FEDERAL RESERVE

press release

For immediate release

May 24, 1976

The Federal Open Market Committee announced today that it has voted to speed up publication of the records of policy actions taken at each of its monthly meetings.

At its meeting on May 18, 1976, the Committee decided that the policy record for a meeting should be released a few days after the next regularly scheduled meeting, rather than 45 days after the meeting to which the record relates. Since the majority of meetings are held at 4-week intervals, the delay now will most often be about a month. For the minority of meetings that are followed by a 5-week interval, it will be about a week longer.

In view of this action, the FOMC and the Board of Governors today released the attached record of policy actions taken at the FOMC meeting of April 20, 1976. Under previous rules, this record would not have been made available until June 7.

A delay of approximately 45 days had been in effect since early 1975. From mid-1967 to early 1975, a delay of approximately 90 days had been in effect. Prior to mid-1967, when the rules were changed to comply with the Freedom of Information Act, the records of policy actions were published only in the Board's Annual Report to Congress.

As in the past, the policy record for a meeting will include information on any changes in the Committee's instructions to the Desk during the period before the next regularly scheduled meeting. Such changes in instructions ordinarily arise out of Committee consultations by telephone or telegraph that are held whenever necessitated by special developments.

It was understood that the record of policy actions would be expanded to include more information concerning members' views on longer-run and current policy. At the same time, the Committee voted to discontinue its Memorandum of Discussion. These Memoranda, which are detailed accounts of proceedings at meetings of the Committee, have been available to the public 5 years after the end of the year to which they apply.

The records of policy actions also 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 solely on information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on April 20, 1976

Domestic policy directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services had picked up to an annual rate of 7.5 per cent in the first quarter--from a rate of 5 per cent in the fourth quarter of 1975--and that the rate of increase in the GNP fixed-weighted price index had slowed substantially. Staff projections for the remaining quarters of this year suggested that growth in output would be moderate and that the rise in prices would be above the relatively low first-quarter pace.

In March retail sales had risen sharply--according to the advance report of the Commerce Department--reflecting a strong increase in sales at food stores and widespread gains among other types of stores. The increase in the first quarter as a whole was substantially larger than that in the fourth quarter of 1975.

Industrial production continued to recover in March, owing mainly to increases in output of automobiles, some other consumer goods, business equipment, and durable goods materials. For the second month in a row, output of all durable goods rose more than the over-all index of industrial production.

Gains in nonfarm employment were again widespread in March, and they were sizable in durable goods manufacturing industries, in trade, and in services and finance. The increase in total employment exceeded that in the civilian labor force, and the unemployment rate edged down from 7.6 to 7.5 per cent.

Private housing starts declined moderately in March--following a sharp rebound in February to the highest level in 2 years--while permits issued for private housing units remained at about the level of the preceding 2 months. Outstanding mortgage loan commitments at savings and loan associations had remained strong in February--the latest month for which data were available--and downpayment requirements on mortgage loans had been easing during recent weeks.

New orders for nondefense capital goods rose substantially further in February, recovering to about the pace of last October and November. The level of new orders was still relatively low, however, and the backlog of unfilled orders continued to decline. Nonresidential construction activity remained depressed.

The index of average hourly earnings for private nonfarm production workers rose at a less rapid pace over the first quarter of 1976 than it had on the average in 1975. In the first quarter the schedule of labor contract negotiations was light and relatively few cost-of-living wage adjustments went into effect. In April, however, a new agreement was reached in one major industry which--if approved by the union membership--would result in substantial increases in wages and other benefits over a 3-year period, including a large increase in wage rates effective April 1.

The wholesale price index of all commodities rose slightly in March--following 2 months of decline--as a continuing increase in average prices of industrial commodities was not quite offset by a further decline in prices of farm products and foods. Over the first quarter average wholesale prices of farm products, foods, and fuels declined appreciably, but average wholesale prices of other commodities rose almost as fast as during the second half of 1975. In February the rise in the consumer price index had slowed appreciably further, reflecting additional declines in retail prices of food and energy items.

The acceleration of growth in real GNP in the first quarter reflected in large part a shift to accumulation of business inventories. In addition, personal consumption expenditures rose appreciably. On the other hand, State and local government expenditures changed little, and net exports of goods and services fell sharply.

Staff projections for the remaining three quarters of 1976 suggested that personal consumption expenditures would expand at a rate near the average of the past few quarters; that residential construction and business fixed investment would continue to recover; that State and local government purchases of goods and services would rise at a relatively slow pace; and that business inventory accumulation would be substantial.

