FEDERAL RESERVE

press release

For immediate release February 5, 1975

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 19 and December 16-17, 1974. As in the past, the record for the December meeting of the Committee has been released along with the record for the November meeting rather than in accordance with the usual schedule of approximately 90 days after the meeting in order to complete the published record for the year in advance of the Chairman's testimony at the Congressional hearings on the Economic Report of the President and the Annual Report of the Council of Economic Advisers.

These records will be published in the Board's Annual Report for 1974 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 December 16-17, 1974[1/]

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services--after declining at an annual rate of 2 per cent in the third quarter of the year and about 4.5 per cent in the first half--was falling substantially further in the current quarter, only in small part because of the 4-week coal strike. Price and wage increases were continuing large, although not so large as in the first three quarters of the year. Staff projections suggested that real economic activity would recede significantly further in the first half of 1975 and that the rate of increase in prices, while still rapid, would moderate.

In November retail sales declined for the third consecutive month. The index of industrial production fell sharply further, reflecting curtailments in output of some types of business equipment as well as of consumer goods and industrial materials. Reductions in employment were widespread, especially in manufacturing, and the unemployment rate rose further, from 6.0 to 6.5 per cent. In recent weeks additional production cutbacks and layoffs had been announced.

1/ This meeting began on the afternoon of December 16 and continued on the following day.

Wholesale prices of industrial commodities rose substantially further in November--reflecting for the most part increases in machinery and chemicals--but as in September and October, the rise was below the extraordinarily rapid pace earlier in the year. Wholesale prices of farm and food products continued to increase. As in October, the advance in the index of average hourly earnings for private nonfarm production workers was less rapid than in the second and third quarters of the year. The consumer price index had increased substantially further in October, although the rise in prices of nonfood commodities had moderated.

The latest staff projections for the first half of 1975 suggested that economic activity would contract significantly more than anticipated at the time of the last meeting, and consequently that nominal GNP would rise appreciably less. For the most part, the greater weakness now expected reflected a substantial reduction in the rate of business inventory investment in the first quarter--from an unusually high rate estimated for the current quarter, in association with a sharp weakening in final purchases of goods--and then a shift to inventory liquidation in the second quarter. In addition, the expansion in business fixed investment now was expected to fall short of the rise in prices. It was still anticipated that the rise both in disposable personal income and in personal consumption expenditures would be little, if any, greater than the increase in consumer prices and that residential construction activity would decline somewhat further in the first quarter and then turn up in the second.

The exchange rate for the dollar against leading foreign currencies--which had been declining since early September--declined somewhat further between mid-November and mid-December, reflecting in part upward pressure on the German mark and the Swiss franc. In October the U.S. merchandise trade deficit had narrowed, for the second consecutive month, as exports of nonagricultural commodities expanded sharply while total imports increased little. Inflows of bank-reported private capital had continued, although at a pace somewhat below that during the third quarter, and on balance, oil-exporting countries had added to their investments in the United States.

At U.S. commercial banks, total loans expanded at a moderate pace in November and holdings of securities increased slightly. The growth in outstanding business loans slowed, as many prime business borrowers continued to be attracted to the commercial paper market by the relatively lower cost of funds. Although most banks reduced the prime rate applicable to large corporations from

10-3/4 per cent to 10-1/2 per cent in late November, reductions in the prime rate continued to lag behind declines in commercial paper rates.

The narrowly defined money stock (M_1)2/ grew at an annual rate of about 7 per cent in November, compared with rates of about 4 per cent in October and of 1.5 per cent in the third quarter.3/ In November net inflows of consumer-type time and savings deposits remained strong at banks and continued to improve at nonbank thrift institutions, and the more broadly defined measures of the money stock ($M_2$4/ and $M_3$5/) again expanded appreciably.

System open market operations since the November 19 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 months ahead, while taking account of developments in domestic and international financial markets. Data that had become available a few days after the November meeting suggested that in the November-December period the aggregates would grow at rates near the lower limits of the

2/ Private demand deposits plus currency in circulation.

3/ The growth rate cited for the quarter is 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/ M_1 plus commercial bank time and savings deposits other than money market CD's.

5/ M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

ranges of tolerance that had been specified by the Committee. Consequently, System operations were directed toward some further easing in bank reserve and money market conditions. Through the first week after the meeting, however, the Federal funds rate remained near its pre-meeting level of 9-1/2 per cent, as banks elected to hold large excess reserves over the Thanksgiving holiday. Thereafter, the funds rate declined to about 8-3/4 per cent.

