BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

CONFIDENTIAL (FR)

November 27, 1964.

TO: Federal Open Market Committee

FROM: Mr. Young

Enclosed are copies of letters and associated materials from Messrs. Hayes and Scanlon, concerning the "trial" directive for the November 10 meeting of the Committee.

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

Attachments

FEDERAL RESERVE BANK OF CHICAGO

OFFICE OF THE PRESIDENT

November 25, 1964

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

Dear Mr. Young:

At the meeting of the Federal Open Market Committee held on November 10, 1964, Governor Mitchell suggested that comments regarding the trial directive would be welcome. Our staff has done a considerable amount of work in this regard and I am pleased to enclose copies of the memoranda which they have prepared.

The first memorandum sets forth what we regard as the basic items for discussion as background to elements 1 and 2 of a good directive. The second memorandum embodies two alternative redrafts of the trial directive prepared by the Board's staff for the November 10 FOMC meeting.

In preparing two alternative redrafts of the trial directive, we have endeavored to provide a choice between a simple abbreviation of the current trial directive as against a rather substantial revision of that directive. Although I have a preference for Revision B, less extreme revisions along the lines suggested in Revision A would be acceptable to me.

While the changes which we have suggested may appear to be substantial, they are not intended to be critical of the trial directive, as such, but are offered constructively with the idea that they might be helpful in developing a more meaningful directive hopefully stated in quantitative terms.

Sincerely,

Charles J. Scanlon

Charles J. Scanlon

Encs.

(No. 1)

November 16, 1964

MEMORANDUM

TO: Mr. Charles J. Scanlon

FROM: Research Department

SUBJECT: Agenda for FOMC discussion on economic issues and the interpretation of data

It seems evident that before the FOMC can take a stand on the posture of monetary policy and spell out specific instructions to the account manager, it must of necessity reach some agreement concerning the performance of the economy and its direction of movement. Basically, this means that some consensus needs to be reached with respect to the relationship between the current pace of activity (measured, e.g., by GNP) and the economy's potential. While there seems to be at hand no really good measure, or single measure of the ratio of performance to potential, the unemployment rate and industrial capacity-utilization rates, on the one hand, and price indexes, on the other, would seem to be helpful in signalling departures from potential. Therefore, it probably would be desirable as a matter of course to devote extended discussion to (and incorporate in element 1), a brief reference to the current level of GNP (and other income measures, as appropriate) and observations concerning prices and unemployment (along with readings from other "capacity" indicators, to the extent they are to be had). An essential component of element 1 then would be an expressed judgment concerning the adequacy of the economy's performance, as it may be judged from the indicators mentioned.

When appropriate, the first element could embrace conclusions concerning the behavior of GNP components, particularly when--as in the cases of inventory investment and other capital outlays--developments appeared to be under way that pointed to impending weakness or upsurge in the total in the near-term ahead. Similarly, this element could make appropriate use of the results of expectations surveys, such as those on business spending plans, consumer spending intentions and the budgets of governmental bodies. Here, again, the discussion of those sources of information might culminate in the expression of a judgment concerning implications for the level and direction of business activity.

The first element, thus, would regularly address itself to the most crucial "real" variables. Those noted seem to be appropriate for coverage at the present time, given the present state of our knowledge and the data that are available. With the passage of time, quite possibly, still other variables might be added to the list, while certain of those now deemed important might be discarded. Accordingly, the agenda for each FOMC meeting would appropriately include discussion focussed on implications of the current readings of the major economic indicators.

In addition, element 1 and the discussion leading up to its formulation should include a characterization of and judgment upon any side conditions or constraints to be taken into account, if only ephemerally--such as the balance of payments at the present time. Another factor to be weighed at the present might be the economy's response path in the wake of the Federal tax cut of last spring. Since this has to do with readings for both the "real" variables in the FOMC's purview and the financial factors (e.g., the growth rate of the money supply), it might need to be touched upon in discussion oriented toward both element 1 and element 2.

(No. 2)

MEMORANDUM

November 16, 1964

TO: Mr. Charles J. Scanlon

FROM: Research Department

SUBJECT: Trial New Style Directive

Attached hereto are two alternative re-drafts of the Trial Directive prepared by the Board staff for the November 10 FOMC meeting. The first of these attempts simply to abbreviate somewhat the proposed draft, while making no clearly substantive changes in it.

The second attachment amounts to a more thorough-going revision. Necessarily, the language added at various points is to be construed as illustrative only. This has reference particularly to passages proposed in the way of interpretive and evaluatory judgments, mainly within elements 1 and 2 of the Directive.

Immediately following are notes relating to the changes proposed in both of the attached revisions. They are numbered consecutively to correspond to the portions of the two re-drafts where changes have been entered. In both attachments language that it is suggested be eliminated has been stricken; new language proposed for insertion is underlined.

(1) This paragraph is too detailed for inclusion in the Directive. For the most part it simply verbalizes available data.

(2) Here, too, the language adds nothing to an understanding of easily available data.

(3) The added language constitutes a word of caution that the survey results may be misleading, if earlier experience is a guide.

(4) This comment is unnecessarily detailed.

