FEDERAL RESERVE

press release

For immediate release June 2, 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 March 4, 1969. Such records are made available approximately 90 days after the date of each meeting of the Committee and will be found in the Federal Reserve Bulletin and the Board's Annual Report.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on March 4, 1969

1. Authority to effect transactions in System Account.

Growth in real GNP was now estimated by the Commerce Department to have moderated somewhat more in the fourth quarter of 1968 than indicated earlier, and staff projections suggested that it would moderate further in the first half of 1969. However, upward pressures on prices and costs were persisting, and it appeared that expectations of continuing inflation were still an important factor underlying business spending decisions.

In February, according to available weekly data, retail sales were about unchanged from January--when, in turn, they had risen to a level close to that of the preceding November. Tentative estimates indicated that industrial production continued to increase at a slower rate than in late 1968. In January nonfarm employment rose substantially further, and the unemployment rate was unchanged at the low level of 3.3 per cent. The labor market remained tight, and average hourly earnings of production workers continued upward at a rapid rate.

Average wholesale prices of industrial commodities increased considerably further from mid-January to mid-February, but by less than in the preceding month when, according to revised data, the largest monthly increase in more than 13 years had been recorded. In January average consumer prices continued to advance at a rapid pace, particularly after allowance for the usual seasonal declines in prices of some major commodities.

Revised Commerce Department estimates indicated that growth in real GNP had moderated from an annual rate of 5.0 per cent in the third quarter of 1968 to 3.4 per cent in the fourth quarter, rather than to 3.8 per cent as had been shown in the preliminary report. The slackening in the fourth quarter was attributable largely to a marked slowing of the rise in consumer and Federal expenditures on goods and services; business outlays on plant and equipment and on inventory accumulation had increased considerably, as had residential construction activity.

The staff projections for the first half of 1969 suggested that growth in disposable income would be held down by the increase in social security tax rates that became effective January 1, and by retroactive payments on 1968 personal income tax liabilities. It was expected that the rate of personal saving would decline from its high fourth-quarter level and that consumer spending would rise at a pace moderately faster than in the fourth quarter. Federal purchases were projected to remain close to the fourth-quarter level. The projections also implied that as the first half of the year progressed residential construction activity would be increasingly limited by the reduced availability of mortgage funds; that the rapid current expansion in business capital outlays would slow; and that the rate of inventory accumulation would be reduced.

Preliminary data indicated that there had been a substantial deficit in the U.S. balance of payments on the liquidity basis in the first 2 months of 1969. But the extent to which both payments and receipts had been affected by the longshoremen's strike--which began on December 20 and ended in mid-February in New York and later at certain other Atlantic and Gulf Coast ports--was not clear. On the official settlements basis a large surplus was recorded in January, as liabilities of U.S. banks to their foreign branches rose sharply to a new high. In February, however, a deficit apparently developed on the official settlements basis, as net inflows of Euro-dollars through foreign branches were substantially smaller. Interest rates in the Euro-dollar market advanced considerably further to new record levels in February.

On February 27 the Bank of England raised its discount rate by 1 percentage point to the 8 per cent level that had been maintained for about 4 months after the devaluation of sterling in November 1967. This action was taken to reinforce Britain's policy of severe domestic credit restraint and was officially described as consistent with the recent marked increases in short-term interest rates in international financial markets. Shortly thereafter, discount rates were raised by the Bank of Sweden from 5 to 6 per cent, and by the Bank of Canada from 6-1/2 to 7 per cent.

The Treasury refunding of notes and bonds maturing in mid-February was accorded an unenthusiastic reception by the market. Of the $5.4 billion of maturing issues held by the public, about $2 billion, or 36 per cent, were redeemed for cash; $2.6 billion were exchanged for the new 15-month, 6-3/8 per cent note; and $885 million were exchanged for the new 7-year, 6-1/4 per cent note. Subsequently, on February 25, the Treasury auctioned a $1 billion strip of bills consisting of five issues maturing in 1 to 5 months. Banks, which were allowed to pay for the new bills through credits to Treasury tax and loan accounts, successfully bid for the bulk of the issue.

