FEDERAL RESERVE
press release

For immediate release January 27, 1969

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 October 29, 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 October 29, 1968

Authority to effect transactions in System Account.

The expansion in real GNP moderated somewhat in the third quarter, according to preliminary Commerce Department estimates. The amount of slowing--to an annual rate of about 5 per cent, from more than 6 per cent in the first half of the year--was less than had been implied by recent staff projections. New projections presented at this meeting suggested that the expansion would moderate somewhat further in the fourth quarter and would continue to slow in the first half of 1969.

The strong performance of the economy in the third quarter was attributable largely to a substantial increase in consumer spending. Growth in disposable income was sharply curtailed by the tax surcharge, so the rise in consumer spending was associated with a large decline in the rate of personal saving; indeed, the decline in the saving rate was one of the largest in nearly a decade. In addition, business outlays on plant and equipment increased substantially after moving down in the second quarter, and Federal outlays expanded further, although at a considerably slower rate than earlier in the year.

Retail sales in October were remaining close to the advanced level of the summer months, according to available weekly figures. Output of steel, which had been cut back sharply following the late-July wage settlement in that industry, turned up in early October, and the industrial production index for October was tentatively estimated to have risen slightly after declining for 2 months. In September nonfarm employment expanded only moderately, and the unemployment rate edged up to 3.6 per cent from 3.5 per cent in August. Labor markets remained firm, however, and wage rates continued under strong upward pressure.

Average prices of industrial commodities, which had increased appreciably in September following several months of little change, rose substantially further in October. In both months the advance encompassed a broad range of commodities. The over-all wholesale price index was unchanged in October, however, as prices of farm products and foods fell by about as much as they had risen in the preceding month. The consumer price index increased moderately in September.

Conditions in foreign exchange markets had improved in the latter part of September when speculation on an imminent revaluation of the German mark abated, and the markets remained quiet in October. The exchange rate for sterling had been firm in recent weeks. Although the exchange rate for the French franc remained at or close to its lower support limit, selling pressures against the franc appeared to have moderated considerably.

The surplus on U.S. merchandise trade in the third quarter was somewhat above the very low levels of the first two quarters of the year, with part of the improvement reflecting an acceleration of exports in anticipation of a possible strike of longshoremen on October 1. New estimates of over-all payments flows suggested that the balance on the liquidity basis was less unfavorable in September than had been thought earlier and that the deficit was smaller in the third quarter as a whole than previous estimates had indicated. However, fragmentary data for early October suggested renewed deterioration. The latest estimates of the balance on the official settlements basis still indicated a moderate surplus in the third quarter, mainly as a result of a further rise in borrowings of U.S. banks through their foreign branches.

On October 17 the Treasury auctioned $3 billion of tax-anticipation bills due in June 1969. Bidding in the auction was aggressive, in part because the offering coincided with widespread reports that a halt in the bombing of North Vietnam was imminent. On October 23 the Treasury announced that in exchange for securities maturing in mid-November and mid-December, of which about $5.6 billion were held by the public, it would offer 2 notes--a new 18-month, 5-5/8 per cent note priced to yield 5.73 per cent, and a reopened 6-year, 5-3/4 per cent note priced at par. It was expected that the Treasury would auction additional tax-anticipation bills for payment in late November or early December mainly to compensate for cash redemptions in connection with the current refunding.

Interest rates on most types of market securities had risen on balance in recent weeks, although yields had fluctuated in response to shifting prospects for the de-escalation of hostilities in Vietnam. Both short- and long-term markets were influenced by continuing reports indicating that economic expansion was vigorous despite the recent fiscal legislation, and by the associated expectations that a firmer monetary policy might be required to resist inflationary pressures. In short-term markets yields increased on finance company and commercial paper, bankers' acceptances, and Treasury bills; the market rate on 3-month Treasury bills, at 5.46 per cent on the day before this meeting, was 20 basis points above its level of 3 weeks earlier. Contributing to the upward pressures on long-term rates were the large volume of new corporate security offerings and the record amount of State and local government issues in October, as well as the Treasury refunding.

In markets for home mortgages, the gradual easing of conditions that had been under way since mid-June continued in September, although the increase in net deposit inflows to nonbank financial intermediaries was again moderate. After the first week of October, however, there were indications that conditions in the secondary market for mortgages were beginning to tighten again.

