FEDERAL RESERVE

press release

For immediate release January 26, 1970

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 October 28, 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 October 28, 1969

Authority to effect transactions in System Account.

Preliminary estimates of the Commerce Department indicated that expansion in private final sales had slackened further in the third quarter, but that growth in real GNP was sustained at a 2 per cent annual rate by an acceleration of inventory investment. Prices and costs continued to rise rapidly.

Some crosscurrents were evident in the recent behavior of monthly economic measures. On the one hand, industrial production declined in September for the second successive month; nonfarm employment did not increase, and the unemployment rate rose to 4.0 from 3.5 per cent in August; and growth in personal income slowed considerably. Retail sales advanced moderately, but after adjustment for price increases, sales remained below the year-earlier level.

On the other hand, new orders at manufacturers of durable goods rose sharply in September. The advance was widespread among industries, but was exceptionally large for the machinery and equipment industries. In addition, housing starts increased markedly from an August level that had been revised upward.

Average prices of industrial commodities and the over-all index of wholesale prices rose slightly more from mid-August to mid-September than earlier estimates had indicated. During the third quarter as a whole prices of industrial commodities increased more rapidly than in the preceding quarter. However, the rise in the over-all wholesale price index slowed substantially, as prices of farm products and foods declined somewhat following their sharp advance in the second quarter. The consumer price index increased considerably further in September.

Staff projections continued to suggest that real GNP would grow more slowly in the fourth quarter than in the third, and that there might be no growth in the first half of 1970. As before, the projections assumed that the income tax surcharge would be reduced to 5 per cent on January 1, 1970, and would remain at that rate through the first half of the year; that the investment tax credit would be repealed; and that social security benefits would be increased by 10 per cent on April 1. It was expected that Federal purchases of goods and services would decline over the interval, mainly because of reduced defense outlays, and that expansion of aggregate demands in the private sector would moderate further. It was also expected that the rate of inventory accumulation would slow in the first half of 1970. Prospects were for continued increases in costs, but with demand pressures expected to ease, some moderation in the rate of price advance appeared likely.

The U.S. foreign trade surplus increased further in September as exports remained near the high August level and imports declined. The trade balance showed a small surplus in the third quarter as a whole, following the small deficit recorded in the first half of 1969. With respect to the over-all balance of payments, in September the deficit was large on the liquidity basis and even larger on the official settlements basis. On both bases the balance was in deficit for the third quarter as a whole.

On October 24 the German Government announced that, effective October 27, the official parity of the mark would be revalued upward by 9.3 per cent--somewhat more than had been generally expected. Before this announcement the exchange rate for the mark, which had been permitted to float since late September, had risen to a premium of about 8 per cent. The appreciation of the mark and its subsequent revaluation led to a partial reversal of the earlier speculative flow of funds into Germany. Also, interest rates in the Euro-dollar market declined considerably further despite some increase in early October in outstanding Euro-dollar borrowings by U.S. banks.

During October the Treasury auctioned $5 billion of tax-anticipation bills; on October 8 it auctioned a $2 billion issue due in April 1970, and on October 23 a $3 billion issue due in June 1970. It was expected that the Treasury would raise an additional $2 billion to $2-1/2 billion of new cash later in the fourth quarter to meet further needs for funds.

Since early October interest rates on long-term securities had declined considerably despite a continued heavy calendar of public offerings of new corporate bonds and a marked increase in bond offerings by State and local governments. To a large extent the declines reflected changing expectations among market participants: The publication of certain economic statistics--including the 4 per cent unemployment figure for September--and renewed hopes for peace in Vietnam had led to a growing belief that the pace of the economic expansion would slow in the months ahead and that the pressures in financial markets would moderate. These attitudes subsequently were tempered by new developments, and in recent days bond yields had retraced part of their earlier declines.

Most short-term interest rates also had declined on balance since early October, and Treasury bill rates had been relatively stable despite the Treasury's two large bill offerings. The market rate on 3-month Treasury bills was 6.99 per cent on the day before this meeting of the Committee, compared with 6.94 per cent 3 weeks earlier.

