BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

CONFIDENTIAL (FR)

November 25, 1964.

TO: Federal Open Market Committee

FROM: Mr. Young

Enclosed are copies of letters from Messrs. Ellis, Bopp, Shuford, Deming, and Irons, and an extract from a letter from Mr. Bryan, concerning the "trial" directive. These letters were written pursuant to Mr. Mitchell's suggestion at the November 10 meeting of the Committee.

Ralph A. Young

Ralph A. Young, Secretary,
Federal Open Market Committee.

Attachments

GEORGE H. ELLIS
PRESIDENT

November 16, 1964

Mr. Merritt Sherman, Assistant Secretary
Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Merritt:

It is my recollection that at the last Open Market meeting each member was invited to submit comments about the trial directive for November 10th. Such comments were to include suggestions for change that he would have offered in the paragraph-by-paragraph deliberation about the draft. I should like to submit such comments as follows.

I would argue that lines 6 and 7 of page 1 do not need substantial change. It is my understanding that the October unemployment figures for married men showed a slight improvement which was virtually offset by some slight worsening of the unemployment figures for experienced workers, so that the total was a virtually horizontal, no-change result. I submit the language of the draft is an appropriate reflection of that event.

The language in lines 8 and 9 or page 2 seems to accept the 5 per cent year-to-year projected gain in capital outlays as reflecting best judgment about outlays for next year. Sophisticated understanding of these data, however, suggest the year-to-year gain will be substantially more -- perhaps 10 per cent. I would suggest that the sentence be terminated after the word "total" in line 8, or that the 5 per cent figure be reported in a context that includes recognition that plans reported in the late fall are usually revised upward as time passes.

In line 8 of page 3, I would challenge the meaning of the "temporary" dampening in expansion. I suspect it is intended to refer to the work stoppage at General Motors rather than implying that the dampening is over-all in its prevalence.

In line 13, page 3, the demand deposit component is indicated as rising at 4 per cent in October. As I read the November 6 member bank reserve memorandum, the correct figure is 4.8 per cent.

I would observe that nowhere in elements 1 and 2 is there any mention of velocity. It would seem to me essential that we inject some reference to velocity in this paragraph on page 3.

In line 7 of page 5, I would urge the word "apparent" be stricken. If the word is taken to mean "obvious" I would agree with its inclusion; if it is taken to mean there is some question of the underlying strength, to wit, "apparent but deceiving," I would reject its use.

In line 24 of page 5, I would question the phrase "over and above seasonal fluctuations." To show the burden of my correction, I would urge the language of lines 23 and 24 to be revised as follows: "...reserves to support (1) ACTUAL CHANGES OF ~~the rise of~~ currency in circulation ~~over and above seasonal fluctuations~~, (2) actual changes in..."

For my own part, I would like very much to see what results from suggestions such as these and others that may be presented by other members of the Committee, I hope it will be possible to put together such an analysis.

Best regards.

Sincerely,

George

George H. Ellis
President

~~Mr. Sherman~~

Mr Brand'as

FEDERAL RESERVE BANK OF PHILADELPHIA

PHILADELPHIA, PENNSYLVANIA 19101

November 19, 1964

Mr. Merritt Sherman, Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Merritt:

In accordance with the request made at the November 10 meeting of the Federal Open Market Committee, we are sending along our views on the "New Style" directive.

We feel, first of all, that sections 1 and 2 should be omitted from the directive. We appreciate the logic of those who would include a detailed summary of business and financial developments in the directive, and we agree that such an officially approved consensus would be a logical basis on which to build an operational directive to the account manager. On the other hand, we see the difficulty of obtaining a consensus, given the range and detail of sections 1 and 2.

By way of compromise, we agree with the proposal that sections 1 and 2 be reserved for the policy record and that the policy record for the immediately preceding meeting be voted on by the FOMC at each succeeding meeting. In addition, we would include a brief opening paragraph in the directive recording the FOMC's general interpretive view of the state of the economy, followed by sections 3 and 4.

This procedure would provide a logical though less detailed base for the directive, thereby avoiding conflicts over shades of meaning of a wide variety of economic indicators. At the same time, it would put the FOMC on official record with respect to a more detailed summary of economic conditions.

