FEDERAL RESERVE

press release

For immediate release February 24, 1969.

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached records of policy actions taken by the Federal Open Market Committee at its meetings on November 26 and December 17, 1968. These records will be published in the Board's Annual Report for 1968 and in the Federal Reserve Bulletin.

Attachments

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on November 26, 1968

1. Authority to effect transactions in System Account.

The information reviewed at this meeting suggested that the expansion in over-all economic activity, while still strong, was moderating somewhat further in the fourth quarter from its very rapid pace earlier in the year. In particular, retail sales in October were no higher than they had been in August--suggesting that the surge in consumer spending was subsiding--and the rise in Federal expenditures was estimated to be slackening further. Staff projections implied that the rate of economic expansion would continue to moderate in the first half of 1969.

Recent data of various kinds indicated that the expansion was still strong. Industrial production, which was now reported to have turned up in September, advanced again in October, and new orders for durable goods increased sharply. Nonfarm payroll employment rose more in October than in other recent months, and the unemployment rate continued at the September level of 3.6 per cent. According to a private survey taken in October, businesses planned to increase their outlays on new plant and equipment in 1969 by about 8 per cent, or more than the rise currently estimated for 1968.

Average prices of industrial commodities increased slightly in November after advancing at a substantial rate in the two preceding months. In contrast, the consumer price index--which had increased only moderately in September--rose sharply in October. With labor markets remaining firm, sizable further advances in average hourly earnings were widespread among industries.

Foreign exchange markets were in turmoil during most of November. Speculative buying of German marks revived on a large scale in early November in response to renewed rumors of an imminent revaluation. Selling pressure on the French franc intensified, and sterling was also subject to pressure, particularly after the publication of figures indicating that the British foreign trade deficit had increased somewhat in October.

On November 19 the German Government announced that the mark would not be revalued, but that in order to reduce the German trade surplus the value-added tax rebate would be decreased by 4 percentage points for merchandise exports and the border tax would be reduced by 4 percentage points for most imports. The finance ministers and central bank governors of the Group of Ten met at Bonn November 20 through 22. New credit facilities totaling $2 billion were made available to France, and the German authorities increased to 100 per cent the reserve requirements on additions to German commercial bank liabilities to foreigners.

On November 23, contrary to the expectations of many observers, the French Government announced that the franc would not be devalued, and on the following day President de Gaulle outlined the policy measures that would be adopted. In addition to the reimposition of exchange controls, these measures included a sizable reduction in French budget expenditures, a more restrictive policy toward wage and price increases, and changes in the tax system to favor exports and deter imports. Earlier, on November 13, the Bank of France had increased its discount rate from 5 to 6 per cent and had announced measures to limit the expansion of bank credit.

The British Government on November 22 announced new actions to restrain domestic demand and to improve the balance of payments. These included a 10 per cent surcharge on existing purchase and excise taxes; requirement of 6-month non-interest-bearing deposits equal to 50 per cent of the value of imports of most manufactured goods; and tighter ceilings on bank loans to the private sector.

Official estimates of the U.S. balance of payments indicated that there had been a small surplus in the third quarter on the liquidity basis of calculation, following a moderate deficit in the second quarter. Special official transactions operating to reduce the deficit remained large, but were not so large as in the second quarter. The trade surplus, although still quite small, was larger than in the first two quarters of the year; this resulted partly from acceleration of shipments in September in anticipation of a possible strike of longshoremen on October 1. Available data for October and the first 2 weeks of November suggested that a sizable deficit on the liquidity basis had again emerged.

Official data confirmed the earlier expectation that a moderate payments surplus had been recorded in the third quarter on the official settlements basis, largely because of a further increase in borrowings of U.S. banks through their branches abroad. The outstanding volume of such borrowings changed little after mid-September, however, and in October the balance on the official settlements basis probably was in deficit.

In its November refunding the Treasury offered 2 notes in exchange for securities maturing in mid-November and mid-December. Of the $5.6 billion of these issues held by the public, $2.5 billion were exchanged for a new 18-month, 5-5/8 per cent note (priced to yield 5.73 per cent), and $1.3 billion were exchanged for a reopened 6-year, 5-3/4 per cent note (priced at par). On November 19 the Treasury announced that it would auction $2 billion of tax-anticipation bills due in June, for payment on December 2, mainly to raise cash to redeem the $1.8 billion of maturing securities not exchanged in the November refunding. This offering was expected to be the Treasury's last financing in the calendar year, and its size was near the lower end of the range that had been anticipated by market participants.

