FEDERAL RESERVE

press release

For immediate release July 28, 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 29, 1969. Such records are made available approximately 90 days after the date of each meeting of the Committee and will be found the 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 29, 1969

Authority to effect transactions in System Account.

Preliminary estimates of the Commerce Department indicated that in the first quarter real GNP expanded at an annual rate of 2.9 per cent--only slightly slower than the 3.4 per cent growth rate of the fourth quarter of 1968--and that average prices, as measured by the GNP deflator, increased a little faster than in late 1968. Staff projections suggested that real GNP would expand about as rapidly in the second quarter as in the first and that upward pressures on prices would continue strong.

In March retail sales rose further, according to the advance report. Industrial production also reached a new high as output of many final products and materials increased. The labor market remained tight, although nonfarm employment expanded less rapidly than it had earlier in 1969 and the unemployment rate edged up to 3.4 per cent from the 3.3 per cent level of preceding months.

Average wholesale prices of industrial commodities, which had advanced substantially in the first quarter, rose only slightly further from mid-March to mid-April. To a considerable extent the slowing of the rise reflected declines in prices of lumber and plywood following extremely large advances earlier; among other industrial commodities price increases continued widespread. The consumer price index rose more in March than in any other month since February 1951, partly because of a sharp advance in home-ownership costs, including mortgage interest charges, property taxes, insurance, and repairs.

According to the preliminary GNP figures for the first quarter, there were large increases in final sales--particularly in business outlays on plant and equipment and in consumer expenditures--and a substantial decline in the rate of business inventory accumulation. The advance in consumer spending was associated with a sizable reduction in the rate of personal saving, as growth in disposable income slowed. Residential construction outlays also expanded appreciably further, although housing starts declined substantially in February and March from the very high January rate. Federal purchases of goods and services increased only slightly in the quarter.

While the staff projections for the second quarter suggested that GNP would continue to expand at about the pace of the first quarter, they contemplated a different pattern of change among the major components. Specifically, it was expected that inventory accumulation would remain at about the first-quarter rate, instead of slowing substantially as in the first quarter, and that net exports of goods and services would rise significantly as a result of a faster recovery in exports than in imports following the end of the longshoremen's strike. At the same time, it was anticipated that growth in business fixed investment and in consumer spending would slow, that residential construction outlays would turn down, and that Federal expenditures would rise only slightly further.

For the second half of 1969, staff projections suggested that expansion in real GNP would slow further but that upward pressures on prices were likely to persist. Both the lagged effects of monetary restraint and a restrictive stance of fiscal policy were expected to contribute to the slowing of expansion in real activity. The administration recently had announced that it planned to reduce Federal outlays in the fiscal year 1970 from the January budget estimates. In addition, it had proposed that the surtax on incomes be continued at 10 per cent through the end of the calendar year 1969, and then be reduced to 5 per cent; and that the 7 per cent investment tax credit be repealed effective April 21. The repeal of the investment tax credit, if enacted, was not expected to have much effect on capital spending until late in 1969, and the influence of the surtax on spending seemed likely to moderate as the end of the year approached. Nevertheless, it now appeared that the Federal fiscal position would be more restrictive in the second half of the year than had been anticipated earlier.

The latest data on the U.S. balance of payments in the first quarter confirmed earlier estimates of a very large deficit on the liquidity basis and a large surplus on the official settlements basis. Both imports and exports declined from the fourth quarter of 1968 as a result of the longshoremen's strike, but exports fell more and the trade balance was in substantial deficit. In addition, there was a large outflow of corporate capital funds, reversing in part the net inflow of the fourth quarter. On the other hand, foreign purchases of U.S. equity securities remained sizable in the quarter--although the rate apparently diminished in March--and bank-reported claims on foreigners declined more than seasonally.

The first-quarter surplus on the official settlements basis was primarily the result of a huge expansion of liabilities of U.S. banks to their foreign branches. While such liabilities declined substantially in late March, they subsequently increased to a new high in April. Interest rates in the Euro-dollar market changed little after late March at levels close to earlier peaks.

