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 records of policy actions taken by the Federal Open Market Committee at its meetings on November 20-21 and December 19, 1972. These records will be published in the Board's Annual Report for 1972 and in the Federal Reserve Bulletin. 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 meetings, rather than on data as they may have been revised since then.

Attachments

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on November 20-21, 1972[1/]

Current economic policy directive

The information reviewed at this meeting suggested that real output of goods and services, which had expanded at an annual rate of about 6 per cent in the third quarter, was growing more rapidly in the current quarter. Moreover, staff projections continued to suggest that growth would remain at a fast pace in the first half of 1973.

In October expansion in industrial production remained rapid, reflecting widespread advances among consumer goods, business equipment, and materials. Employment in manufacturing again rose substantially, contributing to another large gain in total nonfarm payroll employment. As in the preceding 3 months, however, the labor force also increased appreciably, and the unemployment rate--at 5.5 per cent--was stable. Retail sales, according to the advance report, continued to expand in October about as fast as they had from the second to the third quarter. Housing starts remained near the high level of August and September.

1/ This meeting was held over a 2-day period beginning on the afternoon of November 20, 1972, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

The rise in wholesale prices was exceptionally small in October as industrial commodities were virtually unchanged, on the average, and farm and food products rose little. Among industrial commodities, prices of a number of materials advanced but prices of automobiles and trucks declined. Average hourly earnings of production workers--which had risen sharply in September, according to revised data--continued to advance at a faster rate than earlier in the year. In September the consumer price index increased considerably, reflecting a sharp rise in foods and substantial increases among other commodities; services continued upward at a slow pace.

Staff projections suggested that strong expansion in consumption expenditures would continue in the first half of 1973, in part because of Treasury refunds of the unusually large overwithholdings of personal income taxes in 1972. It was also anticipated that business fixed investment would rise at a fairly fast pace, as suggested by recent surveys of business spending plans; that State and local government purchases of goods and services would continue to grow rapidly; and that inventory investment would rise somewhat further in response to sustained expansion in final sales of goods.

In foreign exchange markets the dollar had strengthened further against most European currencies in recent weeks, but the Japanese yen had remained at its ceiling rate against the dollar.

The persistent deficit in the current account of the U.S. balance of payments had been offset in large part by continuing inflows of private capital to the United States.

In September U.S. merchandise imports were stable while exports declined somewhat, and the trade deficit remained large. From the second to the third quarter, imports rose somewhat less than exports, and most of the rise in imports reflected increases in industrial materials in association with the strong growth in domestic business activity.

On October 25 the Treasury announced that in its mid-November financing it would auction a 4-year, 6-1/4 per cent note to redeem $1.3 billion of maturing notes and to raise $1.7 billion of new cash; the notes were issued on November 15 at an average price to yield 6.20 per cent. The October announcement also indicated that the Treasury would meet the bulk of its large December-January cash requirements through a combination of bill and note issues. Later, the Treasury announced that on November 17 and 29 it would auction a total of $4.5 billion of tax-anticipation bills with April and June maturities.

The more favorable climate in securities markets that had emerged in mid-October--in response to optimism about peace in Vietnam and prospects that Federal expenditures would be held down--had continued in recent weeks, and market rates of interest generally had declined. Decreases had been greater in long-term than in short-term markets, reflecting moderation in over-all demands for long-term funds. Although the volume of new publicly issued corporate bonds rebounded in October from a sharply reduced level in September, as had been expected, the volume of such issues appeared likely to fall again in November.

In markets for short-term securities, declines in rates had been limited, although Treasury financing was not so large as had been anticipated. On the day before this meeting the market rate on 3-month Treasury bills was 4.76 per cent, compared with 4.80 per cent on the day before the October meeting.

Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages both were virtually unchanged in October. Although inflows of savings funds to nonbank thrift institutions slowed somewhat from September to October, they remained substantial.