With the Treasury refunding under way, recent System open market operations had been directed at maintaining generally steady conditions in money and short-term credit markets. Operations were complicated, however, by shifts in the distribution of reserves--first away from banks in the money centers and then back again--and by the effects on total reserves of a sharp decline in Treasury balances at the Federal Reserve Banks and of large-scale international transactions. The effective rate on Federal funds was 6 per cent or higher on most days in the first half of November, but it subsequently fluctuated around 5-3/4 per cent. Member bank borrowings averaged about $520 million in the 4 weeks ending November 20, above the average of about $450 million in the preceding 4 weeks. Excess reserves also increased on the average but less than borrowings, and net borrowed reserves were slightly larger.

Yields on Treasury, corporate, and State and local government bonds had risen further in recent weeks, partly because of continuing heavy demands on the capital markets. The volume of corporate and municipal bond offerings in November, while less than in October, was relatively large. The upward rate pressures also reflected cautious attitudes on the part of investors, against the background of indications of strength in the economy, widespread expectations of inflation, and growing anticipations of a firmer monetary policy. On the other hand, there was relatively little reaction in capital markets to either the late-October announcement of a halt in the bombing of North Vietnam or the recent turbulence in foreign exchange markets.

Interest rates on various types of short-term instruments also had risen recently, in response to some of the same factors affecting longer-term rates as well as to seasonal pressures. However, there was little net change in yields on shorter-term Treasury bills, the market supplies of which had become limited at a time of strong domestic and foreign demands. The market rate on 3-month Treasury bills, at 5.42 per cent on the day before this meeting, was 4 basis points below its level of 4 weeks earlier.

Net inflows of deposits to nonbank financial intermediaries again increased only moderately in October. Yields on home mortgages in the secondary market, which had been declining for several months, edged up in October and apparently also in the first half of November.

Rates paid by banks on large-denomination CD's also had advanced further in recent weeks. Most banks were now paying the Regulation Q ceiling rate of 6 per cent on certificates with maturities of 90 to 179 days, and some reportedly were paying the 6-1/4 per cent ceiling rate on longer-term certificates. According to tentative estimates, growth from October to November in the volume of outstanding CD's, and of other time and savings deposits as well, was slower than it had been in other recent months. On the other hand, the expansion in private demand deposits and the money supply accelerated--the latter to an estimated annual rate of more than 10 per cent, the highest since July. Bank credit, as measured by the proxy series--daily-average member bank deposits--was tentatively estimated to have increased from October to November at an annual rate of 10.5 per cent, compared with 12.5 per cent from September to October. In mid-November prime lending rates were raised to the generally prevailing level of 6-1/4 per cent by the few large banks that had reduced such rates from 6-1/2 to 6 per cent in late September.

Staff projections suggested that the bank credit proxy would increase from November to December at an annual rate of 5 to 8 per cent if prevailing conditions were maintained in money and short-term credit markets. The projections assumed that the volume of large-denomination CD's outstanding would decline seasonally and that growth in other time and savings deposits would slow somewhat further. An anticipated reduction in the average level of U.S. Government deposits was expected to contribute to expansion in private demand deposits and the money supply at a rapid rate, although not so rapid as in November.

Committee members differed in their views on the appropriate course for monetary policy under current circumstances, with a minority favoring operations directed at attaining somewhat firmer money market conditions. The majority thought that, although it would be advisable to resist any easing of money market conditions that might be produced by market forces, a shift to a firmer policy stance was not warranted at this time.

Members of the majority shared the concern expressed about the persistence of inflationary pressures, and some indicated that they had found the question of appropriate policy to be close. On balance, however, they believed that domestic economic considerations did not suggest a clear and unequivocal need for a firmer policy at present. In their judgment, despite the unexpected strength of the economy since enactment of fiscal restraint legislation at midyear, evidences of slowing in the rate of expansion were likely to become more pronounced in coming months. Other considerations cited as militating against a policy change at present were the recent turbulence and the continuing uncertainties in foreign exchange markets, and the fact that in financial markets the peak seasonal pressures of the year were to be expected in the period just ahead. Several members expressed the view that a slight firming of policy at this time would not be effectual in combatting the prevailing inflationary psychology, and that a more marked firming would be undesirable on the other grounds cited.

