



FEDERAL RESERVE

press release

For immediate release

March 8, 1976

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 January 20, 1976.

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 January 20, 1976

Domestic policy directive

The information reviewed at this meeting suggested that output of goods and services (real gross national product) had expanded at an annual rate of about 5.5 per cent in the fourth quarter of 1975--compared with a rate of about 12 per cent in the third quarter--and that the rise in prices had been somewhat less rapid than the average rate over the first three quarters of the year. Staff projections suggested that growth in output would moderate somewhat further in the first half of 1976 and that the rate of increase in prices would change little.

In December retail sales had risen sharply, according to the advance report, reflecting a strong increase in sales of automobiles and widespread gains in sales among other categories of goods; however, the increase in the fourth quarter as a whole was less than that in the third quarter. The rise in industrial production and in nonfarm payroll employment, which had slowed over the preceding 2 months, accelerated in December, and the average workweek in manufacturing lengthened considerably. However, the unemployment rate remained at 8.3 per cent, as growth in the civilian labor force about matched that in total employment.

The index of average hourly earnings for private nonfarm production workers was unchanged in December, following 2 months of large increases, and the rise during the fourth quarter was slightly less than that during the third quarter. Increases in wholesale prices of industrial commodities were pervasive in December, as in November, and the over-all rise remained relatively large. However, average wholesale prices of farm products and foods declined sharply further. In November the rise in the consumer price index had continued at the accelerated pace of October, in large part because of substantial increases in prices of services.

Staff projections of real output in the first half of 1976 were similar to those of 5 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 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 held steady in December, but in early January it eased somewhat, mainly in response to declines in U.S. interest rates. In November both merchandise exports and imports changed little, and the foreign trade surplus was again sizable.

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Total loans and investments at U.S. commercial banks-- which had expanded considerably in November--declined appreciably in December. Banks again added to their holdings of Treasury securities, but holdings of other securities and outstanding loans to businesses declined. The outstanding volume of commercial paper issued by nonfinancial corporations increased only a little, and total short-term business borrowing declined. During the period from mid-December to mid-January most banks reduced the prime rate applicable to large business borrowers from 7-1/4 to 7 per cent, and one major bank reduced it to 6-3/4 per cent.

M_1 declined in December, and growth in M_2 and M_3 slowed considerably.^{1/} At commercial banks, inflows of time and savings deposits other than large-denomination CD's slackened, while inflows of deposits to nonbank thrift institutions were relatively well maintained. Some portion of the inflows of such deposits to banks in December, as in November, was attributable to expansion in business accounts resulting from amendments to Federal Reserve regulations, effective November 10, that permitted corporations, partnerships, and other profitmaking organizations to maintain savings accounts of up to \$150,000 at member banks. To a

^{1/} M_1 is composed of private demand deposits and currency in circulation; M_2 includes M_1 and commercial bank time and savings deposits other than large-denomination CD's; and M_3 includes M_2 and deposits at nonbank thrift institutions (savings and loan associations, mutual savings banks, and credit unions).

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considerable extent the funds placed in these business savings accounts appeared to have been shifted out of demand deposits.

On the basis of quarterly average data, M_1 grew at an annual rate of about 2-1/2 per cent in the fourth quarter, compared with a rate of about 7 per cent in the third quarter. M_2 and M_3 , respectively, grew at annual rates of about 6-1/2 and 8-1/2 per cent in the fourth quarter, compared with rates slightly above 10 and 13 per cent in the preceding quarter.^{2/}

On December 24 the Board of Governors announced a reduction from 3 per cent to 2-1/2 per cent in reserve requirements on time deposits maturing in 180 days to 4 years. The action--which released about \$320 million in reserves to the banking system in the week beginning January 8--was in line with previous Board decisions designed to encourage member banks to lengthen the structure of their deposit liabilities.

System open market operations in the inter-meeting period had been guided by the Committee's decision to maintain the bank reserve and money market conditions prevailing at the time of the December meeting, provided that monetary aggregates appeared to be growing at about the rates then expected. Data

^{2/} Revised measures of the monetary aggregates, reflecting new benchmark data for deposits at nonmember banks and revised seasonal factors, were published on Jan. 22, 1976. On the basis of the revised figures, fourth-quarter growth in M_2 and M_3 was at annual rates of about 6 and 9 per cent, respectively; fourth-quarter growth in M_1 remained about 2-1/2 per cent.

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that became available week by week after the December meeting suggested that in the December-January period 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. Accordingly, near the end of December, the System began to direct operations toward some easing in bank reserve and money market conditions. By January 12 the Federal funds rate had declined from the neighborhood of $5\frac{1}{4}$ per cent--the level prevailing at the time of the December meeting--to an area of $4\frac{3}{4}$ to $4\frac{7}{8}$ per cent. The range that had been specified by the Committee was $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent.

Subsequently, a majority of Committee members concurred in Chairman Burns' recommendation of January 12 that the Manager be instructed to hold the weekly-average Federal funds rate at the approximate level of $4\frac{3}{4}$ per cent until the time of this meeting. In the remaining days, the rate was close to $4\frac{3}{4}$ per cent.

Both short- and long-term market interest rates declined appreciably over the inter-meeting period, in response to System policy actions and to a growing view among participants in financial markets that credit demands in the months ahead would not be so large as to place strong upward pressures on interest rates.

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On the day before this meeting the market rate on 3-month Treasury bills was 4.87 per cent, down from 5.51 per cent on the day before the December meeting. Effective January 19, Federal Reserve discount rates were reduced from 6 to 5-1/2 per cent at 11 Reserve Banks; shortly afterward, the rate was reduced at the remaining Bank.