(5) The wording added is another interpretive comment, intended to aid in an understanding of what price index behavior really means. The sentence deleted is another verbalization of accessible data.

(6) This comment is too detailed and too clearly pre-occupied with short-term developments.

(7) Too much detail.

(8) "Further" is somewhat misleading, suggesting that for the present only, added expansion will be accommodated. In a growing economy, expansion may be expected in the normal course. "Interest rates" is proposed in lieu of "credit conditions" so as to eliminate the seeming conflict between further credit expansion and unchanged credit conditions.

(9) The purpose here is to make the lead paragraph of Element 1 self-contained in the sense that it deals consistently with all the "real" variables with which monetary policy is concerned: (a) the level and direction of "activity," (b) prices, (c) employment and (d), for the present, the balance of payments.

(10) These three paragraphs are deleted as too detailed.

(11) See note 3, above. The other language added incorporates the gist of the detail on inventories stricken from page 1. The comment is placed here so that the paragraph as a whole will deal with factors bearing on near-term future prospects.

(12) See note 5, above.

(13) To much detail; gist of this paragraph is added to first paragraph, page 1.

(14) These passages are excessively detailed, concerned with minutiae or focused too sharply on the short term.

(15) These changes are proposed as a means of assigning "weights" to the factors weighed in the policy decision.

November 16, 1964

REVISION A

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.

(1) ~~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 percentages 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. <u>The current production of steel leaves no doubt, however,</u>

that inventories of that commodity are being accumulated at a rapid pace and, if continued, would almost certainly be followed by the depressing effects of inventory liquidation some time in 1965.

~~Total construction activity edged down further in~~
(2) ~~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 level of spending next year little changed from the rate of
the current quarter~~.~~, unless the understatement of the fall
(3) survey is as large as in other recent years of rising business
activity.

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~~
(4) ~~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 that existing prices had been below "list" and
(5) therefore the index had been overstating prices earlier. The
consumer price index continued to rise at the slow pace of recent years. The evidence on prices, therefore, continues

contradictory but does not appear to be indicating a substantial change from conditions in 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

(6) 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. 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. Interest rates in securities markets were the lowest since early August.

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.~~ (7)

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.

3. In light of the apparent underlying strength in economic conditions and the continued general stability in broad commodity price indexes, but the failure of the unemployment rate to decline in recent months and the persistence of a sizable deficit in the balance of payments, 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.~~ (8) It is expected that the continuing large flow of savings, supplemented by such bank credit and monetary expansion, will enable prospective demands for funds from Government as well as private borrowers to be met within a narrow range of fluctuation in longer term interest rates, but in a climate of seasonally firmer money market conditions than prevailed in October. With these ends in view, the

Federal Open Market Committee seeks to supply sufficient reserves to support (1) the rise of currency in circulation over and above seasonal fluctuations, (2) actual changes in U. S. Government demand deposits and private time and savings deposits, and (3) a seasonally adjusted annual rate of increase in the demand deposit component of the money supply over the months ahead averaging about the same as in the year to date.

4. To implement this policy, System open market operations over the next three weeks shall be conducted with a view to achieving weekly average free reserves around $50 million; provided, however, that such reserves shall be permitted to move above or below this level 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.~~

November 16, 1964

REVISION B

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. With preliminary data indicating
(9) a deficit of 600 million dollars, the balance-of-payments situation in October was roughly unchanged from the third quarter.

~~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.~~

(10) ~~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 level of spending next year little changed from the rate of the current quarter, unless the understatement of the fall survey is as large as in other recent years of
(11) rising business activity. Despite evidence of an inventory climb in September, the relationship between stocks and sales remains balanced.

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,

(12) or that existing prices had been below "list" and therefore the index had been overstating prices earlier. ~~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~~
(13) ~~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~~ after mid-October, in part because of the temporary dampening in over-all economic expansion. The money supply
(14) ~~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~~
(14) ~~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~~
(14) ~~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~~
(14) ~~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~~
(14) ~~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.

3. In light of the ~~apparent underlying strength in~~
~~economic conditions and the~~ continued general stability in
broad commodity price indexes, ~~but~~ and the failure of the
unemployment rate to decline in recent months ~~and the~~
(15) ~~persistence of a sizable deficit in the balance of payments,~~
it is the current objective of monetary policy to accommodate
moderate further expansion in bank credit and the money
supply. In view of the apparent underlying strength in
economic conditions, it is the expectation of the
Committee that monetary and credit expansion will proceed
at a moderate pace and within an environment of substantially

unchanged credit conditions without affecting adversely the continued sizable deficit in the balance of payments. It is expected that the continuing large flow of savings, supplemented by such bank credit and monetary expansion, will enable prospective demands for funds from Government as well as private borrowers to be met within a narrow range of fluctuation in longer term interest rates, but ~~in-a-climate-of~~ with seasonally firmer money market conditions than prevailed in October. With these ends in view, the Federal Open Market Committee seeks to supply sufficient reserves to support (1) the rise of currency in circulation over and above seasonal fluctuations, (2) actual changes in U. S. Government demand deposits and private time and savings deposits, and (3) a seasonally adjusted annual rate of increase in the demand deposit component of the money supply over the months ahead averaging about the same as in the year to date.