In foreign exchange markets demands for German marks increased sharply in the latter part of April as a result of revived expectations of a revaluation, and the British pound came under some brief selling pressure. The French franc was under pressure throughout April, in part because of uncertainties associated with the national referendum scheduled for April 27. However, the initial reaction in the market to the negative vote in the referendum and to the resignation of President de Gaulle was relatively mild.

A number of industrial countries had taken restrictive public policy measures in recent months, for domestic or balance of payments reasons. The latest of these measures included increases in central bank discount rates in Germany and the Netherlands, to help dampen re-emerging inflationary pressures, and in Belgium and Denmark, mainly to limit capital outflows resulting from high interest rates abroad. Also, in mid-April the British Government announced a restrictive budget for the fiscal year beginning April 1, in light of the absence of sufficient improvement in the payments balance of the United Kingdom.

The U.S. Treasury was expected to announce on the day after this meeting the terms on which it would refund notes maturing in mid-May, of which about $3.8 billion were held by the public. It was generally anticipated that bonds maturing in mid-June, of which about $2.1 billion were publicly held, would be included in the refunding.

The Treasury's cash balances at both commercial banks and Federal Reserve Banks had been drawn down to very low levels prior to the mid-April tax date, and in the period April 8-16 the Treasury financed part of its cash needs temporarily through sales to the Federal Reserve of special certificates of indebtedness.[1/]

1/ The volume of such certificates held by the Federal Reserve totaled $151 million on April 8, $519 million on April 9, $490 million on April 10, $976 million on April 11 through 13, $514 million on April 14, $502 million on April 15, and $627 million on April 16.

The Treasury redeemed all outstanding special certificates on April 17 and subsequently rebuilt its cash balances to relatively high levels.

Commercial bank credit and the money stock, both of which had changed relatively little over the first quarter, rose substantially in the first half of April. For the month as a whole the adjusted bank credit proxy--daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches--was tentatively estimated to have increased at an annual rate of about 7 per cent from March, following a decline of similar magnitude in the previous month. There was a sharp, although temporary, increase in bank holdings of Treasury bills during the statement week ending April 2, as banks were awarded nearly all of the $1.8 billion strip of bills auctioned by the Treasury in late March. In addition, a marked upsurge in bank loans--especially to businesses, nonbank financial institutions, and securities dealers--occurred around the mid-month tax date.

The early-April bulge in private demand deposits and the money stock apparently was associated in part with temporary technical factors relating to Euro-dollar flows and the 4-day Easter holiday in Europe. Private demand deposits subsequently declined and by late April were estimated to be close to their end-of-March level. However, the money stock was tentatively estimated to have increased at an annual rate of nearly 15 per cent from March to April, as a result of the higher average level of such deposits in recent weeks. U.S. Government deposits also were estimated to have expanded by a sizable amount on the average in April.

The volume of large-denomination CD's outstanding was reduced further in the first half of April--reflecting in part the use by corporations of proceeds of maturing CD's to help finance large tax payments. Available data suggested that there were sizable net outflows of consumer-type time and savings deposits at banks--and also at other thrift institutions--following the interest-crediting period and around the midmonth tax date. In April as a whole, total time and savings deposits at banks were estimated to have declined slightly from their March average.

On April 3 the Board of Governors announced an increase in Federal Reserve Bank discount rates from 5-1/2 to 6 per cent, effective April 4, and an increase of 1/2 of a percentage point in member bank reserve requirements against demand deposits, effective April 17. System open market operations subsequently were directed at maintaining the firmer conditions in money and short-term credit markets that were consistent with those actions. Pressures in the money market were intensified around the middle of April by massive shifts of reserves away from money center banks--shifts that stemmed in part from the rundown in the Treasury's cash balances. Moreover, open market operations were modified in the direction of greater firmness as the period progressed, when it became increasingly clear that bank credit was expanding at a pace significantly in excess of the range projected at the time of the previous meeting. The effective rate on Federal funds, which had fluctuated around 6-3/4 per cent in March, rose to the 7-3/4 to 7-7/8 per cent area in mid-April and again late in the month. Member bank borrowings averaged slightly more than $1 billion in the 4 weeks ending April 23, compared with an average of about $835 million in the previous 4 weeks. Net borrowed reserves increased somewhat more than borrowings, as excess reserves declined further on the average.