Most interest rates had risen on balance since the previous meeting of the Committee. To a large extent the advances reflected growing expectations--particularly after recent congressional testimony by Federal Reserve and administration officials--that monetary restraint would be maintained in an effort to contain inflationary pressures. The higher rates also reflected anticipations of a possible near-term increase in the prime lending rate of banks and perhaps also in the Federal Reserve discount rate. Yields in capital markets moved up to or above their earlier peaks, despite the somewhat smaller volumes of new corporate and municipal issues offered in February and scheduled for March. In the mortgage market interest rates rose further to new postwar highs, as demands for mortgage loans remained strong and, according to available data for early February, net inflows of funds to thrift institutions continued to moderate.

Most short-term interest rates also rose in the period, but rates on Treasury bills maturing within 6 months changed little on balance. For example, the market rate on 3-month Treasury bills was 6.17 per cent on the day before this meeting, compared with 6.19 per cent 4 weeks earlier. During the interval the 3-month bill rate had declined to around 6.00 per cent--reflecting substantial liquidity demands for shorter-term bills and relatively limited dealer inventories--but it subsequently rose again, particularly after the increase in the discount rate of the Bank of England.

System open market operations since the previous meeting of the Committee had been directed at maintaining firm conditions in the money and short-term credit markets. Conditions in the money market tended to tighten during the period as a result of the cumulative reduction in bank liquidity and a seasonal shift in reserves away from the major money market banks. This tendency was not fully offset by System action, however, because shorter-term bill rates were under downward pressure for much of the period. Federal funds traded mainly in a range around 6-3/4 per cent, up from a range centering closer to 6-1/2 per cent in the previous period. Member bank borrowings averaged $835 million in the 4 weeks ending February 26, compared with about $790 million in the previous 3 weeks.

Average excess reserves were little changed, so net borrowed reserves also increased.

With short-term market interest rates remaining high relative to maximum rates payable by banks on large-denomination CD's, the volume of such CD's outstanding declined considerably further in February--although by less than in January when the amount maturing was larger. During the first 2 months of the year the rate of expansion in consumer-type time and savings deposits was well below that in comparable periods of other recent years, and in both months total time and savings deposits contracted at an annual rate in the neighborhood of 10 per cent. Growth in private demand deposits and in the money stock moderated further in February; for January and February together the money stock rose at an annual rate of less than 3 per cent, about half the rate of the second half of 1968. U.S. Government deposits increased sharply further in February to their highest average level in several months.

Although moderating in February, growth in business loans remained rapid. Other loans, which had declined slightly in January, increased substantially. In accommodating the large loan demand, banks stepped up the rate at which they had been liquidating holdings of Treasury securities, and for the first time since April 1968, they failed to increase their holdings of municipal securities. In February total bank credit, as measured by the adjusted proxy series--daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches--rose 2 per cent from January, at an annual rate, and was about unchanged from December.

Staff projections suggested that if prevailing money market conditions and existing Regulation Q ceilings were maintained the volume of large-denomination CD's outstanding was likely to decline at about the same pace in March as in February. It was expected that total time and savings deposits would contract further from February to March, but at a slower rate than in the previous month. Growth in the money stock was projected to accelerate temporarily on the average in March, when it was anticipated that U.S. Government deposits would be drawn down sharply.

With respect to bank credit, the projections suggested that the adjusted proxy series would decline at an annual rate of 3 to 6 per cent from February to March, if U.S. bank liabilities to foreign branches were unchanged on the average in March from the level to which they had risen by the end of February. It appeared likely that loan demands would remain strong, and banks were expected to continue to liquidate holdings of U.S. Government securities and to limit their participation in the market for municipal securities.

The Committee agreed that, in light of the persistence of inflationary pressures and expectations, the existing degree of monetary restraint should be continued at present. The members decided that open market operations should be directed at maintaining on balance about the prevailing firm conditions in money and short-term credit markets, subject to the proviso that operations should be modified if bank credit appeared to be deviating significantly from current projections.

Some concern was expressed about the projection that the bank credit proxy would decline in March after 2 months of no net growth, and about the risks that undue liquidity pressures might develop. The Committee agreed that the proviso clause should be implemented in the direction of firmer money market conditions only if bank credit appeared to be growing at more than a moderate rate. It also agreed that the clause should be implemented in the direction of less firm conditions if bank credit appeared to be contracting any more rapidly than projected, so long as such action did not tend to create the impression that the basic stance of monetary policy had been relaxed.

