FEDERAL RESERVE
press release

For immediate release February 12, 1968

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 November 14, 1967. 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 November 14, 1967

1. Authority to effect transactions in System Account.

Although strikes recently had been retarding activity in some areas of the economy, real GNP was expected to increase more rapidly in the current quarter than it had in the third quarter. A still higher rate of economic growth and continued upward pressures on prices and costs appeared to be in prospect for early 1968, particularly if an income tax surcharge as proposed by the President were not enacted.

Recent weakness in various broad measures of business activity was largely a consequence, directly or indirectly, of work stoppages in the automobile industry and in some other industries. Industrial production was estimated to have declined slightly further in October. Retail sales decreased appreciably, according to the advance estimate, mainly because of a sharp reduction in automobile sales attributable to the limited availability of new cars. Total nonfarm employment rose relatively little; the net increase in manufacturing employment was held down by strikes, and Federal Government employment declined slightly because of a curb on hiring. With the labor force increasing more rapidly than usual, the unemployment rate rose further, to 4.3 per cent from 4.1 per cent in September. Residential construction activity, however, continued to rise strongly in October.

It appeared likely that final sales to both the private and Government sectors of the economy would increase more rapidly in the fourth quarter than in the third, but that the rate of business inventory accumulation would remain low. Growth in output, employment, and incomes was expected to be quickened in the early months of 1968 by business efforts to rebuild inventories depleted by strikes and by efforts of steel users to accumulate stocks as a hedge against a possible steel strike in the summer. Moreover, it appeared that consumer spending would be stimulated in early 1968 by liberalization of social security benefits and by a Federal employee pay raise, as well as by continued sizable advances in industrial wage rates--including increases resulting from the rise in minimum wage rates on February 1, 1968, as provided by existing legislation.

Wholesale prices of industrial commodities increased further from mid-September to mid-October, according to preliminary estimates, but prices of farm products and foods declined, and the total wholesale price index edged down. The consumer price index rose somewhat less in September than it had in other recent months as food prices declined.

Further information confirmed earlier estimates that the deficit in the U.S. balance of payments on the "liquidity" basis of calculation was at a rate somewhat higher in the third quarter than in the first half of the year, and another large deficit appeared to be in prospect for the fourth quarter. The merchandise trade surplus declined in September from the high August rate, as imports increased while exports fell; in the third quarter as a whole the trade surplus was about the same as in the second quarter. On the "official reserve transactions" basis, a sizable surplus was recorded in the third quarter following substantial deficits in the first half of the year. This surplus was due primarily to large inflows of liquid funds to U.S. banks through their foreign branches. Net inflows of such funds continued after the end of September. Sterling was under heavy pressure in foreign exchange markets and on November 9, for the second time in 3 weeks, the Bank of England raised its discount rate by 1/2 of a percentage point, to 6-1/2 per cent.

In its November financing--for which subscription books were open October 30--the Treasury refunded securities maturing November 15, including $2.6 billion held by the public, and raised $2.2 billion of new money. Two issues were offered--a 15-month, 5-5/8 per cent note, and a 7-year, 5-3/4 per cent note--of which private investors were allotted $3.2 billion and $1.6 billion, respectively. While the two notes were well-received initially--with the longer maturity, in particular, heavily oversubscribed--selling pressures developed soon after the books had closed and on the day before this meeting prices of both were quoted at discounts. It was announced on November 10 that $650 million of participation certificates of the Federal National Mortgage Association would be offered to the public on November 28. Apart from the continuing addition of $100 million to each weekly and monthly bill auction, this was expected to be the Government's last new cash financing in the calendar year 1967.

Open market operations since the preceding meeting of the Committee had continued to be directed at maintaining steady conditions in the money market. Net free reserves of member banks averaged about $200 million during the 3 weeks ending November 8, compared with a revised figure of about $240 million for the preceding 3 weeks. Excess reserves of member banks declined, particularly at country banks; borrowings also declined, to an average of $90 million from about $170 million in the preceding period. Average rates on Federal funds and on bank loans to Government securities dealers were a little lower than in September and the early weeks of October. Interest rates on short-term market instruments remained generally unchanged or rose slightly from their levels at the time of the preceding meeting of the Committee. The market rate on 3-month Treasury bills was 4.62 per cent on the day before this meeting, up 4 basis points from its level 3 weeks earlier.

After a brief interruption in late October, bond yields resumed their advance in all sectors of the capital market. Yields on long-term Government bonds at the time of this meeting were significantly above both the levels prevailing 3 weeks earlier and the highs reached in 1966, and those on intermediate-term Government issues were up sharply. Yields on new corporate and municipal issues also advanced, the former to levels exceeding the previous peaks reached in mid-October. The renewal of upward pressures on bond yields reflected in part a heavy prospective volume of new offerings of corporate and municipal securities in November and anticipations of the large FNMA offering. Also contributing to the pressures were prospects of inflationary developments and growing expectations in financial markets that a tax increase would not be enacted this year and that monetary policy would become firmer. On the day before this meeting, a major corporate bond offering was postponed as a result of congestion and uncertainties in the capital market.

The incomplete data available suggested that secondary-market yields on Federally underwritten mortgages rose further in October--approaching the record level reached toward the end of 1966. It appeared that net inflows of funds to nonbank depositary institutions continued to moderate in October on a seasonally adjusted basis. By the end of September outstanding mortgage commitments of private lenders were virtually back to the postwar high of January 1966, but in recent weeks some individual lenders were reported to have reduced their new commitments.

