeting.

Yields on longer-term securities changed little in late May--despite a continued heavy volume of corporate financing--and then declined considerably in early June, in part because the prospective size of Treasury financing through July was not so large as had been expected. Public offerings of corporate bonds expanded to a near-record volume in May, in part because of the marketing of some issues that had been postponed, and a continued large volume was in prospect for June. Offerings of State and local government issues in May and the calendar for June also were heavy. Yields on home mortgages eased in May, after having risen somewhat in April.

System open market operations since the May 20 meeting had been guided by the Committee's decision to seek to maintain about the prevailing money market conditions over the period immediately ahead, provided that monetary aggregates generally appeared to be growing at rates within acceptable ranges of tolerance. The Federal funds rate, which had been about 5-1/8 per cent in the days before the May meeting, remained within a range of 5 to 5-1/4 per cent. In the second week of June, just a few days before this meeting, available data suggested that over the May-June period both M_1 and M_2 would grow at rates well above the specified ranges of tolerance. Consequently, the System sought some tightening of bank reserve and money market conditions, and the Federal funds rate rose into a range of 5-1/4 to 5-1/2 per cent.

At this meeting the Committee reviewed the 12-month ranges for rates of growth in the monetary and credit aggregates on the average over the period from March 1975 to March 1976 that it had specified 2 months earlier, at the April meeting. The members agreed that it would be consistent with the Committee's broad economic objectives if growth within the same percentage ranges were to be realized on the average over the 12-month period to June 1976 from the currently estimated levels for June 1975.[2/]

2/ At its meeting on July 15 the Committee decided that the percentage ranges should apply to the period from the second quarter of 1975 to the second quarter of 1976, rather than from June to June.

The ranges were as follows: M_1, 5 to 7-1/2 per cent; M_2, 8-1/2 to 10-1/2 per cent; M_3, 10 to 12 per cent; and the bank credit proxy, 6-1/2 to 9-1/2 per cent. As before, it was understood that these ranges, as well as the particular list of aggregates for which such ranges were specified, were subject to review and modification at subsequent meetings. It also was understood that from month to month the rates of growth of the various aggregates might well fall outside ranges contemplated for annual periods as a result of short-run factors.

In considering current policy, the Committee took note of a staff analysis suggesting that in the months ahead strong expansion in transactions demands for money was likely if the substantial gains projected in nominal GNP materialized. If monetary growth was to be appropriately constrained, it appeared probable that some tightening of bank reserve and money market conditions would need to develop over the weeks immediately ahead.

The staff analysis also suggested that, even with some tightening in bank reserve and money market conditions, the monetary aggregates would grow at relatively rapid rates in the June-July period, in large part because of the temporary effects of income tax rebates and, in the second half of June, of one-time payments to social security recipients. It was anticipated, however, that private short-term credit demands would remain weak, as business firms continued to liquidate inventories and to issue longer-term securities in large volume.

In the course of the Committee's discussion a number of members expressed uncertainty about the extent to which rapid growth in the monetary aggregates was attributable to transitory rather than to fundamental forces affecting the demand for money. No members advocated aggressive operations at this time to tighten bank reserve and money market conditions, and there was some sentiment for continuing about the prevailing money market conditions in the period until the next meeting on the grounds that additional data might indicate that growth in the monetary aggregates was in the process of subsiding. However, some members favored a modest tightening in the period immediately ahead in order to restrain growth in the monetary aggregates, and others were prepared to accept some tightening if it proved to be necessary for that purpose.

At the conclusion of the discussion, the Committee decided that growth in M_1 and M_2 over the June-July period at annual rates within ranges of tolerance of 6-1/2 to 9-1/2 per cent and 9 to 12 per cent, respectively, would be acceptable. 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 5 to 8 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 within a range of 5 to 6 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.