With respect to sections 3 and 4, we feel that the quantitative target goals should be as specific as possible within the limitations of our abilities to secure these goals. We also realize, however, that a certain latitude for difference is probably necessary in order to obtain agreement of a majority of the Committee, all of whom probably have slightly different ideas of what indeed is the appropriate number which should be attached to the target goal. Perhaps the best way to meet these two needs is to express the target goals in terms of a range. Within a range, there is room both for variation based upon our abilities to achieve the given goal and based on differing opinions of precisely what the quantitative goal should be. Also, from a public relations point of view, we are more likely to hit within a range than to secure a given number.

For these reasons, we would express both the free reserve target and the money supply goal in terms of a range. In addition to the questions of technical ability to hit within a given target area and possible differences of opinion as to what that area should be, the FOMC will wish to consider another factor in determining the limits of any target range. The narrower the range, other things remaining the same, the greater the frequency of signals to correct conditions which have led to misses. Such signals will tend to limit any tendency to "drift" with a policy of no change. In addition, the limits of the range will affect the frequency with which section 4, the operating directive to the account manager, is reexamined. The narrower the range, the less likely we are to hit within it, hence the necessity to reexamine the money market targets to evaluate their consistency with the intermediate goal.

We feel that section 3 should be changed to reflect the importance not only of money and credit growth as a goal of policy, but also of credit conditions as an objective of System action. Page 5, lines 12 through 15 appear to indicate that the state of credit conditions are a constraint upon the goal of growth in money and credit rather than a goal in themselves. We would therefore change lines 12 through 15 from "...it is the current objective of monetary policy to accommodate moderate further expansion in bank credit and the money supply in an environment of substantially unchanged credit conditions." to "...it is the current objective of monetary policy to accommodate further expansion in bank credit and the money supply and to promote an environment of substantially unchanged credit conditions.

We would also recommend some rearrangement of sections 3 and 4. As already mentioned, we would include an opening paragraph setting forth the FOMC's view of the current state of the economy. We feel that this paragraph should be interpretive, instead of offering only a recitation of recent economic developments. It would deal essentially with ultimate goals. The present section 3 would then deal with intermediate targets and section 4 would be concerned with short-run goals. Such an arrangement would present the directive in a logical time sequence moving from the basic goals of policy through intermediate money and credit goals to free reserve-money market targets.

Some more specific recommendations include: (1) Page 5, lines 23 and 24 -- remove the phrase "over and above seasonal fluctuations" from the reference to the currency component of the money supply. Inclusion of the seasonal reference seems to imply that we have singled out for accommodation this segment of currency demand and leaves uncertain whether we will provide the reserve base for cyclical and secular demands. By simply deleting the seasonal reference, we clarify our intention to provide the reserves to support all segments of the demand for currency. (2) Page 6, line 1, include the word "average" between "adjusted" and "annual." (3) Page 6, line 3, delete the phrase "over the months ahead averaging."

We feel that the qualifications inserted in section 4 (Treasury bill rate, availability of federal funds, dealer financing) in general give the manager sufficient latitude so that the free reserve target will not be unduly restrictive of his freedom of action. We would recommend, however, that the manager's opinion be solicited on the question of whether the directive gives him sufficient leeway to act during a period of crisis (international difficulties, unsettled bond market, and so on).

Following is a sample draft of the "New Style" directive dated November 7, 1964, including revisions along the lines we have suggested.

> The Committee believes that the domestic economy continues to possess underlying strength despite work stoppages in the automobile industry. The stability of the over-all wholesale price index, the continued unemployment problem, and the relative stability of business inventories, all suggest no imminent overheating of the economy. However, the pace of growth must be watched carefully as the automobile industry resumes full-scale production and as the date for steel contract negotiations approaches. The Committee continues to view the balance-of-payments deficit as an important problem, despite the reduction in the third-quarter deficit relative to that in the second quarter.
>
> In view of these conditions, it is the current objective of monetary policy to accommodate over the intermediate-term future moderate further expansion in bank credit and the money supply and to promote an environment of substantially unchanged credit conditions. With these ends in view, the Federal Open Market Committee seeks to supply sufficient reserves to support (1) the rise of currency in circulation, (2) actual changes in U.S. Government demand deposits and private time and savings deposits, and (3) a seasonally adjusted average annual rate of increase in the demand deposit component of the money supply ranging from 3-1/2 to 4-1/2 per cent.
>
> To implement this policy, System open market operations over the next three weeks shall be conducted with a view to achieving a weekly net reserve figure ranging from -$25 million to +$50 million; provided, however, that such reserves shall be permitted to move above or below this range in order to moderate any movements in the 3-month Treasury bill rate outside the range of 3.55 to 3.65 per cent or any serious constriction or excess in the availability of federal funds or dealer financing.

