



FEDERAL RESERVE

press release

For immediate release

April 7, 1975

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 February 19, 1975.

Beginning with the record for this meeting, such records are being made available approximately 45 days after the date of each meeting of the Committee.

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 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 February 19, 1975

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services, which had declined throughout 1974, was falling sharply further in the first quarter of 1975; that the rise in prices was moderating significantly; and that nominal GNP was declining. Staff projections suggested that real economic activity would recede further in the second quarter and that price increases would continue to moderate.

In January retail sales had risen somewhat, according to the advance estimate, but they had remained well below the levels of last summer and early autumn. For the third consecutive month cutbacks in production and employment were substantial and widespread, in part because of continuing efforts to liquidate inventories. The unemployment rate rose a full percentage point, to 8.2 per cent, and the number of persons working only part time increased further.

The advance in the index of average hourly earnings for private nonfarm production workers was substantial in January, but as in the final months of 1974, it was considerably less rapid than in the spring and summer of last year. Average

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wholesale prices of industrial commodities--which were unchanged in December--rose moderately in January, in part because of increases in machinery and in fuels and power; wholesale prices of farm and food products declined further. In December the consumer price index had continued to rise, although the increase had not been so large as in most earlier months in 1974.

The latest staff projections for the first half of 1975 suggested that nominal GNP would change little and that real GNP would contract substantially more than had been expected at the time of the last meeting, to a considerable extent because the curtailment in business fixed investment and the liquidation of business inventories were now expected to be sharper than had been anticipated earlier. It was now expected that the rise in disposable personal income would fall short of the increase in consumer prices until late in the second quarter--when tax rebates were scheduled under the Administration's budget proposals--and that real personal consumption expenditures would decline. However, the more rapid liquidation of inventories expected in the first half of the year--along with the tax rebates and other stimulative fiscal measures in prospect--tended to strengthen the prospects for an upturn in economic activity in the second half.

The exchange rate for the dollar against leading foreign currencies remained under downward pressure throughout January. In early February the Federal Reserve System and some European central banks began concerted intervention purchases of dollars in the exchange markets which, in conjunction with sharp decreases in European interest rates, arrested the decline in the value of the dollar. In the days just before this meeting, however, downward pressure was renewed and the value of the dollar declined somewhat. In December the U.S. foreign trade deficit had widened, reflecting a substantial increase in imports of fuels and decreases in exports of many nonagricultural products.

At U.S. commercial banks total loans and investments rose moderately from the end of December to the end of January, after having declined sharply in the preceding month. Over the 2-month period, outstanding bank loans to business declined; business demands for short-term credit weakened both at banks and in the commercial paper market, reflecting the recession in economic activity and business funding of short-term debts through heavy capital market financing. Consumer loans at banks also declined, while real estate loans increased moderately. In late January and early February most banks gradually reduced the prime rate applicable to large corporations from 10 per cent

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to 8-3/4 per cent, but reductions in the rate continued to lag behind declines in short-term market interest rates.

The narrowly defined money stock (M_1)--which had grown at an annual rate of about 4.5 per cent in the fourth quarter of 1974--declined at a rate of about 9.5 per cent in January, reflecting a sharp decrease in demand deposits; the amount of currency in circulation continued to expand. Net inflows of consumer-type time and savings deposits at banks and at nonbank thrift institutions were strong, and broader measures of the money stock (M_2 and M_3) continued to grow, although at rates well below those in the fourth quarter of last year.

On January 22 the Treasury announced that it would auction up to \$5.5 billion of notes and bonds, of which \$3.55 billion represented refunding of publicly held notes that were to mature in mid-February. In auctions on January 28, 29, and 30, respectively, the Treasury sold \$3 billion of 3-1/4-year notes at an average price to yield 7.21 per cent, \$1.75 billion of 6-year notes at an average price to yield 7.49 per cent, and \$750 million of 25-year bonds at an average price to yield 7.95 per cent.

System open market operations since the January 20-21 meeting had been guided by the Committee's decision to seek

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bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than had occurred in recent months, while taking account of the forthcoming Treasury financing, developments in domestic and international financial markets, and the Board's action of January 20 reducing reserve requirements on demand deposits. Data that had become available in the weeks immediately after the January meeting suggested that in the January-February period the aggregates would grow at rates below the lower limits of the ranges of tolerance that had been specified by the Committee. Consequently, System operations persistently had been directed toward further easing in bank reserve and money market conditions. The Federal funds rate, which had averaged 7-1/8 per cent in the statement week ending January 22, had declined by the statement week ending February 5 to an average of 6-1/2 per cent, the lower limit of its specified range of tolerance.

The data that became available in early February indicated still greater weakness in the aggregates; it appeared that growth rates for M_1 and M_2 in the January-February period would fall well below the lower limits of the ranges of tolerance specified by the Committee. On February 5 a majority of the members

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concurrent in the Chairman's recommendation that the lower limit of the funds rate constraint be reduced to 6-1/4 per cent, and over the period remaining until this meeting the funds rate was close to that level.

Short-term market interest rates declined substantially further over the inter-meeting period, in response to the weakness in business demands for short-term credit and to System open market operations to ease bank reserve and money market conditions. On the day before this meeting the market rate on 3-month Treasury bills was 5.32 per cent, down about 1 percentage point from the rate at the time of the last meeting. Federal Reserve discount rates were reduced at nine Reserve Banks from 7-1/4 to 6-3/4 per cent, effective February 5; shortly thereafter, rates were reduced at the remaining three Banks.