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 if bank credit expansion appeared to be exceeding 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 the expansion in over-all economic activity, while still strong, is moderating somewhat further from its very rapid pace earlier in the year. Upward pressures on prices and costs are persisting. Most market interest rates have risen further in recent weeks. Bank credit has continued to expand rapidly. Growth in the money supply has accelerated from the low average rate of recent months, while expansion

> in commercial bank time and savings deposits has slowed. Savings inflows to thrift institutions increased somewhat further in October but remained moderate. Following discussions among leading industrial countries, France, Germany, and Britain have acted to combat the recent speculation in their currencies by taking steps designed to reduce imbalances in their external payments. The U.S. foreign trade balance and over-all balance of payments improved in the third quarter but partial data for recent weeks suggest that the improvement is not being sustained, and the underlying U.S. payments position remains a serious problem. 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.
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> To implement this policy, 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 if bank credit expansion appears to be exceeding current projections.

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

In dissenting from this action, Messrs. Hayes, Hickman, Kimbrel, and Morris indicated that they favored seeking somewhat firmer money market conditions in an effort to slow the rate of bank credit growth, which in their view had been excessive for several months. They thought such action was required in light of prevailing inflationary pressures and expectations. In their judgment, the latest information on the domestic economy lent support to the view that the rate of expansion, while perhaps moderating somewhat in coming months, was likely to remain excessive under the current stance of fiscal and monetary policies. The view also was expressed that a firmer monetary policy was desirable to help maintain the strength of the dollar in foreign exchange markets.

2. Ratification of amendment to authorization for System foreign currency operations.

The Committee ratified an action taken by members on November 22, 1968, effective on that date, to increase the System's swap arrangement with the Bank of France from $700 million to $1 billion, equivalent, and to make the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations. As a result of this action, paragraph 2 read as follows:

> The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, relations with foreign banks and bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	100
National Bank of Belgium	225
Bank of Canada	1,000
National Bank of Denmark	100
Bank of England	2,000
Bank of France	1,000
German Federal Bank	1,000
Bank of Italy	1,000
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	400
Bank of Norway	100
Bank of Sweden	250
Swiss National Bank	600
Bank for International Settlements:	
System drawings in Swiss francs	600
System drawings in authorized European currencies other than Swiss francs	1,000

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

This increase in the Federal Reserve swap line with the Bank of France represented part of the U.S. share of the $2 billion in new credit facilities to France that had been announced in Bonn on November 22, following the meeting of the finance ministers and central bank governors. In addition, the U.S. Treasury made a $200 million credit facility available to France, so total U.S. participation in the new facilities was $500 million.

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on December 17, 1968

Authority to effect transactions in System Account.

The current rate of expansion in over-all economic activity was significantly higher than has been projected earlier, according to a broad variety of economic information that had become available since the preceding meeting of the Committee. New staff projections suggested that GNP in current-dollar terms would increase about as rapidly in the fourth quarter as it had in the third. Average prices, as measured by the "GNP deflator," were estimated to be rising at a faster pace again in the fourth quarter, and growth in real GNP was expected to moderate somewhat further from the very high rates recorded in the first two quarters of the year. Expectations of continued inflationary pressures appeared to be widespread.

The staff projections of GNP in both the fourth and first quarters had been revised upward from those of 3 weeks earlier largely because of the indication, from the Commerce-SEC survey of business plans taken in November, that outlays on new plant and equipment were rising sharply. Other evidences of strength in the current business situation were reflected in November data on production, employment, and retail sales. A sizable further advance in industrial production in November brought the index above the previous high recorded in July, when output of steel had been substantially larger. Nonfarm payroll employment again rose sharply, and the unemployment rate declined to 3.3 per cent--its lowest level in 15 years--from 3.6 per cent in October. Average hourly earnings continued to advance at the rapid pace of recent months. Retail sales, according to the advance estimate, rose in November after edging down in September and October. It appeared, however, that consumer expenditures would expand considerably less in the fourth quarter as a whole than they had in the third quarter.