Commercial bank holdings of Treasury and other securities rose considerably in October. Security loans and loans to nonbank financial institutions also increased relatively fast, but the advance in business loans was again quite moderate. The bank credit proxy--daily-average member bank deposits--increased at an annual rate of 12 per cent, a little faster than in the preceding month. Time and savings deposits expanded at an annual rate of 13 per cent in October, slightly above the September rate but well below the average rate of more than 17 per cent for the first 8 months of the year. The money supply, which had been virtually unchanged in September, increased at an annual rate of about 6.5 per cent in October.

The rate of expansion in bank credit was expected to slow in the last 2 months of the year if prevailing money market conditions were maintained. It appeared likely that demands for business loans would remain moderate in view of prospects that changes in business spending on inventories and fixed capital would be small. The bank credit proxy was still projected to rise at an annual rate in the 7 to 10 per cent range in November, and a somewhat lower growth rate was anticipated for December. In November the money supply was expected to increase at an annual rate in the range of 6 to 8 per cent and time and savings deposits in the range of 9 to 11 per cent.

At this meeting the Committee heard reports on negotiations relating to international credit assistance to the United Kingdom in addition to reviewing conditions and prospects with respect to the domestic economy, the U.S. balance of payments, and the foreign exchange markets. After discussion the Committee agreed that no change should be made in monetary policy at this time, in view of the sensitive state of conditions in foreign exchange markets and of the international negotiations now under way. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting indicates that, while the direct and indirect effects of strikes have been retarding activity in some areas of the economy, prospects still favor more rapid economic growth in the months ahead. Although prices of farm products and foods have declined recently, upward pressures persist on industrial prices and costs. While there recently have been further inflows of liquid funds from abroad through foreign branches of U.S. banks, the balance of payments continues to reflect a substantial underlying deficit. Bank credit expansion has continued large. The volume of new private security issues has expanded further and interest rates remain under upward pressure, reflecting in part

increased doubts in financial markets concerning enactment of the President's fiscal program. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions, including bank credit growth, conducive to sustainable economic expansion, recognizing the need for reasonable price stability for both domestic and balance of payments purposes.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in the money market, but operations shall be modified as necessary to moderate any apparent tendency for bank credit to expand significantly more than currently expected.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, and Wayne. Votes against this action: None.

2. Amendment to authorization for System foreign currency operations.

The Committee amended paragraphs 1B(3) and 1C(1) of the authorization for System foreign currency operations, in each case effective as of the date of a determination by Chairman Martin that such action was in accordance with the position of the United States in the current international negotiations concerning credit assistance to the United Kingdom. In the amendment to paragraph 1B(3) the limit on authorized System Account holdings of sterling purchased on a covered or guaranteed basis was increased from $200 million to $300 million equivalent. In the amendment to paragraph 1C(1) the limit on outstanding forward commitments to deliver foreign currencies to the Stabilization Fund was increased from $200 million to $350 million equivalent, and language restricting the foreign currencies covered by the paragraph to currencies "in which the U.S.Treasury has outstanding indebtedness" was deleted.

Chairman Martin made the indicated determination on November 21, 1967, for the amendment to paragraph 1B(3) and on November 22, 1967, for the amendment to paragraph 1C(1). Accordingly, the respective amendments became effective on those dates. With these two amendments, the first paragraph of the authorization read as follows:

> The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive:
>
> A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:
>
> Austrian schillings
> Belgian francs
> Canadian dollars
> Danish kroner
> Pounds sterling
> French francs
> German marks
> Italian lire
> Japanese yen
> Mexican pesos
> Netherlands guilders
> Norwegian kroner
> Swedish kronor
> Swiss francs
>
> B. To hold foreign currencies listed in paragraph A above, up to the following limits:
>
> (1) Currencies held spot or purchased forward, up to the amounts necessary to fulfill outstanding forward commitments;
>
> (2) Additional currencies held spot or purchased forward, up to the amount necessary for System operations to exert a market influence but not exceeding $150 million equivalent; and

(3) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to $300 million equivalent.

C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to $350 million equivalent;

(2) Commitments to deliver Italian lire, under special arrangements with the Bank of Italy, up to $500 million equivalent; and

(3) Other forward commitments to deliver foreign currencies, up to $275 million equivalent.

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, and Wayne. Votes against this action: None.

In his report on the negotiations now in process concerning international credit assistance to the United Kingdom, the Special Manager for foreign currency operations noted that one possible form of U.S. participation in such assistance was an undertaking by U.S. monetary authorities to acquire additional sterling. The previous authority to acquire sterling, including the authorization to acquire up to $200 million for System Account, had proved useful at times in the past in market operations undertaken by the Special Manager for purposes specified in the Committee's foreign currency directive.

The Special Manager indicated that in his judgment an increase of $100 million in the limit on such holdings by the System was justified in light of possible future needs for similar market operations. Accordingly, he recommended that if in the current negotiations the United States were to undertake to acquire additional sterling, $100 million should be acquired for System account and the remainder for Stabilization Fund account.

The Special Manager also indicated that if the arrangements were concluded on the basis he had suggested the resources of the Stabilization Fund might be inadequate to meet all demands upon them from time to time in the future. Accordingly, he recommended the amendments to paragraph 1C(1) of the authorization described above to enable the System Account to "warehouse" part of the Treasury's holdings of sterling if that should prove desirable. Past operations undertaken under the terms of paragraph 1C(1) had been limited to the purpose of facilitating repayment by the Treasury of maturing bonded debt denominated in foreign currencies.

After discussion, the Committee concurred in the recommendations of the Special Manager and took the actions indicated.