Time and savings deposits at commercial banks continued to expand rapidly in October, according to preliminary estimates. It appeared that inflows of consumer-type time and savings deposits had accelerated further. In addition, banks increased their offering rates on large-denomination CD's slightly--by about the amount they had reduced them in September--and the volume of CD's outstanding rose considerably. Private demand deposits and the money supply were estimated to have increased fairly rapidly from September to October--the money supply at an annual rate of about 7 per cent--after changing little on balance since the first week of July.

Business loan demands at commercial banks were relatively strong in October, and banks continued to add to their holdings of municipal securities at a substantial pace. Total bank credit, as measured by the bank credit proxy--daily-average member bank deposits--was estimated to have increased at an annual rate of about 12 per cent in October, compared with 9 per cent in September. Allowance for changes in the daily average of U.S. bank liabilities to their foreign branches would have reduced the October growth rate by about one-half of a percentage point and increased the rate for September by about 1.5 percentage points.

System open market operations in the period since the preceding meeting of the Committee had initially been directed at maintaining about the prevailing conditions in the money and short-term credit markets. Later, however, some slight firming of conditions had been permitted, within the limitations imposed by the current Treasury refunding, because estimates from time to time indicated that bank credit was expanding at a rate at or above the upper end of the projected range (after some downward revision of the projection to allow for a smaller Treasury offering of tax-anticipation bills than had been assumed). The System had carried out relatively large operations, alternately absorbing and supplying reserves, to cope with sizable fluctuations in market factors affecting reserves and with pressures generated by continuing member bank adjustments to the new reserve computation procedures that had become effective on September 12. In recent weeks the effective rate on Federal funds had fluctuated mostly in a range of 5-3/4 to 6-1/8 per cent. Member bank borrowings averaged about $425 million in the 2 weeks ending October 23, down slightly from the average of $455 million in the preceding 4 weeks. Excess reserves declined more on the average, however, and net borrowed reserves increased.

New staff projections suggested that, if prevailing conditions in money and short-term credit markets were maintained, the bank credit proxy would expand at an annual rate of 9 to 12 per cent in November and more slowly in December. The projections, which assumed that the Treasury would offer $2.5 billion of tax-anticipation bills for payment in the last week of November, were subject to revision if the size or timing of the offering were different. It was expected that business loan demand would remain fairly strong in November, and that banks would continue to acquire municipal securities at a rapid pace. Prospects favored slower growth in the volume of large-denomination CD's outstanding and in total time and savings deposits at commercial banks, but it appeared likely that the money supply would increase at a rate equal to or slightly above that estimated for October.

The Committee agreed that the current Treasury refunding precluded a change in monetary policy at this time. Some members indicated that in the absence of the Treasury financing they would have favored seeking somewhat firmer money market conditions, on the grounds that recent and prospective rates of bank credit growth were excessive in light of prevailing inflationary pressures. Some other members expressed the view that an increase in monetary restraint was not warranted at present even apart from the financing. While recognizing the uncertainties in the outlook, they believed the most likely prospect at the moment was that the economic advance would slow sufficiently under the current stance of stabilization policies.

The Committee concluded that open market operations should be directed at maintaining about the prevailing conditions in money and short-term credit markets, with the proviso that operations should be modified, insofar as the Treasury financing permitted, if bank credit growth appeared to be in excess of current projections. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that over-all economic expansion has moderated somewhat from its very rapid pace earlier in the year, although less than projected, and that upward pressures on prices and costs are persisting. Market interest rates have risen in recent weeks. Bank credit and time and savings deposits have continued to expand rapidly, but savings inflows to thrift institutions have remained moderate. The money supply, after growing little on balance during the summer, has increased in recent weeks. The U.S. foreign trade balance and underlying payments position continue to be matters of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the current Treasury financing, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in money and short-term credit markets; provided, however, that operations shall be modified, to the extent permitted by the Treasury financing, if bank credit expansion appears to be exceeding current projections.

Votes for this action: Messrs. Martin, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Morris, Robertson, and Sherrill.
Vote against this action: Mr. Hayes.

In dissenting from this action, Mr. Hayes said he agreed that the current Treasury refunding precluded any substantial change in monetary policy. He thought, however, that the implications of the prevailing inflationary pressures for the domestic economy and the balance of payments were sufficiently serious to warrant seeking whatever degree of firming in money market conditions would be consistent with the Treasury financing--however slight that might be--in an effort to slow bank credit growth from a rate he considered excessive.