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

> The information reviewed at this meeting suggests that real output of goods and services--after having fallen sharply for two quarters--has leveled off in the current quarter. In May retail sales strengthened considerably. Industrial production declined slightly further, but total employment advanced for the second consecutive month. The unemployment rate increased again, from 8.9 to 9.2 per cent, as the civilian labor force rose substantially further. The rise in average wholesale prices of industrial commodities continued to be slow; prices of farm and food products increased moderately further. The advance in average wage rates so far this year has been considerably less rapid than the increase during the second half of 1974.
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> The foreign exchange value of the dollar has changed little since mid-May. The U.S. foreign trade balance continued in substantial surplus in April, but at a rate much reduced from the first quarter. After large net outflows in the first quarter, there was a small net inflow of funds through banks in April, as liabilities to foreigners rose more than claims.
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> Growth in M_1, M_2, and M_3 was substantial in May, reflecting in part large Federal income tax rebates deposited at both banks and nonbank thrift institutions. Business demands for short-term credit both at banks

and in the commercial paper market remained unusually weak, while demands in the long-term market continued very strong. Market interest rates in general changed little during the latter part of May, but since then rates in longer-term markets and on Treasury bills have declined. Mortgage rates have eased over the past month.

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 implament 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, Baughman, Eastburn, Holland, MacLaury, Mayo, Mitchell, Wallich, and Debs. Votes against this action: Messrs. Bucher and Coldwell.

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

Messrs. Bucher and Coldwell dissented from this action because they believed that a tightening in money market conditions and the associated increase in short-term interest rates would be premature at this time, and they preferred to specify a lower range for the Federal funds rate than that adopted by the Committee. Both stressed the influence of the tax rebates and payments to recipients of social security benefits in bringing about high rates of monetary growth. Mr. Bucher, in addition, thought that primary emphasis should be given to promoting recovery in economic activity, because he believed that as yet there were no clear indications of the forces that would lead the recovery and because he saw no threat of intensified inflationary pressures so long as rates of resource use remained comparatively low.

Subsequent to the meeting, on June 26, the available data suggested that the annual rates of growth in M_1 and M_2 in June would be much more rapid than had appeared likely at the time of the meeting and that growth in both aggregates over the June-July period, therefore, would be substantially above the upper limits of the ranges of tolerance established by the Committee. In the statement week ending June 25 the Federal funds rate averaged 5.72 per cent; in the latest 3 days it had been close to 6 per cent. The System Account Manager was planning to aim for a rate of 6 per cent, the upper limit of the specified range of tolerance.

Against that background and to give the Manager some flexibility, Chairman Burns recommended on June 26 that the upper limit of the funds rate constraint be raised to 6-1/4 per cent, on the understanding that the additional leeway would be used only in the event that another week's data confirmed excessive strength in the monetary aggregates. Members of the Committee--with the exception of Messrs. Bucher, Holland, and Mitchell--concurred in the Chairman's recommendation.

2. Amendment to authorization for domestic open market operations

The Committee amended paragraph 1(c) of the authorization for domestic open market operations to authorize the Federal Reserve Bank of New York to arrange repurchase agreements (RP's) directly with bank dealers. Prior to this action, the Bank had been authorized to arrange RP's with nonbank dealers only. With this amendment, paragraph 1(c) read as follows:

> (c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

Votes for this action: Messrs. Burns, Baughman, Bucher, Coldwell, Eastburn, Holland, MacLaury, Mayo, Mitchell, Wallich, and Debs. Votes against this action: None.

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

This action was taken on recommendation of a staff committee, which advised that it would usefully broaden the scope of participation in System RP's. The staff committee also reported that experience with determination of interest rates on RP's by competitive bidding--provided for by action of the Committee in April 1972--had been satisfactory.

3. Revision of guidelines for operations in Federal agency issues

On recommendation of the Manager, the Committee amended number 5 of the guidelines for the conduct of System operations in Federal agency issues to increase the limit on System holdings of any one issue at any one time from 20 to 30 per cent of the amount of the issue outstanding, and to increase the limit on System holdings of the issues of any one agency from 10 to 15 per cent of the amount of outstanding issues of that agency. The Manager had advised that Desk operations in agency issues might soon be inhibited by the existing limits; that flexibility for operations in agency issues might prove especially useful;

and that experience gained over the past 3-1/2 years of operations in agency issues had shown that the market was capable of absorbing a larger volume of System purchases without undue impact on yields or other market relationships.

> Votes for this action: Messrs. Burns, Baughman, Bucher, Coldwell, Eastburn, MacLaury, Mayo, Mitchell, Wallich, and Debs. Vote against this action: Mr. Holland.
> Absent and not voting: Mr. Hayes. (Mr. Debs voted as alternate for Mr. Hayes.)

Mr. Holland dissented from this action because he was concerned that to date the System had bought but rarely had sold agency issues and because the limits on System holdings of agency issues might more appropriately be raised at a stage of the business cycle when the volume of new agency issues being marketed was large.