FEDERAL RESERVE

press release

For immediate release February 16, 1970

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached records of policy actions taken by the Federal Open Market Committee at its meetings on November 25 and December 16, 1969. These records will be published in the Board's Annual Report for 1969 and in the Federal Reserve Bulletin.

Attachments.

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on November 25, 1969

1. Authority to effect transactions in System Account.

According to reports at this meeting, growth in real GNP apparently was slowing further in the fourth quarter from the 2 per cent annual rate of the second and third quarters. Prices and costs were continuing to rise at a rapid pace. Staff projections suggested that there might be no growth in real GNP in the first half of 1970, and that the rate of price advance might moderate somewhat as a result of reduced demand pressures.

Data for October were generally consistent with the view that the economic expansion was weakening. Industrial production edged down for the third successive month. Although total nonfarm employment increased, the unemployment rate, at 3.9 per cent, was little changed from the 4.0 per cent level to which it had risen in September. In manufacturing, both the number employed and the average length of the work-week declined. As in September, personal income increased much less than it had earlier in the year. In addition, two important series that had risen sharply in September--new orders for durable goods and housing starts--declined in October.

Average prices of industrial commodities increased considerably further from mid-September to mid-October, and the over-all wholesale

price index advanced substantially even though prices of farm products and foods changed little. The consumer price index continued upward at a rapid pace despite a seasonal decline in food prices.

In contrast to most broad categories of final demand, both recent and prospective business outlays on plant and equipment now appeared to be stronger than they had earlier. In revising the GNP figures for the third quarter, the Commerce Department had raised its estimates of the increase in business capital spending while reducing its estimates of growth in spending by consumers and State and local governments. Similarly, in the staff projections for the fourth quarter and for the first half of 1970, growth rates for business capital outlays had been revised upward somewhat, partly on the basis of the results of a recent private survey of business spending plans. But despite these revisions, it was expected that growth in capital outlays would slow progressively through mid-1970--particularly if, as assumed, the investment tax credit were repealed.

In other respects, the broad outlines of the staff projections were essentially unchanged. It was still anticipated that Federal purchases of goods and services would decline through mid-1970, mainly because of reductions in defense outlays, and that inventory accumulation would slow in the first half of the new year. The expansion of final demands in the private sector was expected to remain moderate even if, as assumed, the income tax surcharge were reduced to 5 per cent

at the end of 1969 and social security benefits were increased by 10 per cent on April 1.

A small surplus re-emerged in the U.S. foreign trade balance in the third quarter, following three quarters of deficit. With respect to the over-all balance of payments, the deficit on the liquidity basis was again very large, although smaller than in the second quarter. The official settlements balance, after having been in surplus for more than a year, shifted into deficit in the third quarter as a result of a marked slackening of the rise in Euro-dollar borrowings of U.S. banks. Tentative estimates suggested that there had been considerable improvement in the liquidity balance in October and early November--apparently in large part because of a reversal of earlier speculative flows into German marks.

Since the revaluation of the German mark on October 27, that currency had been under fairly persistent selling pressure in foreign exchange markets. Demand had been strong for sterling and had firmed for the lira and the French franc. In the Euro-dollar market interest rates had declined until late October, but they then advanced sharply and steadily--in part as a result of renewed bidding for Euro-dollars by U.S. banks. The price of gold in the London market had declined sharply in recent weeks--from about $40 to a little more than $35, the lowest level since the "two-tier" arrangement had been put into effect in March 1968.

On November 21 the Treasury auctioned $2.5 billion of tax-anticipation bills, of which $1 billion were due in April 1970 and $1.5 billion in June. This financing, together with the addition of $100 million to each of the weekly bill auctions, was expected to cover the Treasury's cash requirements through early 1970.