Sincerely,

Karl R. Bopp
President

FEDERAL RESERVE BANK OF ST. LOUIS
P. O. Box 442
ST. LOUIS, MISSOURI 63166

HARRY A. SHUFORD
PRESIDENT

November 18, 1964

Mr. Ralph A. Young, Secretary
Federal Open Market Committee
c/o Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Ralph:

It was suggested at the last meeting of the Federal Open Market Committee that it would be desirable if each participant would submit written comments and suggested revisions with respect to Sections (1) and (2) of the November 7, 1964 draft of the trial "new style" directive for the November 10, 1964 meeting of the Committee.

While there is a question in my mind as to the advisability of adopting the new style directive, and, if adopted, whether material such as appears in Sections (1) and (2) should be included, I think it is desirable that we undertake to determine if agreement can be reached on the analysis and wording.

In making this review of Sections (1) and (2), I recognize what I regard to be a necessary prerequisite to reaching agreement, i.e., there must be a reasonable amount of give and take on the part of the members of the Committee. This being the case, it seems to me that all of us must resist insisting on changes of form rather than substance. Moreover, I have proceeded on the basis that the statement should be an accurate reflection of what is regarded to be the economic situation upon which the policy was based, but not weighted to support the policy.

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In general, the proposed draft of Sections (1) and (2) is acceptable to me. It does seem, however, that too much emphasis is placed on the short-run, i.e., on October, or on changes from September to October. This seems especially true at this time because of the unfavorable effects of the work stoppage in the automobile industry. The most recent and current developments are always important, but the Committee's judgments are not based on these alone. Decisions are made on considerations of longer-range than one or two months. Most of our suggested revisions are made simply to incorporate longer-range factors. In this regard we have given chief emphasis on developments since April, but would be agreeable to any other base which would cover a reasonable period of time and which would fairly reflect the most recent economic trend.

One specific comment: It seems to us that it is inappropriate to say that demands for "cash balances" decreased in October (See the first line of Section (2).) At the time of the meeting, in our judgment no evidence was available indicating a reduction in the desire to hold demand deposits and currency during October. A projection of past trends indicates to us that the demand for "cash balances" may have risen. It is our view that it would be more appropriate in the interests of accuracy and consistency with the rest of the paragraph to say that "private demands for credit slackened in October..."

Enclosed is a draft of Sections (1) and (2) which we consider desirable and in line with the above comments.

Yours very truly,

Harry A. Shuford

Harry A. Shuford

CONFIDENTIAL (FR) November 7, 1964

Trial "New Style" Directive for November 10, 1964
FOMC Meeting

1. Underlying domestic economic conditions appear to have continued favorable in October despite work stoppages in the automobile industry. Apart from the effects of these work stoppages, retail sales apparently remained strong in recent weeks. Stability has been maintained in over-all commodity price averages, but no improvement has been achieved in the unemployment situation.

Although declines in output in the auto and closely related industries are estimated to have reduced the index of induatrial production for October between 2 and 3 percentage points, activity in industries not affected by the work stoppages probably was maintained or increased further. FROM APRIL TO SEPTEMBER INDUSTRIAL PRODUCTION ROSE AT AN ANNUAL RATE OF 6.2 PER CENT.

New car sales were down sharply on a seasonally adjusted basis in October, but sales at furniture and appliance stores and at outlets for nondurable goods were up. FROM APRIL TO SEPTEMBER RETAIL SALES HAD RISEN AT AN 8.8 PER CENT ANNUAL RATE.

The over-all unemployment rate was unchanged at 5.2 per cent, about the level prevailing since spring. HOWEVER, PAYROLL EMPLOYMENT HAS RISEN AT A 2.2 PER CENT RATE SINCE APRIL.

In September manufacturers increased inventories at about the stepped-up pace of July and August. Distributors' stocks, which had been declining earlier, also rose. For the third quarter as a whole, however, total business inventory accumulation was small. Most recently, trade inventories probably fell again as dealer stocks of new autos dropped sharply.

