



FEDERAL RESERVE

press release

For immediate release

June 3, 1968

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 March 5, 1968. Such records are made available approximately 90 days after the date of each meeting of the Committee and will be found in the Federal Reserve Bulletin and the Board's Annual Report.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on March 5, 1968

1. Authority to effect transactions in System Account.

Reports at this meeting indicated that over-all economic activity was expanding rapidly and that prices were rising at a substantial rate. The outlook was for faster expansion in real GNP in the first two quarters of 1968 than in the latter half of 1967, and for persisting inflationary pressures.

Consumers were expected to provide the major stimulus to economic activity in the current half-year. It appeared likely that disposable incomes would advance rapidly--particularly if a tax increase were not enacted--as a result of continuing rises in employment and wage rates and of higher social security benefits. Thus, even if personal saving remained at the unusually high rate of 1967, marked increases in consumer spending were in prospect.

In addition, it was anticipated that business fixed investment would rise sharply in the first quarter and moderately in the second and that defense spending would increase at a faster rate than previously estimated. On the other hand, in light of conditions in mortgage markets little or no further increase was foreseen in residential construction outlays. Growth in the rate of business inventory accumulation, which had contributed importantly to the expansion in the latter half of 1967, was expected to slow in the first quarter and taper off in the second.

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Retail sales rose substantially in the first 2 months of 1968, according to incomplete information. Industrial production, however, declined somewhat in January and was expected to change little in February. The unemployment rate moved down in January for the third successive month--to 3.5 per cent, from 3.7 per cent in December--although growth in nonfarm employment slowed from its earlier rapid pace, apparently in large part because of the effect of bad weather on employment in the construction industry.

Average wholesale prices of both industrial commodities and farm products rose considerably further in February, according to preliminary estimates. Consumer prices continued to advance at a substantial rate in January and were 3.4 per cent higher than a year earlier. The recent pattern of settlements in wage negotiations and the increase on February 1 in Federal minimum wage rates suggested that unit labor costs would remain under upward pressure.

Both exports and imports of the United States rose sharply in January, but the surplus on merchandise trade fell somewhat below the markedly reduced fourth-quarter 1967 rate. With respect to the capital account, outstanding U.S. bank credit to foreigners declined more than seasonally and direct investment outflows apparently were reduced by the mandatory restrictions under the President's new balance of payments program. On balance, the deficit in U.S. international payments on the liquidity basis of calculation remained

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sizable in January, and also in the first 3 weeks of February according to tentative figures. The deficit on the official reserve transactions basis was considerably smaller, primarily as a result of large Euro-dollar borrowings by U.S. banks through foreign branches.

Heavy speculative demands for gold reemerged in the London market at the end of February and in early March, when fears of a change in U.S. gold policy became widespread. In foreign exchange markets, the generally improved atmosphere that had developed in January persisted for most of February. Late in the month, however, sterling and the Canadian dollar again came under pressure.

The Treasury completed two major financing operations in February. In a financing conducted during the first half of the month, \$3.8 billion of publicly held securities maturing in February, August, and November 1968 were exchanged for new 7-year, 5-3/4 per cent notes. Also, the Treasury sold about \$4.1 billion of new 15-month, 5-5/8 per cent notes to the public for cash payment on February 21; commercial banks, which were permitted to make payment in full for these notes through credits to Treasury tax and loan accounts, initially subscribed for the bulk of the issue. Government securities dealers made good progress in distributing the 7-year notes they had acquired, while bank selling of the new 15-month issue appeared to be relatively light and was readily absorbed by the market. In February the Treasury also announced that it was resuming the \$100 million addition to each weekly offering of 3-month bills.