4. To implement this policy, System open market operations over the next three weeks shall be conducted with a view to achieving weekly average free reserves around $50 million; provided however, that such reserves shall be permitted to move above or below this level 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.~~

FEDERAL RESERVE BANK OF NEW YORK
NEW YORK 45, N. Y.
RECTOR 2-5700

ALFRED HAYES
PRESIDENT

November 25, 1964

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

Dear Mr. Young:

In response to the request made at the last meeting of the Federal Open Market Committee, to send along comments on the "trial directive" prepared for that meeting, I am enclosing certain suggestions relating to Elements 1 and 2. In general, these comments are along the lines of trying to inject a little more evaluative and interpretive comment into those Elements -- which I feel is essential if they are to be more than mere collections of facts.

I have not made specific suggestions on Elements 3 and 4, as I still find myself opposed to the general idea of trying to reduce our policy prescription to a single indicator, or trying to instruct the Desk too specifically in terms of reserve or rate targets. As regards Element 3, I have already set forth in some detail my reservations about adopting the glaringly deficient private demand deposit guideline as the intermediate goal of monetary policy. Reluctant as I would be to see any single target selected as <u>the</u> proper one, to the exclusion of others, I believe that at least as good a case could be made for directing attention to the growth of total bank credit or total deposits.

As for Element 4, my doubts about quantitative targets are no less strong than before. The directive presupposes that we have much closer control over the behavior of money market and reserve variables than we in fact have. Those variables frequently behave in perverse ways in the short run. The directive as presently constituted realistically recognizes this fact and conveys to the Manager the authority to make short-run technical adaptations to such perverse behavior in

FEDERAL RESERVE BANK OF NEW YORK

Mr. Ralph A. Young, Secretary
Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551 11/25/64

terms of his understanding of the Committee's central purpose. I do not believe that the Committee can write in advance a quantitative prescription that will cover the many contingencies that could develop in dealing with as dynamic an institution as the money market.

Yours truly,

Alfred Hayes

Alfred Hayes
Vice Chairman
Federal Open Market Committee

PS: I should add that I do not like the general idea of having Elements 1 and 2 in the Committee directive either -- but at least in the case of those Elements it was feasible to offer some specific language suggestions.

AH.

Encl.

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. Approximate ~~S~~tability has been maintained in over-all commodity price averages, but no further improvement has been achieved in the unemployment situation recently.

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. Reflecting supply problems ~~N~~ew 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.~~ May.

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~~ are consistent with the view that ~~the rate of increase in~~ business plant and equipment spending is likely to increase ~~may moderate~~ in the coming year, provided the economy continues to advance. 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.~~ last year a similar survey showed a 4 per cent rise in 1964, far below the 13 per cent gain now expected.

The broad measures of wholesale prices for industrial as well as for all commodities have remained relatively stable. A continued cause for concern is the possibility that recent wage and price increases and the anticipation of a steel strike could lead to strong upward pressure on prices. 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~~ and on a seasonally adjusted basis would constitute a continuation of the disturbingly high third quarter rate. ~~represent deterioration from the third quarter of this year on a seasonally adjusted basis~~. As is usual in October, the placement of time deposits by U. S. corporations in Canada and 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, after bulging in September, 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~~ money market remained generally firm ~~Federal funds increased~~ in October, although conditions temporarily ~~and while some transac-~~ became quite easy following the Columbus Day partial holiday, ~~tions took place at a rate slightly above the discount rate,~~ as a result of unexpected movements in reserve factors. ~~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, the Treasury's November cash refunding was carried out successfully. Yields on long-term Government bonds at the end of October were close to their lowest levels since early August and about at the level of last January. Yields on recently offered corporate bonds and on ~~mixed~~ lower-grade municipal bonds have also turned down, although the indexes for seasor higher grade issues in both markets have remained quit 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

(from the Reserve Banks and holdings of were somewhat
borrowings) ~~than in September. With~~ excess reserves ~~also~~
in October than September, while
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.

3. In light of the apparent underlying strength in economic conditions and the continued general stability in broad commodity price indexes, but the failure of the unemployment rate to decline in recent months and the persistence of a sizable deficit in the balance of payments, 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. It is expected that the continuing large flow of savings, supplemented by such bank credit and monetary expansion, will enable prospective demands for funds from Government as well as private borrowers to be met within a narrow range of fluctuation in longer term interest rates, but in a climate of seasonally firmer money market conditions than prevailed in October. With these ends in view, the Federal Open Market Committee seeks to supply sufficient reserves to support (1) the rise of currency in circulation over and above seasonal fluctuations, (2) actual changes in U.S. Government demand deposits and private time and savings

deposits, and (3) a seasonally adjusted annual rate of increase in the demand deposit component of the money supply over the months ahead averaging about the same as in the year to date.

4. To implement this policy, System open market operations over the next three weeks shall be conducted with a view to achieving weekly average free reserves around $50 million; provided however, that such reserves shall be permitted to move above or below this level 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.