Total construction activity edged down further in October, BUT REMAINED AT ABOUT THE LEVEL PREVAILING SINCE OCTOBER A YEAR AGO. Residential building continued to run appreciably below the highs reached earlier in this expansion period.

Results of a recent private survey indicate that the rate of increase in business plant and equipment spending may moderate in the coming year. Reported plans for capital outlays in 1965 were 5 per cent above the projected 1964 total, implying a level of spending next year little changed from the rate of the current quarter.

The broad measures of wholesale prices for industrial as well as for all commodities have remained relatively stable. Strong upward price pressures are still limited to nonferrous metals, but selective increases continue to be announced for other commodities. Some of the individual price increases announced earlier in the summer have not been reflected in the broad indexes, suggesting that they may

not have become effective. The consumer price index continued to rise at the slow pace of recent years.

Preliminary data suggest a deficit in the U.S. balance of payments in October of about $600 million before seasonal adjustment. A deficit of this size would be a little larger than in October 1963, but it would not represent deterioration from the third quarter of this year on a seasonally adjusted basis. As is usual in October, window dressing by Canadian banks resulted in large outflows of short-term capital from the U.S. In addition, U.S. purchases of new foreign bond issues increased last month, as a backlog of Canadian issues came to market following enactment of the interest equalization tax. The trade surplus rose in September, mainly as a result of higher exports in anticipation of a possible port strike.

2. Private demands for ~~cash balances and bank~~ credit slackened in October, in part because of the temporary dampening in over-all economic expansion. The money supply declined in the second half of the month, after increasing sharply in the first half, and rose at a 4.6 per cent annual rate for October as a whole. SINCE BOTH AUGUST AND APRIL MONEY HAS RISEN AT A 5.3 PER CENT ANNUAL RATE. The demand deposit component rose at a 4 per cent rate in October, the same as in the year to date, while the currency component rose 7 per cent in October

as compared with 6 per cent in the year to date.

Total loans and investments of all commercial banks probably declined moderately in October, partly offsetting the sharp September rise. The October reduction reflected a decrease in bank holdings of U.S. Government securities and security loans that more than offset moderate increases in other loans and in holdings of municipal and Federal agency issues. The rise in business loans was substantially less than in other recent months. SINCE APRIL BANK CREDIT HAS EXPANDED AT AN 8 PER CENT RATE, ABOUT THE SAME AS OVER THE LAST THREE YEARS.

The flow of savings to financial intermediaries continued large. Time and savings deposits at all commercial banks rose $1.4 billion in October, more than in other recent months. SINCE APRIL TIME DEPOSITS HAVE RISEN AT A 11.5 PER CENT ANNUAL RATE, SLIGHTLY LESS THAN THE 15.5 PER CENT RATE DURING THE PREVIOUS TWO YEARS. ~~Similarly,~~ Growth of deposits at mutual savings banks and of shareholdings at savings and loan associations has been rapid recently.

The combination of somewhat reduced demands for outside financing, a continuing large flow of savings, and growing investor confidence in current interest rate levels, has resulted in somewhat

easier money market conditions and stronger bond markets in recent weeks. The flow of Federal funds increased in October, and while some transactions took place at a rate slightly above the discount rate, the average Federal funds rate for the month was a little lower than in September. Bank lending rates to Government securities dealers also declined slightly.

INTEREST RATES HAVE REMAINED WITHIN A NARROW RANGE FOR ABOUT A YEAR. ~~In securities markets~~, Yields on long-term Government bonds at the end of October were ~~close to their lowest levels since early August.~~ DOWN SLIGHTLY FROM THE LEVEL OF MID-MONTH. Yields on recently offered corporate bonds and on mixed-grade municipal bonds have also turned down, although the indexes for seasoned higher grade issues in both markets have remained quite steady. Common stock prices have fluctuated around a level slightly below the record high reached in mid-October. SINCE APRIL, THE STANDARD AND POOR'S 500 STOCK COMPOSITE HAS RISEN AT A 12 PER CENT ANNUAL RATE.

The somewhat easier money market conditions were accompanied by a slightly lower level of member bank borrowings than in September. With excess reserves also lower, free reserves were about the same on average. Total reserves and nonborrowed reserves declined in October, as a decrease in reserves held against Government balances more than offset a rise in reserves against total private balances.