System open market operations in the first part of the period since the preceding meeting had been directed at moderating tendencies toward undue tightness in the money market while maintaining the firm conditions that had prevailed earlier. The tendencies toward easing that emerged subsequently were not fully offset, because estimates for

October of the bank credit proxy--daily-average member bank deposits--that were prepared shortly after the middle of the month indicated a significantly larger decline than had been projected at the time of the previous meeting. However, the objectives of operations were modified only marginally, and near the close of the period--when new estimates indicated that the proxy series was not so weak as it had appeared for a time--operations were again directed at maintaining firm conditions. Over the period as a whole the effective rate on Federal funds, while fluctuating in a fairly wide range, averaged slightly more than 9 per cent--little changed from the previous period. Member bank borrowings averaged about $1.1 billion in the 3 weeks ending October 22, about the same as in the preceding 4 weeks, but net borrowed reserves increased somewhat as excess reserves declined.

The latest staff estimates suggested that the bank credit proxy was declining on the average in October at an annual rate of 7 to 9 per cent. It appeared that the total outstanding of funds obtained by banks from "nondeposit" sources was increasing; Euro-dollar borrowings of U.S. banks and funds obtained through sales of commercial paper by bank affiliates, taken together, evidently were rising by more than enough to offset further reductions in funds obtained by sales of loans to nonbank customers under repurchase agreements. After adjustment for these developments the proxy series was estimated to be declining on the average in October at an annual rate of 5.5 to 7.5 per cent. In the third quarter as a whole the proxy series so adjusted had declined at an annual rate of 4.3 per cent.

The money stock, which had changed little on balance in the third quarter, was now estimated to be rising on the average in October at an annual rate of 1 to 4 per cent. Both U.S. Government deposits and total time and savings deposits were estimated to be declining--the latter slightly faster than in September but much more slowly than in preceding months. Net outflows of large-denomination CD's had diminished markedly in recent weeks, apparently in large part because of an increase in foreign official deposits. There were rather sizable net outflows of consumer-type time and savings funds at banks--and at nonbank thrift institutions as well--following quarterly interest crediting.

Staff projections suggested that, if prevailing conditions in money and short-term credit markets were maintained, the average level of member bank deposits would rise from October to November at an annual rate of 5 to 8 per cent but would change little in December. All of the growth anticipated for November reflected an expected rise in U.S. Government deposits, in large part as a result of bank underwriting of the Treasury's bill financing in late October; private demand deposits and the money stock were projected to remain about unchanged on the average in November, and further declines in time and savings deposits appeared to be in prospect. It seemed likely that there would be some further net increase in November in funds obtained from nondeposit sources, primarily through sales of commercial paper by bank affiliates. After adjustment for such an increase, the proxy series was projected to rise at a rate of 6 to 10 per cent from October to November.

The Committee agreed that no change in monetary policy would be appropriate at this time. It was noted in the discussion that prices were still rising rapidly and, despite the indications of further slowing in the economic expansion, expectations of continued inflation remained widespread. It was also noted that fiscal policy was likely to become less restrictive in 1970, and some members expressed concern about the possibility that the shift in the stance of fiscal policy might be marked.

The Committee concluded that open market operations should be directed at maintaining 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. A number of members expressed the view that operations should not be undertaken to resist tendencies toward lower interest rates that might be produced by market forces.

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

> The information reviewed at this meeting indicates that the pace of expansion in real economic activity was sustained in the third quarter by an acceleration of inventory investment, which about offset a further slackening in growth of

private final sales. Slower over-all growth is projected for the fourth quarter, although some crosscurrents have been evident in the recent behavior of monthly economic measures. Prices and costs are continuing to rise at a rapid pace. Most market interest rates have declined considerably on balance from their recent highs, in large part because of changing expectations. In the third quarter, average monthly bank credit declined and the money supply changed little; in October it appears that bank credit is decreasing further on average but that the money supply is growing somewhat. In recent weeks the net contraction of outstanding large-denomination CD's slowed markedly, apparently reflecting mainly an increase in foreign official time deposits, but flows of consumer-type time and savings funds at banks and nonbank thrift institutions appear to have remained relatively weak. The U.S. foreign trade surplus increased further in September, but the deficit in the over-all balance of payments was still large on the liquidity basis and even larger on the official settlements basis. The appreciation of the German mark since the end of September, culminating in the revaluation of the official parity, has led to a partial reversal of speculative flows, and conditions in the Euro-dollar market have eased. In light of the foregoing developments, 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 sustainable 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 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.