At commercial banks, expansion in outstanding business loans was again rapid in October, after having slowed sharply in September, and growth in most other categories of loans also was strong. However, bank holdings of securities declined, reflecting a sizable drop in portfolios of U.S. Government securities.

Growth in both the narrowly defined (M_1)[2/] and the more broadly defined (M_2)[3/] money stock changed little in October from the

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2/ Private demand deposits plus currency in circulation.
3/ M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

moderate rates in the preceding 2 months and remained well below the rates of about 8.5 per cent for M_1 and 9.5 per cent for M_2 recorded over the third quarter as a whole.[4/] Expansion in the bank credit proxy[5/] changed little from the rates in the preceding 2 months, although the increase in the outstanding volume of large-denomination CD's was the smallest since March.

System open market operations in the recent period had been guided by the Committee's decision at its October meeting to seek bank reserve and money market conditions that would support more moderate rates of monetary growth than those recorded in the third quarter. System operations had been directed toward maintaining growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in a range of 9 to 14 per cent in the October-November period, while continuing to avoid marked changes in money market conditions and taking account of Treasury financing operations and bank regulatory changes.[6/] Through most of the

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4/ 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.

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

6/ It was noted at the October 17 meeting that the amendments to Regulations D and J 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 from the original 6 to 11 per cent to 9 to 14 per cent in a technical adjustment to take account of the expected effects of those regulatory actions on the relationship between reserves and the monetary aggregates.

intermeeting period the rate of growth in RPD's had appeared to be within that range, although near the lower limit. Toward the end of the period, available data suggested that growth would fall below the range, and at the time of this meeting it appeared that RPD's would grow over the October-November period at a rate of only about 5.5 per cent. However, the monetary aggregates appeared to be expanding at acceptable rates. To a considerable extent, the shortfall in RPD's occurred because the relationship between reserves and monetary aggregates that evolved after the implementation of the amendment to the Board's Regulation D differed from the relationship that had been expected.

The changes in Regulations D and J, which became effective on November 9, generated considerable uncertainty about the management of reserves, both for member banks and for the System, and the System made heavy use of repurchase agreements and matched sale-purchase transactions for temporary injections and withdrawals of reserves in order to smooth the over-all availability of reserves. Although day-to-day fluctuations in the Federal funds rate were larger than usual, the average rate during the intermeeting period--at a little more than 5 per cent--was about the same as the rate that had prevailed just before the October meeting. In the 5 weeks ending November 15, member bank borrowings averaged about $640 million, compared with about $560 million in the preceding 4 weeks.

The Committee agreed that the economic situation continued to call 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 projected relationship between reserves and the monetary aggregates, the Committee decided that its objectives regarding the aggregates would be served by open market operations directed at fostering growth in RPD's during the November-December period at an annual rate within a range of 6 to 10 per cent, while continuing to avoid marked changes in money market conditions. The members also decided that allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating from an acceptable range and that account should be taken of the continuing effects of the bank regulatory changes implemented in early November. 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, including recent data for industrial production, employment and retail sales, suggests that real output of goods and services is growing more rapidly in the current quarter than in the third quarter. However, the unemployment rate has remained substantial. The increase in wages

has been larger in recent months than earlier this year. Consumer prices rose considerably in September, but the October rise in wholesale prices was small. In recent weeks, the current account deficit of the U.S. balance of payments has been offset in large part by capital inflows; while the reserves of Japan have increased substantially further, those of other industrial countries have changed little. In September the excess of U.S. merchandise imports over exports remained large.

In October rates of growth in the monetary aggregates changed relatively little from preceding months, with expansion in the narrowly defined money stock again quite moderate. Since mid-October interest rates generally have declined.

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 recent bank regulatory changes, 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, Daane, Eastburn, MacLaury, Mitchell, Robertson, Sheehan, Winn, and Francis. Votes against this action: None.

Absent and not voting: Mr. Coldwell. (Mr. Francis voted as Mr. Coldwell's alternate.)