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 record of policy actions taken by the Federal Open Market Committee at its meeting on December 16, 1975.

Such records are made available approximately 45 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

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on December 16, 1975

Domestic policy directive

The information reviewed at this meeting suggested that output of goods and services--which had increased at an annual rate of 13 per cent in the third quarter--was expanding more moderately in the current quarter and that prices were continuing to rise at a relatively fast pace. Staff projections suggested that growth would remain moderate in the first half of 1976 and that the rate of increase in prices would slow somewhat.

In November the rise in industrial production slowed further, in part because of declines in output of automobiles and of energy; increases were widespread among other products, but in general they were smaller than in the preceding 5 months. Recovery in nonfarm payroll employment also slowed further. However, the dollar volume of retail sales expanded significantly for the second consecutive month. Residential construction activity rose further, reflecting the uptrend in private housing starts in recent months. The unemployment rate--which had risen 0.3 percentage point to 8.6 per cent in October--fell back to

8.3 per cent in November. Both the October rise and the November decline in the unemployment rate were caused primarily by changes in the civilian labor force.

The advance in the index of average hourly earnings for private nonfarm production workers remained rapid in November. Increases in wholesale prices of industrial commodities were pervasive, and the rise in the average for industrial commodities, although below that in October, was still relatively large. Wholesale prices of farm products declined appreciably, following 2 months of large increases, and wholesale prices of processed foods declined slightly. In October, the rise in the consumer price index had accelerated somewhat because of a considerable increase in retail prices of foods following 2 months of little change.

Staff projections of real output in the first half of 1976 were similar to those of 4 weeks earlier. They suggested that consumption expenditures would expand at a moderate pace, that residential construction and business fixed investment would continue to recover, and that State and local government purchases of goods and services would pick up somewhat from the reduced pace in the second half of 1975. It was also anticipated that business inventory accumulation would be at a moderate rate. However, exports were projected to rise less than imports.

The exchange value of the dollar against leading foreign currencies, which had declined somewhat from early October to early November, had risen somewhat since then. The net outflow of bank-reported private capital appeared to have declined in November from the high rate in October. In October both merchandise exports and imports increased somewhat, and the foreign trade surplus remained substantial.

Total loans and investments at U.S. commercial banks expanded considerably in November. Banks added to their holdings of both Treasury and other securities and increased their outstanding loans to businesses. As in October, however, the outstanding volume of commercial paper issued by nonfinancial corporations declined, and total short-term business borrowing rose little. During the period from mid-November to mid-December most banks reduced the prime rate applicable to large business borrowers from 7-1/2 to 7-1/4 per cent, and one major bank reduced it to 7 per cent.

M_1, which had declined in October after having grown at a slow pace during the preceding 3 months, rose sharply in November. Growth in M_2 and M_3 was substantial, as inflows of consumer-type time and savings deposits to banks strengthened and inflows to nonbank thrift institutions remained relatively favorable. Some portion of the inflows of such deposits to banks was attributable to expansion in business accounts following amendments to Federal Reserve regulations, effective November 10, 1975, that permitted corporations, partnerships, and other profitmaking organizations to maintain savings accounts of up to $150,000 at member banks. To a considerable extent the funds placed in these business savings accounts appeared to have been shifted out of demand deposits.

System open market operations since the November 18 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. It had been contemplated that operations would be directed toward moving the Federal funds rate down from the prevailing level of 5-1/4 per cent to about the middle of the 4-1/2 to 5-1/2 per cent range of tolerance adopted by the Committee, if the data becoming available suggested that the several monetary aggregates were growing at rates close to the midpoints of their ranges of tolerance. However, the available data suggested greater strength in the growth of M_1, after allowance for the shift in business deposits from demand to savings accounts following the regulatory changes effective November 10. In the 3 weeks after that change business savings accounts at weekly reporting member banks had risen by about $530 million, and it was reasonable to assume that growth had also been substantial at other banks. Had it not been for this shift, the annual rate of growth in M_1 over the November-December period, according to staff estimates, would have been about 1-1/2 percentage points higher than it appeared to be. Moreover, the available data suggested that growth in M_2 over the 2-month period would be in the upper part of its specified range of tolerance. Accordingly, System operations during the inter-meeting period had been directed toward maintaining the prevailing bank reserve and money market conditions, and the Federal funds rate fluctuated around 5-1/4 per cent.

Short-term market interest rates rose somewhat over the inter-meeting period, despite the stability in the Federal funds rate. The rise in rates appeared to reflect some concern on the part of market participants that the System would act to firm bank reserve and money market conditions in response to the strong growth in the monetary aggregates in November.

Yields on longer-term debt instruments fluctuated in a narrow range during the inter-meeting period despite a large volume of offerings of new securities, including publicly offered issues of foreign private and official institutions as well as issues of domestic borrowers. On December 9 the Treasury announced that before the end of the year it would auction $2.5 billion of 2-year notes and $2.0 billion of 4-year notes, of which $3.0 billion would be for new money.