Most short-term interest rates had risen following the announcement on April 3 of the increases in discount rates and member bank reserve requirements. Market rates on Treasury bills maturing within 6 months continued under upward pressure through the mid-month tax date--reflecting sizable sales by banks and higher dealer financing costs--but they receded from their peaks after mid-April under the influence of strong seasonal demands. The market rate on 3-month Treasury bills, for example, reached a high of 6.22 per cent on April 16, but by the day before this meeting it had declined to 6.00 per cent, about the same as 4 weeks earlier. Rates on most other short-term instruments advanced during the month, in many instances to new highs.

Long-term interest rates had moved down in recent weeks, as rumors of progress in the Vietnam peace negotiations and indications of increasingly restrictive fiscal and monetary policies fostered growing expectations that inflationary pressures would be contained. A large volume of new corporate and municipal bonds was marketed during April, including a number of issues that had been postponed earlier. Bond yields leveled out late in the month, partly as a consequence of these offerings and of expectations that a new intermediate-term issue would be included in the Treasury's forthcoming refunding.

Business loan demands at banks, which had been enlarged in April by needs to finance tax payments, were expected to moderate in May. Staff projections suggested that the adjusted bank credit proxy would decline at an annual rate of 2 to 5 per cent from April to May if prevailing conditions were maintained in money and short-term credit markets. It appeared likely that the run-off of outstanding CD's would continue and that consumer-type time and savings deposits would expand at a low rate. Private demand deposits and the money stock were projected to decline slightly on the average from April to May, and a reduction also was anticipated in U.S. Government deposits.

In the Committee's discussion a number of members expressed the view that it would be desirable at present to maintain at least the existing degree of monetary restraint in light of the persistence of strong inflationary pressures, and some question was raised as to whether restraint was being pursued with sufficient vigor. At the same time, recognition was given to the likelihood that the combined restrictive effects of current fiscal and monetary policies would become visible in economic developments later in the year, and the view was advanced that such a prospect argued against a further intensification of monetary restraint now.

The Committee agreed that in any event the forthcoming Treasury refunding militated against a change in monetary policy at this time. It decided that open market operations should be directed at maintaining the firmer conditions in money and short-term credit markets that had been achieved, with the proviso that operations should be modified, insofar as the Treasury financing permitted, if bank credit appeared to be deviating significantly from current projections. Some members suggested that any doubts arising in the conduct of operations should be resolved on the side of restraint. In addition, concern was voiced about the unexpectedly large increases now estimated for April in both bank credit and the money stock. While it was the consensus of the members that those increases probably reflected temporary factors to an important extent, the view was expressed that the proviso clause should be implemented quite promptly if bank credit developments in May suggested the contrary.

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

> The information reviewed at this meeting suggests that expansion in real economic activity has moderated only slightly since the fourth quarter of 1968. At the same time, substantial upward pressures on prices and costs are persisting. Long-term interest rates have generally declined in recent weeks, but most short-term rates have risen somewhat. In the first quarter of the year bank credit changed little on average and the money supply grew at a sharply reduced rate. In early April both measures increased substantially, influenced in part by large tax-date borrowing and deposit bulges around Easter. The outstanding volume of large-denomination CD's has continued to decline and there was a net outflow of consumer-type time and savings deposits from banks and other thrift institutions in the first half of April. A sizable deficit re-emerged in the U.S. balance of payments on the liquidity basis in the first quarter but the balance on the official settlements basis remained in surplus as a result of 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.
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> To implement this policy, while taking account of the forthcoming Treasury refunding, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the prevailing firm conditions in money and short-term credit markets; provided, however, that operations shall be modified, to the extent permitted by the Treasury refunding, if bank credit appears to be deviating significantly from current projections.

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, and Scanlon. Votes against this action: None.

Absent and not voting: Mr. Sherrill.