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Growth in bank credit and the money supply had moderated on balance since November 1967, when the System had begun to shift monetary policy toward a posture of somewhat greater restraint. In the 3 months through February the bank credit proxy--daily-average member bank deposits--had expanded at an annual rate of 6 per cent, compared with a rate of nearly 11.5 per cent over the preceding 7 months; and the money supply had grown at an annual rate of 4 per cent, about half that of the earlier period. For February, however, the bank credit proxy was estimated to have increased at an annual rate of 10 per cent. Both loans and investments of banks declined in the first part of February, but bank credit expanded sharply later in the month as a result of bank acquisitions of the new 15-month notes offered by the Treasury. The February advance in bank credit was at the upper end of the range projected at the time of the Committee's previous meeting and slightly faster than the pace in January, when growth was also stimulated by a large Treasury cash financing. Private demand deposits and the money supply, which had not been expected to grow in February, increased somewhat but substantially less than in January.

Time and savings deposits of commercial banks, after declining slightly in January, expanded in February at a rate below that of the summer and early fall of 1967. Most of the rise was in consumer-type deposits; with business loan demands not particularly strong, banks

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were not aggressive in seeking to expand their outstanding large-denomination CD's. Some banks were now offering the 5-1/2 per cent ceiling rate on certificates with maturities as short as 4 months--in contrast to a 6-month minimum 4 weeks earlier--but rates on shorter-maturity CD's remained below the ceiling.

With no major Treasury financings in prospect for March, growth in the bank credit proxy was projected to moderate in that month to an annual rate in the range of 5 to 7 per cent, assuming no change in prevailing money market conditions. It was thought likely that somewhat firmer money market conditions would have relatively little effect on bank credit expansion in March. Projections for April suggested some further moderation in bank credit growth if money market conditions were unchanged and a quite low growth rate if such conditions were somewhat firmer, unless demands for business loans strengthened considerably or the Treasury decided to undertake a major financing. Time and savings deposits were projected to expand in March at about the February pace, and private demand deposits and the money supply were expected to grow somewhat more rapidly than in the preceding month.

System open market operations had been directed at maintaining stable conditions in the money market during the first part of February. The Treasury's financing operations were under way in

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that period and staff estimates of bank credit growth for the month were near the lower end of the range that had been projected at the previous meeting. Subsequently, after estimates of bank credit growth had been revised upward, operations were modified to achieve somewhat firmer conditions in the money market. The net reserve position of member banks shifted to average net borrowed reserves of about \$95 million in the last two statement weeks of February from average free reserves of \$120 million in the first 2 weeks, and average member bank borrowings rose by about \$110 million, to about \$425 million. The Federal funds rate, which initially had fluctuated for the most part in a range of 4-5/8 to 4-3/4 per cent, later was predominantly in a range of 4-3/4 to 4-7/8 per cent and at times was as high as 5 per cent.

Market rates on Treasury bills had risen since the preceding meeting of the Committee, but the advance was moderated by sustained nonbank demand for bills and, late in the period, by sizable purchases by foreign central banks. The 3-month bill rate, at 4.99 per cent on the day before this meeting, was up 8 basis points over the interval. Rates on most other short-term market instruments also had edged higher.

In longer-term debt markets the generally buoyant conditions of January had been succeeded by a more cautious atmosphere. Conditions in these markets were affected by a variety of conflicting

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factors--including expectations of further tightening of monetary policy, the belief that prospects for fiscal restraint had been somewhat enhanced recently, and continuing uncertainties relating to developments in Vietnam. Yields on Treasury notes and bonds had changed little on balance in the last 4 weeks, but advances in yields on corporate and State and local government bonds, particularly the latter, had resumed. While the calendar of new publicly offered corporate bonds remained relatively light, continuing additions were being made to an already large volume of prospective offerings of municipal securities.

Conditions in markets for residential mortgages appeared to have changed little in January, after tightening for some time. Primary market yields on conventional new-home mortgages rose slightly, but secondary market yields on FHA-insured home mortgages remained unchanged at the record level reattained a month earlier. The deposit experience of savings and loan associations and of mutual savings banks was mixed in January, but in general it apparently was better than many observers had anticipated.