At this meeting the Committee reviewed the 12-month ranges--covering the period from the third quarter of 1975 to the third quarter of 1976--that had been agreed upon at the October meeting and considered the ranges that would be appropriate for the period from the fourth quarter of 1975 to the fourth quarter of 1976.

In the discussion, it was noted that from the third to the fourth quarter of 1975 rates of growth in the monetary aggregates, particularly M_1 , had fallen short of the 12-month ranges adopted at the October meeting. It was also noted, however, that from March to June and from the second-quarter average to the third-quarter average monetary growth had been somewhat high relative to the ranges that had been specified by the Committee in April and July, respectively. From both March and the second-quarter average to the fourth-quarter average, growth in M_1 , M_2 , and M_3 was, respectively, around the lower end, near the middle, and around the upper end of the ranges that had been specified earlier. Moreover, a part of the fourth-quarter shortfall in growth of M_1 appeared to be attributable to a decline in the demand for checking deposits, especially because of the shift in business deposits from demand accounts to savings accounts.

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Businesses were expected to continue to substitute savings accounts for demand deposits over the year ahead, although at a slower pace than in recent weeks. For that reason, and also because of other indications that demand deposits were being used more efficiently, the Committee decided to reduce the lower limit of the longer-run range specified for M_1 from 5 per cent to 4-1/2 per cent. Thus, the range specified for M_1 was 4-1/2 to 7-1/2 per cent. The ranges specified for M_2 and M_3 --namely, 7-1/2 to 10-1/2 per cent and 9 to 12 per cent, respectively--were unchanged from those adopted in October. 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 was also 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 for the period immediately ahead uncertainty about the behavior of the demand for money was greater than usual. The extraordinary rise in the turnover (income-velocity) of M_1 that had occurred so far in this economic recovery seemed unlikely to continue;

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thus, the projected increase in nominal GNP could lead to a strengthening of the demand for demand deposits and currency, even though business savings accounts were expected to grow further.

The staff analysis suggested that basic factors accounting for the sharp reduction in the demand for money relative to income in the latter half of 1975 were not fully understood; thus, there was considerable uncertainty as to the timing, strength, and duration of any rebound in money demand. In particular, it was difficult to assess how rapidly the public would take advantage of the continuing improvements in financial technology--such as the availability of savings accounts to businesses and of telephonic transfer between savings and demand accounts--that were facilitating economization of cash balances. Finally, an internal staff review of seasonal adjustment procedures indicated that alternative, reasonable methods of adjustment produced significantly different seasonal factors for individual months and for 2-month periods. Because the money stock was subject to a variety of transitory influences, seasonal factors were uncertain and the significance of short-run variations in growth rates within a fairly wide range was limited.

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In view of the current uncertainties regarding the behavior of the monetary aggregates, many members advocated that the Committee continue to give greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting and that it specify 2-month ranges of tolerance for growth in the monetary aggregates that were wider than usual. Some members preferred to give greater emphasis to variations in the behavior of the monetary aggregates relative to expectations, and the suggestion was also made that more weight be given to the behavior of M_2 relative to that of M_1 than had been the case in the past.

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 rates not far from those currently expected. The members concluded that growth in M_1 and M_2 over the January-February period at annual rates within ranges of tolerance of 4 to 9 per cent and 7 to 11-1/2 per cent, respectively, would be acceptable.^{3/} Mainly because the outstanding volume of large-denomination CD's was projected to decline substantially over the 2-month

^{3/} The ranges of tolerance were based on the new seasonal adjustment factors published on Jan. 22, 1976.

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period, it was expected that these growth rates for the monetary aggregates would be associated with an annual rate of decline in reserves available to support private nonbank deposits (RPD's) between 2 and 7 per cent. The ranges of tolerance were wider than those customarily specified.

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 4-3/4 per cent, unless rates of growth in the monetary aggregates appeared to be approaching the limits of their specified ranges. The members agreed that, should the aggregates appear to be deviating significantly from expectations, the weekly-average funds rate might be expected to vary in an orderly fashion within a range of 4-1/4 to 5 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 of 1975--expanded more moderately in the fourth quarter. In December retail sales rose sharply, but the increase in the fourth quarter as a whole was less than that in the third quarter. After having slowed over the preceding 2 months, the rise in industrial production and in nonfarm payroll employment accelerated in December. However, the unemployment rate remained at 8.3 per cent, as the civilian labor force grew

about as much as total employment. The increase in average wholesale prices of industrial commodities was again relatively large, but average prices of farm products and foods declined sharply further. The index of average wage rates was unchanged in December, following 2 months of large increases.

The exchange value of the dollar against leading foreign currencies held steady in December but eased somewhat in early January. Another sizable foreign trade surplus was registered in November.

M_1 declined in December, and growth in M_2 and M_3 slowed considerably. At commercial banks, inflows of time and savings deposits other than large-denomination CD's slowed, despite a continuing build-up of business savings accounts, while inflows of deposits to nonbank thrift institutions were relatively well maintained. In terms of quarterly averages, growth in M_1 from the third to the fourth quarter was modest, while growth in M_2 and M_3 was more substantial. In recent weeks interest rates on both short- and long-term securities have declined appreciably. In mid-January Federal Reserve discount rates were reduced from 6 to 5-1/2 per cent.

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.

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Votes for this action: Messrs.
Burns, Volcker, Baughman, Coldwell,
Eastburn, Holland, Jackson, MacLaury,
Mayo, Mitchell, Partee, and Wallich.
Votes against this action: None.