The staff projections still implied that the rate of increase in real GNP would moderate considerably in the first half of 1969, partly because of a marked swing from deficit to surplus that was already under way in the Federal fiscal position. In addition, it was expected that expansion in consumer expenditures would slow further as a result of slackened growth in disposable income and that the increase in residential construction outlays would be limited by tight conditions in mortgage markets. Against the background of prospects in these sectors, the resurgence of business capital outlays and the report that inventories had risen markedly in October suggested that imbalances could be developing in the economy as a result of inflationary expectations.

In foreign exchange markets, earlier speculative movements of funds were partly reversed following the actions taken in late

November by Germany, France, and Britain to reduce imbalances in their external payments. The pound was again subject to selling pressure in early December, however, and the market for sterling remained uneasy even after publication of figures indicating that Britain's foreign trade balance had improved sharply in November.

Available information on the U.S. balance of payments in October and November suggested that sizable deficits had again emerged on both the liquidity and official settlements bases of calculation, following the surpluses--small in the case of the liquidity balance--that had been recorded in the third quarter. Since mid-September there had been relatively little net change in borrowings by U.S. banks through their foreign branches; in the spring and summer, increases in such borrowings had resulted in the payments surpluses recorded then on the official settlements basis. U.S. merchandise exports declined sharply in October after rising considerably in September in anticipation of a longshoremen's strike on October 1. Imports also declined in October, but more moderately than exports; for September and October together there was a small surplus in U.S. foreign trade. With the current Taft-Hartley Act injunction against the strike scheduled to expire on December 20, continued marked fluctuations in monthly foreign trade figures appeared likely.

In late November the Treasury auctioned $2 billion of tax-anticipation bills due in June 1969, for payment on December 2. Banks, which were allowed to pay for the bills through credits to Treasury tax and loan accounts, successfully bid for the bulk of the issue. Despite this cash financing, however, Treasury cash balances at banks were drawn down to very low levels prior to the quarterly corporate tax date in mid-December, and the Treasury temporarily replenished its balances in the period December 10-17 by selling special certificates of indebtedness to the Federal Reserve. The volume of such certificates outstanding was $92 million on December 10, none on December 11, $45 million on December 12, $430 million from December 13 through 15, $447 million on December 16, and $596 million on December 17. (Certificates outstanding on December 17 were redeemed the following day.)

Interest rates on market securities of all maturities had risen sharply further in recent weeks as the steady stream of statistics reflecting strength in the economy heightened concern about inflationary pressures and enhanced expectations of a firmer monetary policy. Increases in yields were particularly rapid in early December after commercial banks increased their prime lending rates from 6-1/4 per cent to the 6-1/2 per cent level that had prevailed before the reductions of late September. Yields on most long-term securities rose to levels above the peaks that had been reached in the spring, and unsettled conditions in the capital markets led to the postponement or cancellation of a number of scheduled corporate and municipal bond offerings. Conditions in the secondary market for home mortgages continued to tighten in early December.

In markets for short-term securities, yield advances were particularly pronounced for Treasury bills; on the day before this meeting the market rate on 3-month bills was 5.94 per cent, 52 basis points above its level of 3 weeks earlier. Upward pressures on bill yields were augmented by seasonal forces, sales of bills by foreign monetary authorities, and sales by domestic commercial banks of tax-anticipation bills they had acquired in the Treasury's recent auction.

Rates paid by commercial banks on large-denomination CD's of longer maturity had increased further in recent weeks, and most large banks were now paying the Regulation Q ceiling rates for all maturities. The volume of CD's outstanding rose substantially in November, particularly after midmonth. Largely as a consequence, the expansion in total time and savings deposits from October to November was more rapid than earlier tentative estimates had indicated, although somewhat less rapid than in other recent months.

Estimates of November growth rates also had been revised upward somewhat for bank credit, as measured by the proxy series--daily-average member bank deposits--and for the money supply; both were now estimated to have increased from October to November at an 11.5 per cent annual rate. Since midyear, bank credit and the money supply had expanded at annual rates of about 13 and 6 per cent, respectively, compared with rates of about 4 and 6.5 per cent in the first half of the year. In November banks increased the volume of business loans outstanding considerably further and continued to acquire municipal securities at a rapid pace, while reducing their holdings of U.S. Government securities. To a large extent, the accelerated growth in the money supply in November reflected a rise in private demand deposits in the last half of the month, when U.S. Government deposits declined markedly.