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 been moderating, but that upward pressures on prices and costs are persisting. Prospects are for some further slowing in economic expansion in the period ahead. Most market interest rates have edged up on balance in recent weeks. In the first two months of the year bank credit changed little on average, as investments contracted while loan demands, especially from businesses, remained strong. The outstanding volume of large-denomination CD's continued to decline sharply and inflows of other time and savings deposits slowed. Growth in the money supply moderated as U.S. Government

deposits rose considerably. It appears that a sizable deficit reemerged in the U.S. balance of payments on the liquidity basis in January and February and, with Euro-dollar inflows moderating, a deficit also reappeared in the balance on the official settlements basis in February. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to the reduction of inflationary pressures, with a view to encouraging a more sustainable rate of economic growth and attaining reasonable equilibrium in the country's balance of payments.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining on balance about the prevailing firm conditions in money and short-term credit markets; provided, however, that operations shall be modified 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, Scanlon, and Sherrill. Votes against this action: None.

2. Amendments to authorization for System foreign currency operations.

The Committee amended paragraphs 1 and 2 of the authorization for System foreign currency operations in a number of respects at this meeting. On recommendation of the Special Manager, the limit on outright holdings by the System of authorized foreign currencies specified in the paragraph previously numbered as 1B(2)--but, after other amendments made at this meeting, renumbered as 1B(3)--was increased from $150 million to $250 million equivalent. In addition, clarifying amendments were made in the introductory text to paragraph 1, in paragraphs 1B and 1C(1), and in paragraph 2. Except for the changes resulting from these amendments, the Committee renewed the authorization in the form outstanding at the beginning of the year 1969.

As amended, paragraphs 1 and 2 of the authorization read as follows:

1. 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 and express authorizations by the Committee pursuant thereto:

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 purchased spot, including currencies purchased from the Stabilization Fund, and sold forward to the Stabilization Fund, up to $1 billion equivalent;

(2) Currencies purchased spot or forward, up to the amounts necessary to fulfill other forward commitments;

(3) Additional currencies purchased spot or forward, up to the amount necessary for System operations to exert a market influence but not exceeding $250 million equivalent; and

(4) 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 the limit specified in paragraph 1B(1) above;

(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 $550 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.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	100
National Bank of Belgium	225
Bank of Canada	1,000
National Bank of Denmark	100
Bank of England	2,000
Bank of France	1,000
German Federal Bank	1,000
Bank of Italy	1,000
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	400
Bank of Norway	100
Bank of Sweden	250
Swiss National Bank	600
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,000

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

With respect to the increase in the limit on outright holdings of foreign currencies, the System's current holdings were close to the previous limit of $150 million. That limit had been established in 1963, at a time when the foreign exchange operations of the Federal Reserve had not yet assumed the scale of more recent years. The Committee concurred in the judgment of the Special Manager that more leeway was now desirable to permit acquisitions from time to time of foreign currencies that were likely to prove useful in future operations.

The amendment to the introductory text of paragraph 1 consisted of the addition, after the words "to the extent necessary to carry out the Committee's foreign currency directive," of the phrase "and express authorizations by the Committee pursuant thereto." This amendment was for the purpose of making clear that the language of the authorization extended not only to operations undertaken under the specific language of the foreign currency directive but also to those undertaken under express authorities given by the Committee, for which provision was made at a number of points in the directive.

The main amendment to paragraph 1B involved a clarification of the form of authorization for foreign currency transactions undertaken in connection with System "warehousing" operations for the Stabilization Fund. While the forward commitments associated with such warehousing operations were separately authorized in paragraph 1C(1), the spot holdings had been subsumed under general language in 1B authorizing holdings "up to the amounts necessary to fulfill outstanding forward commitments." As amended, the authorization contained a new paragraph 1B(1) separately covering the spot holdings in question. Concurrently, a number of other conforming and clarifying changes were made in 1B and in 1C(1).

The amendment to paragraph 2, which affected the table contained in that paragraph listing authorized swap arrangements, involved the incorporation of more precise descriptions of the System's two swap arrangements with the Bank for International Settlements.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1969, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The action taken with respect to the authorization for System foreign currency operations has been described in the preceding portion of the record for this date.

The Committee reaffirmed its continuing authority directive for domestic open market operations and its foreign currency directive in the forms in which both were outstanding at the beginning of the year 1969.

> Votes for these actions: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against these actions: None.