In recent weeks the average value of the dollar against leading foreign currencies had been relatively steady; the dollar had appreciated substantially against the British pound and the Italian lira--which had remained under considerable downward pressure--while it had depreciated somewhat against most other major foreign currencies. In February, as in January, the U.S. foreign trade balance registered a sizable deficit, in contrast with the large surpluses in almost all months of 1975. Reported net outflows of private capital remained moderate.

Total loans and investments at U.S. commercial banks continued to expand in March, in large part because banks again added a substantial amount to their holdings of Treasury securities. Business short-term credit demands remained weak: Outstanding bank loans to businesses declined for the second consecutive month, and the outstanding volume of commercial paper issued by nonfinancial corporations also fell.

M_1 growth in March--at an annual rate of 6-1/2 per cent--was little changed from that in February. Growth in M_2 and M_3 also was moderate in March, compared with relatively high rates in the preceding 2 months. At commercial banks, inflows of time and savings deposits other than negotiable CD's fell substantially from the exceptional pace of January and February. Inflows to nonbank thrift institutions remained strong.

On the basis of quarterly average data, M_1 grew at an annual rate of 3 per cent in the first quarter, compared with a rate of 2-1/2 per cent in the fourth quarter of 1975. However, M_2 and M_3 grew at rates of 6-1/2 and 11 per cent, respectively, in the first quarter, compared with rates of 6 and 9 per cent in the preceding quarter.

System open market operations since the March 15-16 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Data that became available week by week during the inter-meeting period suggested that in the March-April period M_1 and M_2 would grow at rates near the midpoints of the ranges that had been specified by the Committee. Accordingly, System operations were directed toward maintaining conditions of reserve availability consistent with a Federal funds rate of about 4-3/4 per cent--the rate prevailing at the time of the March meeting and the midpoint of the operating range that the Committee had specified for the inter-meeting period.

Market interest rates in general declined during the inter-meeting period, as attitudes apparently were influenced not only by the stability of the Federal funds rate but also by indications of a slowing in the rate of inflation and by reports of continued sluggish business demands for short-term credit. In the short-term area, the outstanding volume of money market instruments was reduced. At the time of this meeting the market rate on 3-month Treasury bills was about 4.75 per cent, down from about 4.95 per cent on the day before the March meeting.

In the intermediate- and longer-term area, the decline in interest rates occurred even though in March the volume of funds raised by corporations, the Treasury, and State and local governments was exceptionally large. Offerings of new corporate bonds and stocks was the second highest monthly amount on record. Interest rates on new commitments for home mortgages declined slightly in the inter-meeting period.

The Treasury was expected to announce the terms of its mid-May refunding on April 28. Of the maturing issues, $4.1 billion were held by the public.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. At the January meeting the Committee had specified the following ranges for growth over the period from the fourth quarter of 1975 to the fourth quarter of 1976: 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. The ranges being considered at this meeting were for the period from the first quarter of 1976 to the first quarter of 1977.

During the discussion of policy, many members of the Committee observed that the economic recovery had been making good progress. It was noted that expansion in output of goods and services in the first quarter had been more rapid than had been anticipated and that the expansion in activity during the period ahead might well exceed the pace suggested by the staff projections. At the same time, inflation remained a problem, and upward price pressures could intensify in the near future.

In commenting on the longer-run growth ranges, many members favored reducing the upper end of the range for M_1 by 1/2 percentage point, to 7 per cent. It was noted that the recovery in economic activity had been under way for 1 year and that the end of the new period for the growth ranges would fall 2 years after the recession trough. Moreover, the recovery recently had gained strength. Accordingly, it was observed that this might be an opportune time for the Committee to take a small step toward its longer-range objective of returning growth in the monetary aggregates toward rates consistent with general price stability.

It was stressed during the discussion that the rate of growth in M_1 needed to accommodate a good economic recovery had been overestimated earlier: Although M_1 growth in the past two quarters had fallen short of the lower limit of the range that had been specified by the Committee, it obviously had been sufficient to accommodate a strong recovery. In any case, the proposed upper limit of 7 per cent exceeded actual growth during both 1974 and 1975.

Some sentiment was expressed for reducing both the lower and the upper end of the range for M_1 by 1/2 percentage point--or even by 1 percentage point--with a view to giving more emphasis to the Committee's longer-run objective of general price stability. It was also suggested that it would be desirable to preserve the width of the range adopted by the Committee at its January meeting--by reducing the lower as well as the upper end of the range--in view of the uncertainties associated with growth in M_1 in this period of change in the public's demands for currency and demand deposits. No member advocated raising either the lower or the upper limit of the longer-run range.