The Committee decided that greater monetary restraint was desirable at this time in light of the current and prospective pace of economic expansion, persisting inflationary pressures, and the sharply reduced surplus on U.S. merchandise trade. Specifically, the members agreed that it would be appropriate to seek somewhat firmer conditions in the money market than had been attained in recent weeks, and to seek still firmer conditions if bank credit appeared to be expanding more rapidly than projected.

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In the course of the discussion a number of members expressed the view that a discount rate increase should be considered by the System soon. At the same time, it was noted that action under the Board's Regulation Q to increase the ceiling rate on large-denomination CD's might be needed at some point to avoid an undesirably large reduction in the outstanding volume of such CD's.

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

The information reviewed at this meeting indicates that over-all economic activity has been expanding rapidly, with both industrial and consumer prices rising at a substantial rate, and that prospects are for continuing rapid growth and persisting inflationary pressures in the period ahead. The foreign trade surplus has been at a sharply reduced level in recent months and the imbalance in U.S. international payments remains serious. Interest rates on most types of market instruments have edged up recently, following earlier declines. While growth in bank credit has moderated on balance during the past three months, bank credit expansion has been substantial in February, mainly reflecting Treasury financings. Growth in the money supply slowed in February, while flows into bank time and savings accounts expanded moderately. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to attaining somewhat firmer conditions in the money market; provided, however, that operations shall be further modified if bank credit appears to be expanding more rapidly than is currently projected.

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Votes for this action: Messrs. Martin, Hayes, Brimmer, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Daane.

2. Amendment of authorization for System foreign currency operations.

The Committee amended paragraph 3 of the authorization for System foreign currency operations in two respects. The phrase "Unless otherwise expressly authorized by the Committee" was added at the beginning of the first sentence of the paragraph, before language specifying that all foreign currency transactions should be at prevailing market rates. Such a qualification had been included at the corresponding point in the Committee's original authorization regarding foreign currency transactions adopted in February 1962, and had been inadvertently omitted when the previous instruments governing foreign currency operations were reformulated in June 1966. The effect of restoring the qualification was to simplify procedures in the event the Committee concluded that because of special circumstances a particular transaction should be undertaken at a rate different from that prevailing in the market.

At the same time, the second sentence of the paragraph, which had read as follows, was deleted:

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Insofar as is practicable, foreign currencies shall be purchased through spot transactions when rates for those currencies are at or below par and sold through spot transactions when such rates are at or above par, except when transactions at other rates (i) are specifically authorized by the Committee, (ii) are necessary to acquire currencies to meet System commitments, or (iii) are necessary to acquire currencies for the Stabilization Fund, provided that these currencies are resold forward to the Stabilization Fund at the same rate.

Restrictions on spot sales of foreign currencies at prices below par and on spot purchases at prices above par had been included in the Committee's foreign currency instruments since their original adoption in February 1962. The Committee now concluded that such restrictions were unnecessary, in light of the limitations on the purposes for which foreign currency operations could be undertaken given in paragraph 2 of the Committee's foreign currency directive. The restrictions also were considered undesirable on the grounds that spot sales of foreign currencies at prices below par and spot purchases at prices above par might be useful, on occasion, in furthering the purposes specified in the directive.

As amended, paragraph 3 of the authorization for System foreign currency operations read as follows:

Unless otherwise expressly authorized by the Committee, all transactions in foreign currencies undertaken under paragraph 1(A) above shall be at prevailing market rates and no attempt shall be made to establish rates that appear to be out of line with underlying market forces.

Except for the changes resulting from these amendments, the Committee renewed the authorization in its existing form.

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Votes for this action: Messrs. Martin, Hayes, Brimmer, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Daane.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1968, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The action taken with respect to the authorization for System foreign currency operations has been described in the preceding portion of the record for this date.

The Committee reaffirmed its continuing authority directive for domestic open market operations and its foreign currency directive in the forms in which both were outstanding at the beginning of the year 1968.

Votes for these actions: Messrs. Martin, Hayes, Brimmer, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against these actions: None.

Absent and not voting: Mr. Daane.