Short-term market interest rates turned up in late November, apparently because market participants were disappointed in their expectations that the Federal funds rate would continue to decline. However, rates turned down again around the end of the month, following resumption of the decline in the funds rate. At the time of this meeting the market rate on 3-month Treasury bills was 7.14 per cent, compared with 7.52 per cent on the day before the November meeting and with 7.17 per cent on November 14, before the Treasury announced that it would raise a considerable amount of new money in the short-term market. Federal Reserve discount rates were reduced at two Reserve Banks from 8 to 7-3/4 per cent, effective on December 9; shortly thereafter, rates were reduced at the remaining 10 Banks.

Yields on long-term corporate and Treasury issues rose in late November and subsequently declined, along with short-term market rates, but yields on State and local government bonds were subjected to upward pressures throughout the period. The volume of public offerings of corporate and State and local government securities remained exceptionally large in November, and a substantial volume was in prospect for December. In mortgage markets, contract interest rates on new commitments for conventional home mortgages in the primary market and yields on commitments in the secondary market for Federally underwritten home mortgages continued to decline during the period from early November to early December.

The Committee concluded that the economic situation and outlook called for somewhat more rapid growth in monetary aggregates over the months ahead than had occurred in recent months. The longer-run growth rates for the aggregates adopted by the Committee were raised slightly from those contemplated at other recent meetings.

A staff analysis suggested that, in view of the weaker expansion in nominal GNP now projected, some further easing in money market conditions probably would be required 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. Such easing was likely to be accompanied by only modest declines in other market interest rates because credit demands--although tending to moderate--would still be strong. It was expected that net inflows to banks of time and savings deposits other than large-denomination CD's would remain substantial and that net inflows to nonbank thrift institutions would continue to improve.

The Committee concluded that growth in M_1 and M_2 over the December-January period at annual rates within ranges of tolerance of 5 to 7 per cent and 7-1/2 to 10 per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The members agreed that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of tolerance of 9 to 11 per cent. They decided that in the period until the next meeting the weekly average Federal funds rate be permitted to vary in an orderly fashion from as low as 7-1/2 per cent to as high as 9 per cent, if necessary, in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets. 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 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 is falling substantially further in the current quarter. Price and wage increases are continuing large, although not so large as earlier this year. In November declines in industrial production and employment were sharp and widespread, and the unemployment rate increased further, from 6.0 to 6.5 per cent. In recent weeks additional production cutbacks and layoffs have been announced. The November rise in wholesale prices of industrial commodities, although substantial, remained well below the extraordinarily rapid rate in the first 8 months of the year.
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> Since mid-November the dollar has declined somewhat further against leading foreign currencies. In October the U.S. foreign trade deficit was reduced sharply for the second consecutive month, while there were continued net inflows of bank-reported private capital and of investments by oil-exporting countries.
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> Growth of the narrowly defined money stock increased in November to an annual rate of about 7 per cent. Net inflows of consumer-type time and savings deposits remained strong at banks and continued to improve at nonbank thrift institutions, and the more broadly defined money supply measures again expanded appreciably. Bank loans increased only moderately. Most market interest rates, after rising in the second half of November, subsequently turned down again. Yields on State and local government securities, however, continued under upward pressure. Effective December 9, Federal Reserve discount rates were reduced from 8 to 7-3/4 per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, cushioning recessionary tendencies and encouraging resumption of real economic growth, and achieving 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 somewhat more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Coldwell, Holland, Kimbrel, Sheehan, and Winn. Votes against this action: Messrs. Mitchell and Wallich.

Messrs. Mitchell and Wallich, who dissented from this action, both believed that the economic situation and outlook called for a more stimulative monetary policy. In Mr. Mitchell's opinion, the primary objective should be to achieve a level of interest rates that would encourage the increased volume of borrowing in mortgage and capital markets essential to the kind of revival in economic activity needed in 1975. Mr. Wallich believed that for a limited period it would be desirable to seek a higher rate of monetary growth than favored by the majority.

Subsequent to the meeting, on January 9, the available data suggested that in December M_1 and M_2 had grown at rates of about 2 and 2.5 per cent, respectively, and that growth rates for the December-January period would be well below the lower limits of the ranges of tolerance that had been specified by the Committee. In the statement week ending January 8, the Federal funds rate had averaged slightly below 7-3/4 per cent, and the System currently was conducting reserve-supplying operations thought to be consistent with a weekly average rate of about 7-1/2 per cent, the lower limit of its range of tolerance. Against that background, and to give the Manager greater flexibility, Chairman Burns recommended on January 9 that the lower limit of the funds rate constraint be reduced to 7-1/8 per cent for the period remaining until the next Committee meeting. The members concurred in the Chairman's recommendation.