At its October meeting, the Committee had agreed that growth in the monetary aggregates on the average over the period from the third quarter of 1975 to the third quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: M_1, 5 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. It was understood 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 also was 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 in the period immediately ahead growth in the demand for money would be constrained by continuation of the shift in business deposits from demand accounts to savings accounts in response to the recent changes in regulations. Because the magnitude and duration of the shift were highly uncertain, however, estimates of the effects on M_1 were subject to a large margin of error. It was also noted that projections of monetary growth for the month of December were more uncertain than those for other months because many business and financial institutions customarily made adjustments to cash and debt positions for purposes of year-end statements.

During the discussion some Committee members expressed confidence in the economic outlook for the quarters immediately ahead, while other members expressed doubt concerning the strength of the recovery. In view of the uncertainties regarding the behavior of the monetary aggregates in the December-January period, many members advocated giving greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting. However, a number of members preferred to continue to base operating decisions primarily on the behavior of the monetary aggregates. There was some sentiment for a slightly more stimulative policy, but most members favored no essential change in policy.

At the conclusion of the discussion the Committee decided that operations in the period immediately ahead should be directed toward maintaining the bank reserve and money market conditions now prevailing, provided that monetary aggregates appeared to be growing at about the rates currently expected. The members concluded that growth in M_1 and M_2 over the December-January period at annual rates within ranges of tolerance of 4 to 7 per cent and 7 to 10 per cent, respectively, would be acceptable.[1/] It was thought that such growth rates would be likely to involve an annual rate of growth in reserves available to support private nonbank deposits (RPD's) within a range of 4 to 7 per cent.

It was contemplated that System operations until the next meeting would be directed toward maintaining the weekly average Federal funds rate at about its current level of 5-1/4 per cent, unless rates of growth in the monetary aggregates appeared to be deviating significantly from the midpoints of their specified ranges. The members agreed that, in the event the aggregates appeared to be deviating from expectations, the weekly average funds rate might be expected to vary in an orderly fashion within a range of 4-1/2 to 5-1/2 per cent.

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

> The information reviewed at this meeting suggests that output of goods and services--which had increased very sharply in the third quarter--is expanding more moderately in the current quarter. In November the

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1/ The ranges of tolerance over the December-January period were based on preliminary new seasonal factors. The growth rates specified for M_1 and M_2 for the 2-month period were, respectively, about 2-1/4 percentage points and 1 percentage point higher than those that would have been specified had the old factors been used. It was expected that revised money supply series incorporating new seasonal factors as well as benchmark and certain other statistical adjustments would be published in late January.

rise in industrial production and in nonfarm payroll employment slowed further. The dollar volume of retail sales rose again, however, and residential construction activity expanded, reflecting recent substantial increases in private housing starts. The unemployment rate--which had risen 0.3 percentage points to 8.6 per cent in October--fell back to 8.3 per cent in November, reflecting a sizable decline in the civilian labor force. The increase in average wholesale prices of industrial commodities, although below that in October, was still relatively large; prices of farm products declined appreciably, following 2 months of large increases. The advance in average wage rates in November was again substantial.

The exchange value of the dollar against leading foreign currencies has risen somewhat since mid-November. The net outflow of bank-reported private capital appears to have declined from the high rate reported for October. In October the U.S. foreign trade surplus remained substantial.

M_1--which had declined in October--rose sharply in November. Growth in M_2 and M_3 was substantial, as inflows of consumer-type time and savings deposits to banks strengthened while inflows to nonbank thrift institutions remained relatively favorable. Long-term interest rates have fluctuated in a narrow range in recent weeks, while short-term market rates have risen somewhat.

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 maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

Votes for this action: Messrs. Burns, Volcker, Baughman, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: None.
Absent and not voting: Mr. Bucher.

Subsequent to the meeting, on January 12, the available data suggested that in the December-January period both M_1 and M_2 would grow at rates below the lower limits of the ranges of tolerance that had been specified by the Committee. In recent days the Manager had been aiming at a Federal funds rate of 4-7/8 per cent, and the rate had been in an area of 4-3/4 to 4-7/8 per cent.

The significance of the apparent weakness in the aggregates was highly uncertain, because of the effects of the recent introduction of business savings accounts at commercial banks and because the revised seasonal adjustment factors employed were still under review. The problems of seasonal adjustment were particularly acute for the months of December and January. For these technical reasons, and in view of more favorable recent economic statistics--including the latest data on employment and retail sales--Chairman Burns recommended that the Manager be instructed to hold the weekly average Federal funds rate at the approximate level of 4-3/4 per cent until the Committee's next meeting. All members of the Committee, with the exceptions of Messrs. Eastburn and MacLaury, concurred in the Chairman's recommendation.