FEDERAL RESERVE BANK

OF MINNEAPOLIS

OFFICE OF
THE PRESIDENT

November 23, 1964

Mr. Ralph A. Young, Secretary
Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Ralph:

Attached is a memo to the Open Market Committee relating to the proposed new form of directive. At the last meeting there was a request to go over the shadow directive of November 10 and send in comments. I've gone a bit beyond that request but I think my comments follow fairly naturally from the discussion at the last meeting.

Very truly yours,

Fred

Frederick L. Deming
President

Encl.

50th Anniversary
1914-1964

MEMORANDUM TO: Federal Open Market Committee

FROM: Frederick L. Deming, President
Federal Reserve Bank of Minneapolis

DATE: November 23, 1964

The Ellis-Mitchell-Swan memorandum of September 29, 1964, to the Committee lists and then comments on various criticisms of the shadow directive proposed by them. To make my own position as clear as I can, I note here that I do not assert at all points I.B. and C. (The proposal would impose an undue burden on the Committee and staff and would involve an undesirable shift of responsibility from Committee to staff.) Further, I do not see any particular dangers in explicating the Committee's analysis in the manner proposed (point I.E.) nor do I think that the proposal offers no advantages to the formulation of monetary policy (point. I.A.). I suspect that I do not even agree with the implications of the assertion that the proposal is premature and that more research is needed before it would be practical (point I.D.).

What I do believe is that the proposal as it is presented has some desirable elements and that certain suggestions that have come out of the discussion of the proposal might well be employed to sharpen up Committee analysis and procedure.

I begin by noting my complete agreement with a statement on page 3 of Mr. Hayes' memo of October 15, 1964, to the Committee: "The fact is that no such single analysis exists; and I do not believe that one can be made to exist by any procedural change." The real point is that there are few, if any, absolute truths in the field of political economy. Analysis and conclusion are weighted very heavily by judgment and I suspect always will be. Therefore, it is highly improbable that any group of 12 (or 19) men, no matter how skilled in the field of money and credit, can agree on a precise analysis of the broad economic situation. Thus I think that the proposal as suggested not only is

premature now, but that it probably will always be premature despite a lot of additional research. And while, as noted, I see no particular dangers in exploiting the Committee's analysis, I also see no particular hope in reaching agreement on it in the detail given.

To document this position I cite seven points drawn from the shadow directive of November 10, 1964. I suspect that several members of the Committee would disagree with my value judgments on these points but that we might reach agreement on a policy position even if we disagreed on the precise weighting of the points.

1. (Page 1, paragraph 1, lines 6-7) "but no improvement has been achieved in the employment situation." This may be true in terms of the overall, seasonally adjusted, rate of unemployment for October; it is not true if reference is made to the first part of this year, or the comparable period last year; it probably is not true in terms of welfare and it certainly is not true in terms of duration of unemployment or certain classes of unemployed.

2. (Page 1, paragraph 2, lines 16-17) The above comment is relevant to this point also.

3. (page 2, paragraph 2, lines 6-9) The statement is, of course, factual but no reference is made to the bias of the McGraw-Hill figure and none is made to the several widely distributed forecasts that 1965 capital spending will be substantially higher (perhaps 10 per cent) than the McGraw-Hill survey shows.

4. (Page 2, paragraph 3, lines 14-17) particularly "suggesting that they may not have become effective." I do not believe this is true; there have been too many statements

about higher prices to dismiss this point so cavalierly. Increases may be small, may be offset by decreases, or may just not be picked up by the indices.

5. (Page 2, paragraph 4, lines 21-24) "A deficit of this size ...." The implication I read into this statement is that the deficit is not particularly serious. I do not agree.

6. (Page 3, paragraph 1, lines 9-15) The references to the money supply, conventionally defined, make no note of the wide deviations in monthly growth rates and there is no analytical reference at all.

7. (Page 4, paragraph 1, line 7) "growing investor confidence in current interest rate levels". I do not quarrel with the truth of this statement (and recognize it was made in the Manager's report) but its bald presence here, without any qualification or analysis, bothers me.

To repeat my point, I would not be prepared to vote in favor of the statements as given, and I suspect some others would not vote for the statements as I would write them. This suggests to me that it would be unprofitable to push for formal adoption of an analysis, whether or not it is to be included in the directive.

This does not mean, however, that it would be unprofitable to debate the points. In fact, I think such debate might be useful to the Committee and that it might be helpful in drawing up the policy entry for the meeting.

