FEDERAL RESERVE

press release

For immediate release January 15, 1973

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 October 17, 1972.

Such records are made available approximately 90 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

CONFIDENTIAL (FR)

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on October 17, 1972

Current economic policy directive

The information reviewed at this meeting suggested that expansion in real output of goods and services in the third quarter had been substantial, although well below the unusually large gain recorded in the second quarter. Staff projections continued to suggest that growth would be more rapid in the fourth than in the third quarter and that it would remain at a fast pace in the first half of 1973.

In September industrial production rose appreciably for the second successive month, and nonfarm payroll employment also continued to expand at a substantial rate. However, the labor force again grew at about the same pace as total employment and--at 5.5 per cent--the unemployment rate was essentially unchanged from its level in the three preceding months. Retail sales declined in September, but because of the sizable gains that had been recorded in July and August, sales were considerably higher in the third quarter than in the second.

Average hourly earnings of production workers on nonfarm payrolls continued to advance at a moderate pace in September, and the rise in wholesale prices of both industrial commodities and farm and food products slowed appreciably. In August the total consumer price index rose at a moderate rate although retail prices of foods increased substantially further.

Staff projections continued to suggest that expansion in consumption expenditures would be strong in the fourth quarter, in part because of the 20 per cent increase in social security benefits beginning in early October. It was still anticipated that State and local government purchases of goods and services would grow somewhat more rapidly; that business fixed investment would continue to expand; that residential construction would level off; and that inventory investment would increase further. It was expected, moreover, that defense expenditures would rise following a marked drop in the third quarter.

In foreign exchange markets the dollar had strengthened further against most European currencies since mid-September. Inflows of capital to the United States--reflecting both improved confidence in the dollar and a firming in short-term interest rates in this country relative to those abroad--had continued to offset the persistent deficit in the current account of the U.S. balance of payments, and the central bank reserves of most industrial countries had continued to change little. In August U.S. merchandise exports expanded more than imports, and the trade deficit declined somewhat.

Long-term interest rates had been stable in recent weeks. Markets generally had been influenced by growing optimism about peace in Vietnam and by the possibility of enactment of a ceiling on Federal expenditures, and bond markets also had been affected by a sharp drop in the volume of new publicly issued corporate bonds from August to September. Although the volume of such issues appeared likely to rebound in October, it was expected to be relatively small for the fourth quarter as a whole. Interest rates on short-term securities had edged higher, in part because the Treasury had increased the size of its monthly auctions of 1-year bills. On the day before this meeting the market rate on 3-month bills was 4.80 per cent, compared with 4.65 per cent on the day before the September meeting.

Contract interest rates on conventional mortgages rose slightly from August to September, but yields in the secondary market for Federally insured mortgages changed little. Inflows of savings funds to nonbank thrift institutions remained substantial in September, although well below the rapid pace in June and July.

At commercial banks, outstanding real estate and consumer loans continued to grow rapidly in September. However, expansion in outstanding business loans slowed sharply from the rapid pace in August, apparently in association with less than the usual amount of corporate borrowing to meet September tax payments. Banks increased their holdings of U.S. Government securities--after having reduced them in July and August--and continued to add to their holdings of other securities. In early October, primarily in response to increases in short-term market rates of interest, most banks raised their prime rates from 5-1/2 to 5-3/4 per cent.

Both the narrowly defined money stock (M_1)1/ and the more broadly defined money stock (M_2)2/ grew in September at about the moderate rates recorded in August. Over the third quarter, however, M_1 and M_2 grew at rates of about 8.5 and 9.5 per cent, respectively, compared with rates of about 5.5 and 8.5 per cent over the second quarter.3/ Growth in the bank credit proxy4/ was somewhat more rapid in September than in August, mainly because of an increase in U.S. Government deposits.

System open market operations in the period since the September 19 meeting had been guided by the Committee's decision to seek growth in reserves available to support private nonbank

1/ Private demand deposits plus currency in circulation.

2/ M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

3/ Growth rates cited are calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

4/ Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

deposits (RPD's) at an annual rate in a range of 9.5 to 13.5 per cent in the September-October period--in order to support more moderate growth in the monetary aggregates in the months ahead--unless disturbances arose in financial markets or unless growth in the monetary aggregates appeared to be falling far short of expectations. In fact, financial markets were calm and both M_1 and M_2 seemed to be growing moderately. At the time of this meeting it appeared that growth in RPD's over the September-October period would be close to the lower limit of the target range. The Federal funds rate was about 5 per cent in the days before this meeting, unchanged from the level prevailing just before the preceding meeting. In the 4 weeks ending October 11 member bank borrowings averaged about $560 million, compared with about $440 million in the preceding 5 weeks.

The Committee agreed that the economic situation called for growth in the monetary aggregates over the months ahead at rates less rapid than those recorded over the third quarter as a whole. Taking account of a staff analysis of the relationship between reserves and the monetary aggregates, the Committee decided that its objectives for the aggregates would be fostered by growth in RPD's during the October-November period at an annual rate within a range of 6 to 11 per cent. Accordingly, the members agreed that open market operations should be directed at constraining RPD growth within that range, while continuing to avoid marked changes in money market conditions. The members also decided that account should be taken of the effects of bank regulatory changes, should they be implemented; of Treasury financing operations; and of developments in credit markets.[5/] Moreover, they agreed that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating from an acceptable range. As at other recent meetings, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

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

> The information reviewed at this meeting suggests a substantial increase in real output of goods and services in the third quarter, although well below the unusually large rise recorded in the second quarter. In September wages and prices advanced moderately, while the unemployment rate remained substantial. In

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5/ It was noted at the meeting that the amendments to Regulations D and J, initially scheduled to become effective on September 21, 1972, but postponed as a result of court proceedings, might be implemented during the October-November period. Following the Board's decision on October 24 to implement the amendments as of November 9, 1972, the range of tolerance for the RPD growth rate was modified to 9 to 14 per cent in a technical adjustment to take account of the effects of those regulatory actions on the relationship between reserves and the monetary aggregates.

the U.S. balance of payments, the current account deficit has been largely offset by capital inflows in recent weeks, and the central bank reserves of most industrial countries have continued to change little. In August, the excess of U.S. merchandise imports over exports declined somewhat.

The narrowly and broadly defined money stock expanded at moderate rates in August and September, following large increases in July, but the bank credit proxy continued to grow rapidly. Since mid-September, short-term interest rates have increased somewhat, while yields on most long-term securities have changed little.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the effects of possible bank regulatory changes, Treasury financing operations, and developments in credit markets, the Committee seeks to achieve bank reserve and money market conditions that will support more moderate growth in monetary aggregates over the months ahead than recorded in the third quarter.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Bucher, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.