FEDERAL RESERVE

press release

For immediate release June 30, 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 April 1, 1969. 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 April 1, 1969

Authority to effect transactions in System Account.

According to the information reviewed at this meeting, expansion in real GNP had moderated somewhat further in the first quarter from the 3.4 per cent annual rate of increase recorded in the fourth quarter of 1968. It appeared, however, that the expansion had slowed less than had been anticipated in earlier projections, and that the slowing was attributable to a decline in the rate of business inventory accumulation; the pace of advance in final sales was estimated to have increased. Moreover, it now appeared that activity in coming months also would be stronger than expected earlier. Substantial upward pressures on prices and costs persisted, and inflationary expectations remained widespread.

Previous projections of economic activity had been revised upward largely because a Commerce-SEC survey, taken in February, indicated that businesses planned a large increase in their outlays on new plant and equipment in 1969--to a total about 14 per cent above 1968. In addition, retail sales data for February and revised figures for earlier months suggested that growth in consumer expenditures had stepped up more from the low fourth-quarter rate than anticipated. The most recent data, in which new seasonal adjustment

factors had been incorporated, indicated that retail sales had reached a new record level in January and that they had continued at about that level in February.

Nonfarm employment again expanded sharply in February, and unemployment remained at the low rate of 3.3 per cent which it had reached in December. Average hourly earnings of production workers continued to increase at a rapid pace. The consumer price index rose considerably further in February, to a level about 4.7 per cent above a year earlier. From mid-February to mid-March average wholesale prices of industrial commodities increased substantially; since mid-December such prices had advanced at an annual rate of more than 6 per cent.

Projections for the second quarter suggested that growth in real GNP would remain at about the first-quarter pace. Another decline in the rate of business inventory accumulation--such as had held down over-all growth in the first quarter--was not expected, but it appeared likely that the expansion in various major categories of final sales would slow. According to the Commerce-SEC survey, a sizable part of the anticipated 1969 increase in plant and equipment outlays would be concentrated in the first quarter. Moreover, it seemed likely that consumer spending would rise less rapidly in the second quarter than in the first, when a sharp decline in the rate of personal saving apparently had occurred. Federal purchases of goods

and services were projected to remain relatively stable in the second quarter, and residential construction activity was expected to turn down as a result of reduced availability of mortgage credit.

Data available through mid-March suggested that a very large deficit had been incurred in the first quarter in the U.S. balance of payments on the liquidity basis. One major contributing factor was a substantial deficit in the merchandise trade balance for February, as imports began to recover more rapidly than export shipments after the dock strike ended in New York in mid-February. Also, it seemed likely that outflows of corporate capital funds, data for which were not yet available, were substantial. On the other hand, in the first 2 months of the year foreign net purchases of U.S. equity securities were sizable, and bank-reported claims on foreigners were reduced more than seasonally.

In contrast to the deficit on the liquidity basis, it appeared that a large surplus would be recorded for the first quarter on the official settlements basis, as a result of substantial inflows of liquid funds through banks abroad. Liabilities of U.S. banks to their foreign branches again expanded rapidly in the first half of March, after increasing only slightly in February. Interest rates in the Euro-dollar market advanced to a new high in early March but subsequently changed little.

Most major foreign currencies were under some selling pressure during March. Financial markets in most industrial countries had tightened in recent months, in part because of domestic demand pressures but also in some instances in reaction to capital outflows resulting from the restrictive stance of U.S. monetary policy and high Euro-dollar interest rates.

On March 25 the Treasury auctioned a $1.8 billion strip of bills consisting of additions to outstanding issues maturing in about 6 to 12 weeks. Commercial banks, which were allowed to make payment for the new bills through credits to Treasury tax and loan accounts, bid aggressively in the auction and were awarded the bulk of the offering. The financing was expected to cover the Treasury's cash requirements from market sources for the balance of the fiscal year.

Long-term interest rates had risen further since the previous meeting of the Committee in an atmosphere of continuing concern about inflationary pressures in the economy. Yield increases were especially pronounced in the corporate and the municipal bond markets where new issues were accorded generally unenthusiastic receptions and a number of offerings were either postponed or reduced in size. In late March a somewhat improved tone emerged in the capital markets, reflecting in part rumors of progress in the Vietnam peace talks.

Movements in short-term interest rates had been mixed since early March. Rates on most Treasury bills had declined to the

lowest levels since mid-December, as continuing strong liquidity demands, augmented by sizable seasonal demands, impinged on limited dealer inventories. The market rate on 3-month Treasury bills had fallen to slightly below 6 per cent after mid-March and at the time of this meeting was 5.99 per cent, compared with 6.17 per cent 4 weeks earlier. Market rates on other short-term securities had declined less or had risen in recent weeks. On March 17 most large commercial banks raised their prime lending rate from 7 per cent to a new record high of 7-1/2 per cent.

System open market operations since the previous meeting of the Committee had been directed at maintaining firm conditions in the money and short-term credit markets. With Treasury bill rates under downward pressure, the System met reserve needs mainly through short-term repurchase agreements and purchases of Treasury coupon-bearing securities rather than by buying bills in the market. The effective rate on Federal funds continued to fluctuate in a range centering around 6-3/4 per cent. Member bank borrowings averaged $835 million in the 4 weeks ending March 26, the same as in the previous 4 weeks. Excess reserves declined somewhat and net borrowed reserves increased correspondingly.