My own view of the present form of policy entry is that it is a reasonably faithful, but necessarily brief, recital of the points noted in the Committee discussion. It reflects, as far as I can see, the detailed minutes; it is written promptly (at least it is written as promptly as I

deem practical) and everyone has a chance to comment on it and suggest changes. In fact, there are two chances for comment, the current chance and the final one just before publication.

Given the presence of the detailed minutes and the promptness of the appearance of the first draft of the policy entry, I do not think it is fair to say that the Committee has the opportunity to polish up the record after the fact. Thus I see no real reason for the Committee to act formally on elements 1 and 2 as the policy entry at the time of the meeting covered by the entry. I certainly have no objection to formal Committee action approving the entry at a subsequent meeting, although, as noted, I feel that present procedure is adequate.

All of the above discussion focuses mainly on elements 1 and 2 of the shadow directive. My position with respect to elements 3 and 4 has been stated previously and I see no point in detailed further comment here. Perhaps I should note again, however, that I have no objection to the use of quantitative instructions during the discussion and no real objection to attempting to reach Committee consensus in terms of quantities, at least at times, and no real objection to attempting to reach Committee consensus on priorities for objectives. I simply do not want to try to write a directive in that form and I see no advantage in doing so.

I am in almost complete agreement with Governor Robertson's memo of October 19, 1964, on this point and I strongly second what he has to say on pages 6 and 7, both with respect to substance and with respect to suggestion for staff memoranda.

1914 1964

WATROUS H. IRONS
PRESIDENT

FEDERAL RESERVE BANK
OF DALLAS

November 23, 1964

Mr. Ralph A. Young, Secretary
Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Ralph:

There is enclosed a revised draft of parts 1 and 2 of the "Trial 'New Style' Directive for November 10, 1964 FOMC Meeting."

As you will note, we have made relatively few changes in the original draft. In our opinion the content of parts 1 and 2 is substantially factual and includes economic and financial data which are generally considered by the Committee in reaching its conclusions as to policy actions, but should not be included in the directive. The materials in these two sections could more appropriately be included in the Record of Policy Action.

Sincerely yours,

Watrous H. Irons

Watrous H. Irons
President

Enclosure

CONFIDENTIAL (FR) November 7, 1964

Trial "New Style" Directive for November 10, 1964 FOMC Meeting

1. Underlying domestic economic conditions appear to have continued favorable in October despite work stoppages in the automobile industry. ~~Apart from the effects of these work stoppages,~~ Retail sales apparently remained strong in recent weeks. Stability has been maintained in over-all commodity price averages, but SUBSTANTIAL WAGE SETTLEMENTS ARE STIRRING EXPECTATIONS OF POTENTIAL INFLATIONARY MOVEMENTS. ON THE OTHER HAND, no improvement has been achieved in the PERCENTAGE OF TOTAL UNEMPLOYED. ~~unemployment situation.~~

Although declines in output in the auto and closely related industries are estimated to have reduced the index of industrial production for October between 2 and 3 percentage points, activity in industries not affected by the work stoppages probably was maintained or increased further. New car sales were down sharply on a seasonally adjusted basis in October, but sales at furniture and appliance stores and at outlets for nondurable goods were up. The over-all unemployment rate was unchanged at 5.2 per cent, about the level prevailing since spring.

In September manufacturers increased inventories at about the stepped-up pace of July and August. Distributors' stocks, which had been declining earlier, also rose. For the third quarter as a whole, however, total business inventory accumulation was small. Most recently, trade

inventories probably fell again as dealer stocks of new autos dropped sharply.

Total construction activity edged down further in October. Residential building continued to run appreciably below the highs reached earlier in this expansion period.

Results of a recent private survey indicate that the rate of increase in business plant and equipment spending may moderate in the coming year. Reported plans for capital outlays in 1965 were 5 per cent above the projected 1964 total, implying a NEW RECORD level of spending next year AT A RATE little changed from THAT ~~the rate~~ of the current quarter.

The broad measures of wholesale prices for industrial as well as for all commodities have remained relatively stable. Strong upward price pressures are still limited to nonferrous metals, but selective increases continue to be announced for other commodities. Some of the individual price increases announced earlier in the summer have not been reflected in the broad indexes, suggesting that they may not have become effective OR HAVE BEEN OFFSET BY OTHER CHANGES. The consumer price index continued to rise at the slow pace of recent years.