The continued easing in short-term interest rates contributed to significant declines in longer-term rates, notwithstanding a large volume of offerings of new issues. Public offerings of corporate bonds rose sharply in January to a near-record volume, and only a moderate decline was in prospect for February. In the home mortgage market contract interest rates on new commitments for conventional mortgages

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in the primary market and yields on commitments in the secondary market for Federally underwritten mortgages declined substantially further during January.

The Committee decided that the economic situation and outlook called for more rapid growth in monetary aggregates over the months ahead than had occurred in recent months. A staff analysis suggested that the demand for money would rebound and that growth in M_1 would be substantial in the weeks immediately ahead, in accordance with an expected shift toward a more normal relationship between the transactions demands for money and nominal GNP. However, in part because of the weaker behavior of nominal GNP now projected, it appeared likely that if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market conditions would have to ease further in the period immediately ahead. Sustained strength in net inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions was anticipated, in response to the continuing decline in short-term interest rates. Private demands for short-term credit were expected to remain weak, but the Treasury was likely to borrow additional new cash over the months ahead.

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The Committee concluded that growth in M_1 and M_2 over the February-March period at annual rates within ranges of tolerance of 5-1/2 to 7-1/2 per cent and 6-1/2 to 8-1/2 per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The growth rate of reserves available to support private nonbank deposits (RPD's) in the same period was expected to be low--in a range of 1/4 to 2-1/4 per cent--mainly because of the 2-week lag in reserve accounting. The members agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion in a range of 5-1/4 to 6-1/4 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 is continuing to fall sharply in the current quarter. In January declines in industrial production and employment were large and widespread for the third consecutive month. The unemployment rate rose a full percentage point to 8.2 per cent. Average wholesale prices of

industrial commodities, which were unchanged in December, rose moderately in January, and prices of farm and food products declined further. In recent months increases in average wage rates have moderated, although they have still been large.

The decline in the foreign exchange value of the dollar was arrested in early February by concerted central bank intervention and a sharp decline in European interest rates, but in recent days the dollar has declined somewhat. In December the U.S. foreign trade deficit increased, but it was smaller in the fourth quarter as a whole than in the third.

The narrowly defined money stock, after having grown at an annual rate of about 4-1/2 per cent over the fourth quarter of 1974, declined sharply in January. However, net inflows of consumer-type time and savings deposits at banks and nonbank thrift institutions were large, and broader measures of the money stock continued to expand. Business demands for short-term credit have weakened in recent months, both at banks and in the commercial paper market, while demands in the long-term market have been exceptionally strong. Since mid-January short-term market interest rates have fallen substantially further, and yields on long-term securities also have declined. Federal Reserve discount rates were reduced from 7-1/4 to 6-3/4 per cent in early February.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to cushioning recessionary tendencies and stimulating economic recovery, while resisting inflationary pressures and working toward 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 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, Mitchell,
Wallich, and Winn. Votes against this
action: None.

Absent and not voting: Mr. Sheehan.

2. Amendment to foreign currency directive

At this meeting the Committee amended paragraph 2(c) of the foreign currency directive to delete the word "Special" from the phrase "Special Manager" wherever the phrase appears in that paragraph. In other actions at the meeting the Committee had approved a realignment of personnel who supervise System open market operations at the Federal Reserve Bank of New York under the Committee's direction.^{1/} The realignment--which followed acceptance of the resignation of the incumbent Special Manager in connection with his planned retirement from the New York Bank--involved, among other things, the elimination of the position of Special Manager for Foreign Currency Operations and the assignment of responsibility for the conduct of open market operations in foreign currencies, as well as in domestic securities, to the Manager of the System Open Market Account. The amendment to the foreign currency directive was made to conform to these changes.

^{1/} Revisions in the Committee's Rules of Organization and Rules of Procedure made for this purpose were published in the Federal Register for March 7, 1975.

Votes for this action: Messrs.
Burns, Hayes, Black, Bucher, Clay,
Coldwell, Holland, Kimbrel, Mitchell,
Sheehan, Wallich, and Winn. Votes
against this action: None.

3. Amendment to authorization for domestic open market operations

On March 10 the Committee members voted to amend a provision of paragraph 2 of the authorization for domestic open market operations to raise from \$1 billion to \$2 billion the limit on System holdings of special short-term certificates of indebtedness purchased directly from the Treasury. With this amendment, paragraph 2 read as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$2 billion.

Votes for this action: Messrs.
Burns, Hayes, Baughman, Coldwell,
Eastburn, Holland, Mayo, Mitchell,
and Sheehan. Votes against this
action: None.

Absent and not voting: Messrs.
Bucher, MacLaury, and Wallich.

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This action was taken on the recommendation of the Account Manager, who had advised that current projections of Treasury balances had indicated that temporary cash low points in mid-March and again in mid-April might require special borrowing as high as \$500 to \$700 million. In view of the day-to-day volatility in the Treasury's account, and in estimates of changes in that account, the Manager had recommended the increase of the limit, with the understanding that he would recommend restoration of the \$1 billion limit as soon as it appeared reasonable to do so.