In March total bank credit, as measured by the adjusted proxy series--daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches--was estimated to have declined from February at an annual rate of 6.5 per cent, after changing little over the first 2 months

of the year. Banks continued to liquidate holdings of U.S. Government securities during March but added somewhat on balance to holdings of other securities. Total bank loans declined during the month--reflecting large reductions in security loans and in loans to nonbank financial institutions and a substantial slowing in the growth of business loans after midmonth. Also, some part of the March decline in loans may have reflected sales of loans by U.S. banks to foreign branches. In the first quarter as a whole banks financed a net growth in loans, which was particularly sizable for business loans, mainly by liquidating holdings of Government securities.

The volume of large-denomination CD's outstanding declined considerably further in March, as yields on competing short-term debt market instruments remained above the maximum interest rates payable on such CD's under Regulation Q. Consumer-type time and savings deposits expanded moderately, however, and total time and savings deposits--which had declined at a rapid rate in January and February--were about unchanged in March. Private demand deposits also changed little, and the money stock expanded at a 2 per cent annual rate--about the same as in the first 2 months of 1969 and well below the growth rate over the second half of 1968. U.S. Government deposits declined substantially, following sizable increases earlier in the year.

Loan demands at banks were expected to rebound in April, partly in connection with needs to finance income tax payments. Staff projections suggested that the adjusted bank credit proxy would grow from March to April at an annual rate of 2 to 6 per cent if prevailing money market conditions and existing Regulation Q ceilings were maintained. This projection assumed that there would be some further increase in Euro-dollar liabilities of U.S. banks to their foreign branches.

Total time and savings deposits at banks were expected to change little again from March to April. It appeared probable that the pace of the run-off of large-denomination CD's outstanding would moderate after mid-April when Treasury bill rates were likely to decline seasonally. However, growth in consumer-type time and savings deposits was projected to slow as a result of withdrawals following the quarterly interest-crediting period and in connection with income tax payments. It was expected that U.S. Government deposits would rise considerably from March to April, that private demand deposits would remain about unchanged, and that the money stock would expand only slightly faster than in the first quarter.

Prior to this meeting the boards of directors of eight Reserve Banks had acted, subject to the approval of the Board of Governors, to increase discount rates from the present level of 5-1/2 per cent. It was reported to the Committee that the Board

of Governors planned to take action on discount rates within a few days, and concurrently to consider the desirability of an increase in member bank reserve requirements, to be effective shortly after mid-April. The staff had prepared alternative projections of the adjusted proxy series that took account of other possible monetary policy action. These projections suggested that bank credit would be weaker than otherwise in April if open market operations were directed at maintaining the firmer money market conditions expected to ensue from such action and if existing Regulation Q ceilings were continued.

It was the consensus of the Committee that some further monetary policy action was called for at this time in light of the greater-than-expected pace of the economic expansion and the continuation of pervasive inflationary pressures and expectations. An increase in discount rates was generally considered to be appropriate, but differing views were expressed regarding the desirability of an increase in reserve requirements at present. In one view both actions, along with supportive open market operations, were needed to make clear the System's determination to resist inflationary pressures. An alternative view was that, while an increase in reserve requirements might prove desirable at a later time, it was not required at present.

With respect to open market operations, a majority of the Committee agreed that such operations should be directed at maintaining firm conditions in money and short-term credit markets, and at confirming the effects on those markets of any other monetary policy actions that might be taken. The proviso was added that operations should be modified if bank credit 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, while expansion in real economic activity has moderated somewhat further, current and prospective activity now appears stronger than earlier projections had indicated. Substantial upward pressures on prices and costs are persisting. Most long-term interest rates have risen further on balance in recent weeks, but movements in short-term rates have been mixed. In the first quarter of the year bank credit changed little on average, as investments contracted while loans expanded further. In March the outstanding volume of large-denomination CD's continued to decline sharply; inflows of other time and savings deposits were moderate; and growth in the money supply remained at a sharply reduced rate. It appears that a sizable deficit reemerged in the U.S. balance of payments on the liquidity basis in the first quarter but that the balance on the official settlements basis remained in surplus as a result of further large inflows of Euro-dollars. 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.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining firm 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 appears to be deviating significantly from current projections.

Votes for this action: Messrs. Martin, Bopp, Brimmer, Clay, Daane, Mitchell, Robertson, Scanlon, Sherrill, and Treiber. Votes against this action: Messrs. Coldwell and Maisel.

Absent and not voting: Mr. Hayes. (Mr. Treiber voted as his alternate.)

Messrs. Coldwell and Maisel dissented from this action for different reasons. Mr. Coldwell noted that the directive favored by the majority could be interpreted as calling for no monetary firming unless the Board acted in the coming period with respect to discount rates or reserve requirements. Since he believed that greater monetary restraint was imperative under current circumstances, he favored adopting a directive that called unconditionally for the attainment of firmer conditions in money and short-term credit markets.

Mr. Maisel believed that, insofar as the Committee's action reflected a desire to affect the prevailing inflationary psychology directly, it represented a shift from the Committee's proper concern with flows of credit and money to an improper target not readily susceptible to such influence. He particularly objected to the directive as adopted because he thought that operations under it were likely to depress flows of the monetary aggregates to rates below those that

seemed to him to be desirable and maintainable for a considerable period, and that such operations would thus be inconsistent with the gradualist approach to the ultimate objective of price stability that he favored.