Preliminary data suggest a deficit in the U. S. balance of payments in October of about $600 million before seasonal adjustment. A deficit of this size would be a little larger than in October 1963, but it would not

represent deterioration from the third quarter of this year on a seasonally adjusted basis. As is usual in October, window dressing by SOME FOREIGN ~~Canadian~~ banks resulted in large outflows of short-term capital from the U.S. In addition, U.S. purchases of new foreign bond issues increased last month, as a backlog of Canadian issues came to market following enactment of the interest equalization tax. The trade surplus rose in September, mainly as a result of higher exports in anticipation of a possible port strike.

2. Private demands for cash balances and bank credit slackened in October, in part because of the temporary dampening in over-all economic expansion. The money supply declined in the second half of the month, after increasing sharply in the first half, and rose at a 4.6 per cent annual rate for October as a whole. The demand deposit component rose at a 4 per cent rate in October, the same as in the year to date, while the currency component rose 7 per cent in October as compared with 6 per cent in the year to date.

Total loans and investments of all commercial banks probably declined moderately in October, partly offsetting the sharp September rise. The October reduction reflected a decrease in bank holdings of U.S. Government securities and security loans that more than offset moderate increases in other loans and in holdings of municipal and Federal agency issues. The rise in business

loans was substantially less than in other recent months.

The flow of savings to financial intermediaries continued large. Time and savings deposits at all commercial banks rose $1.4 billion in October, more than in other recent months. Similarly, growth of deposits at mutual savings banks and of shareholdings at savings and loan associations has been rapid recently.

The combination of somewhat reduced demands for outside financing, a continuing large flow of savings, and growing investor confidence in current interest rate levels, has resulted in somewhat easier money market conditions and stronger bond markets in recent weeks. The flow of Federal funds increased in October, and while some transactions took place at a rate slightly above the discount rate, the average Federal funds rate for the month was a little lower than in September. Bank lending rates to Government securities dealers also declined slightly.

In securities markets, yields on long-term Government bonds at the end of October were close to their lowest levels since early August. Yields on recently offered corporate bonds and on mixed-grade municipal bonds have also turned down, although the indexes for seasoned higher grade issues in both markets have remained quite steady. Common stock prices have fluctuated around a level slightly below the record high reached in mid-October.

The somewhat easier money market conditions were accompanied by a slightly lower level of member bank borrowings than in September. With excess reserves also lower, free reserves were about the same on average. Total reserves and nonborrowed reserves declined in October, as a decrease in reserves held against Government balances more than offset a rise in reserves against total private balances.

FEDERAL RESERVE BANK
OF ATLANTA
ATLANTA, GEORGIA 30303

OFFICE OF
PRESIDENT

November 20, 1964

Dear George:

I have been snowed. And so I have failed to get in any comments on the "New Style Directive" within the time limit specified. Please forgive me.

There are very few comments I want to make.

1. I have some doubt that the material in 1 and 2 are really properly a part of the directive. They seem to me to be simply a great improvement over the present paragraph 1 of the directive and the policy record. I see no objection to their being circulated before the meeting, with immediate correction by the staff in the light of the Committee discussion, and then circulation as now.

2. The nub of the issue seems to me to lie in parts 3 and 4. Paragraph 1 of the present directive has always seemed to me, as I said, to be "elliptical" and as your Committee said, "cryptic." It seems to me that we need to eliminate paragraph 1 from the present directive and to have a slightly more elaborate version of the present relevant portion of the policy record that says the majority thought a change in the policy was called for (or not called for) because of such and such reasons.

If I were doing a directive, it would be a very simple affair saying that the Committee requests the Manager to maintain whatever range of reserves the Committee decides on. I feel that the Committee in its discussion tends to confine itself too much to a consideration of quite short-term phenomena and not give enough consideration to what has been happening at longer range.

This isn't much help, but I think I have about shot my bolt with regard to the directive problem and have gotten almost nowhere. Now, I am afraid I would be confined largely to tearing apart the arguments of some of my colleagues. This would only

exacerbate my own feelings and irritate them, and be of little help to you and George Ellis and Eliot Swan.

Lots of luck to you. As you know, I feel the issues are of profound importance.

Sincerely,

Malcolm Bryan

Governor George W. Mitchell
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