System open market operations in the first part of the period since the Committee's preceding meeting were directed at maintaining about the prevailing conditions in money and short-term credit markets, and reserves were supplied partly in an effort to cushion the sharp reaction of short-term market interest rates to the rise in the prime rate. Operations subsequently were shifted in the direction of reserve absorption when market factors began to supply a large volume of reserves and when estimates indicated that bank credit was expanding at a rate in excess of the range projected at the time of the previous meeting. These operations were tempered, however, in view of the continuing increases in short-term rates. During the period as a whole, the effective rate on Federal funds fluctuated mostly in a range of 5-3/4 to 6 per cent. Member bank borrowings averaged $515 million in the 3 weeks ending December 11, little changed from the previous 4 weeks. With excess reserves lower on the average, net borrowed reserves rose in the period.

New staff projections suggested that if prevailing conditions in money and short-term credit markets were maintained, on balance, the bank credit proxy would expand at an annual rate of 8 to 11 per cent from November to December and at a rate of 4 to 7 per cent from December to January. Given the current relationships between short-term interest rates and Regulation Q ceiling rates, it was expected that banks would experience a larger-than-seasonal run-off of CD's in December and a contraseasonal run-off in January, and that inflows of consumer-type time and savings deposits would begin to moderate. Growth in the money supply was expected to slow considerably in December--and perhaps to taper off further in January, particularly if demands for business loans were reduced.

An alternative projection suggested that a firming of money market conditions would have relatively little effect on bank credit growth in December but would result in a slower rate of growth in January--an annual rate of perhaps 2 to 5 per cent--mainly as a result of a larger run-off of CD's. For purposes of the projections it was assumed that the Treasury would not engage in any new cash borrowing through the end of January.

Prior to this meeting the boards of directors of nine Federal Reserve Banks had acted, subject to the approval of the Board of Governors, to increase discount rates from the present level of 5-1/4 per cent. It was reported to the Committee that the Board of Governors planned shortly after this meeting to take action with respect to discount rates and also to consider the desirability of a moderate increase in member bank reserve requirements.

The Committee was unanimously of the view that greater monetary restraint was required at this time in light of the unexpected strength of current economic activity, the persistence of inflationary pressures and expectations, and the recent rapid rate of growth in bank credit. The members agreed that one element of the shift to greater monetary restraint should be a firmer open market policy. There also was general sentiment at the meeting that discount rates should be increased, although there were some differences of view with respect to the amount; and divergent opinions were expressed about the desirability of action now to raise reserve requirements.

A number of members expressed the view that the combination of a firmer open market policy and an increase of one-quarter of a percentage point in discount rates would be appropriate to the current economic situation. Some of these members added that, while additional measures could be taken later if deemed necessary, various considerations--including the continuing uncertainties with respect to foreign exchange markets, as well as the sensitive state of conditions in domestic financial markets with the attendant risks of unduly large market reactions--militated against also increasing reserve requirements at this time or raising discount rates by as much as one-half point. The basic argument advanced by those who favored a broader combination of policy actions now was that more limited actions were likely to be inadequate to dampen the prevailing inflationary psychology, particularly since it appeared that an increase of at least one-quarter point in the discount rate was already widely anticipated in financial markets.

At the conclusion of the discussion the Committee agreed that open market operations should be directed at attaining firmer conditions in money and short-term credit markets, while taking account of the effects of any other monetary policy actions that might be taken. The proviso was added that operations should be modified if bank credit expansion appeared to be deviating significantly from 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 activity is expanding rapidly and that upward pressures on prices and costs are persisting. Market interest rates have risen considerably further in recent weeks. Bank credit growth has been sustained by continuing strong expansion of time and savings deposits, while growth in the money supply has accelerated and U.S. Government deposits have declined. The U.S. foreign trade surplus remains very small and the over-all balance of payments apparently worsened in October and November. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to the reduction of inflationary pressures, with a view to encouraging a more sustainable rate of economic growth and attaining reasonable equilibrium in the country's balance of payments.
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> To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to attaining firmer conditions in money and short-term credit markets, taking account of the effects of other possible monetary policy action; provided, however, that operations shall be modified if bank credit expansion appears to be deviating significantly from current projections.

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

Absent and not voting: Mr. Martin.