For M_2, many Committee members favored reducing the upper end of the range by 1/2 percentage point for most of the same reasons that they favored reducing the upper limit for M_1. However, most members advocated retaining the 9 to 12 per cent range for M_3 that had been adopted at the January meeting. Over the past year, growth in M_3 had been faster in relation to growth in both M_1 and M_2 than had been projected, as inflows of funds into nonbank thrift institutions--which typically have been a major source of financing for home purchases--had been especially strong. By retaining the 12 per cent upper limit for M_3, the Committee would allow for the possibility that this relatively strong performance would persist.

At the conclusion of the discussion, the Committee agreed that the ranges for M_1 and M_2 should be narrowed by reducing the upper end of each by 1/2 percentage point; thus, the ranges projected were 4-1/2 to 7 per cent for M_1 and 7-1/2 to 10 per cent for M_2. The range specified for M_3, as before, was 9 to 12 per cent. The associated range for growth in the bank credit proxy remained 6 to 9 per cent.

As at earlier meetings, it was agreed 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 was also 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 M_1 was expanding at a rapid rate in April, in large part because of a substantial decline in Treasury balances. In addition, it appeared that a somewhat more typical relationship between growth in M_1 and growth in nominal GNP might be in the process of being re-established. It was expected that in the period ahead growth of time and savings deposits other than negotiable CD's would remain relatively strong. Accordingly, the staff analysis suggested that, if prevailing money market conditions were maintained over the 4 weeks until the next meeting, growth in both M_1 and M_2 in the April-May period was likely to be high relative to the Committee's longer-run target ranges.

In view of their assessment that the pace of economic expansion would be relatively strong, most members favored directing operations in the period immediately ahead toward restraining growth of the monetary aggregates within ranges not very much higher than the longer-run ranges agreed upon at this meeting and indicated that they would tolerate some modest firming in money market conditions. It was observed that some firming in money market conditions in this period would reduce the likelihood of excessive monetary growth in subsequent months.

During the discussion, the view was expressed that an appreciable tightening in money market conditions in the period immediately ahead would be premature, for a number of reasons. Although the recovery had made satisfactory progress, the rate of unemployment was still well above a desirable level. Residential construction was just picking up again, and indications of a recovery in business expenditures for plant and equipment were only now beginning to appear. Business loan demands at banks remained weak. From the third quarter of 1975 to the first quarter of this year, moreover, growth of M_1--and to a lesser extent, growth of M_2--had been low relative to the Committee's longer-run ranges. Finally, financial markets were particularly sensitive at this time, and any appreciable tightening in money market conditions could have a substantial effect on short-term interest rates and could adversely affect flows of time and savings deposits at both banks and nonbank thrift institutions.

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 April-May period at annual rates within ranges of 4-1/2 to 8-1/2 per cent and 8 to 12 per cent, respectively, would be acceptable. The Committee decided that, in assessing the behavior of the aggregates, approximately equal weight should be given to M_1 and M_2.

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 4-1/2 to 5-1/4 per cent. They also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets.

In accordance with the understanding reached at a special meeting held on March 29, 1976,[1/] the Committee did not specify an expected range for growth in reserves available to support private nonbank deposits (RPD's). At the March 29 meeting, the Committee had agreed it should consider the rates of growth in several reserve measures--including nonborrowed reserves, total reserves, and the "monetary base" (total reserves plus currency)--that were likely to be associated with growth in the monetary aggregates at the rates it specified for 2-month periods. It was contemplated that further experimentation and analysis would help the Committee to evaluate the relative usefulness of several possible reserve measures for operational purposes.

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

> The information reviewed at this meeting suggests that growth in real output of goods and services picked up in the first quarter. In March retail sales rose sharply further and recovery in industrial production continued. Gains in nonfarm employment were again widespread and the unemployment

1/ The March 29 meeting had been called for the purpose of reviewing procedures for formulating and implementing the Committee's instructions to the Manager of the System Open Market Account at the Federal Reserve Bank of New York.

rate declined from 7.6 to 7.5 per cent. Over the first quarter wholesale prices of farm products, foods, and fuels declined appreciably, but average wholesale prices of other commodities rose almost as rapidly as during the second half of 1975. 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 been relatively steady in recent weeks, while the British pound and the Italian lira have remained under considerable downward pressure. In February the U.S. foreign trade balance registered a second successive monthly deficit; reported net outflows of private capital remained moderate.

Monetary aggregates expanded moderately in March. At commercial banks, inflows of time and savings deposits other than negotiable CD's fell substantially from the exceptional pace of February; inflows to nonbank thrift institutions remained strong. Since mid-March, both short- and long-term market interest rates have declined.

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

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against this action: None. Absent and not voting: Mr. Holland.