System open market operations since the October 28 meeting of the Committee had been directed at maintaining prevailing firm conditions in money and short-term credit markets. Operations were complicated by heavy reserve drains, stemming in part from repayments by foreign central banks of swap drawings on the Federal Reserve. To offset the resulting tendencies toward tighter money market conditions, the System supplied an unusually large volume of reserves, making net purchases of about $2.6 billion of U.S. Government securities. During the period the effective rate on Federal funds averaged slightly more than 9 per cent, little changed from the preceding interval. Member bank borrowings averaged about $1.2 billion in the 4 weeks ending November 19, compared with about $1.1 billion in the preceding 3 weeks.

Interest rates on most short- and long-term securities had declined during much of October, but in the latter part of that month such rates began to rise sharply and by the time of this meeting they had reached levels close to or above earlier peaks. To a large extent the upturn in rates reflected a reversal of earlier expectations that pressures in financial markets would soon abate. Recently, market

participants had come increasingly to the view that monetary restraints were not likely to be relaxed soon, as a result of both a growing belief that fiscal policy would be eased significantly and fading hopes for a near-term settlement in Vietnam. In the judgment of many financial observers, that view was supported by the announcement of the Board of Governors on October 29 that it (1) was considering an amendment to Regulation Q under which the rules regarding the payment of interest on deposits would apply to funds received by member banks from the issuance of commercial paper or similar obligations by bank affiliates and (2) had determined that such obligations of subsidiaries of member banks were subject to Regulations D and Q.

Also contributing to the recent advance in interest rates was the continuing heavy demand for funds reflected in the large current and prospective volume of security issues by corporations, State and local governments, and Federal agencies. Upward pressures on Treasury bill rates were augmented by the substantial supply of new bill issues and by large sales of bills by the German Federal Bank following the revaluation of the mark. On the day before this meeting the market rate on 3-month Treasury bills was at a record 7.42 per cent, more than 40 basis points above its level of 4 weeks earlier.

Average interest rates on home mortgages rose to new highs in October in both the primary market for conventional loans and the secondary market for FHA-insured loans. New mortgage commitments

appeared to have declined somewhat at savings and loan associations during October, and the backlog of outstanding commitments edged lower for the sixth consecutive month. There were unusually large net outflows of savings funds at such associations following quarterly interest crediting at the end of September.

Commercial banks also experienced net outflows of consumer-type time and savings deposits during October. The run-off of large-denomination CD's at banks continued, but at a much slower rate than earlier in the year because increases in foreign official deposits largely offset further reductions in holdings of domestic depositors. Private demand deposits and the money stock changed little from September to October--the former declined slightly, but the latter edged up as a result of an increase in currency outstanding. U.S. Government deposits fell considerably on the average.

Daily-average member bank deposits--the bank credit proxy--declined at an annual rate of about 9 per cent from September to October. Euro-dollar borrowings of U.S. banks changed little on the average, and there were further reductions in funds obtained by sales of loans to nonbank customers under repurchase agreements. However, the outstanding total volume of funds obtained by banks from "nondeposit" sources increased as a result of a substantial rise in funds obtained through sales of commercial paper by bank affiliates. After adjustment for these developments, the proxy series declined at an annual rate of 7.5 per cent.

Staff estimates suggested that the bank credit proxy would probably rise at an annual rate of 9 to 12 per cent from October to November, and that the advance would be even more rapid--perhaps at a 12 to 15 per cent rate--after adjustment for an increase in the outstanding volume of funds obtained from nondeposit sources. Whereas the expansion in the proxy series was attributable in large part to a rise in the average level of U.S. Government deposits, the estimates suggested relatively rapid increases also in private demand deposits and the money stock--for the latter, the increase was estimated at a rate in a 4 to 7 per cent range.

Much slower growth in the bank credit proxy appeared to be in prospect for December. Staff projections suggested that if prevailing conditions were maintained in money and short-term credit markets, the proxy series would rise from November to December at an annual rate in the range of 0 to 3 per cent, and in a 1 to 4 per cent range after adjustment for an expected further increase in funds from nondeposit sources. It seemed likely that the money stock would decline slightly on the average in December.

In its discussion of policy the Committee took account of the indications that the economic expansion was slowing further and of the evidences of strain in financial markets. The members agreed, however, that a relaxation of monetary restraint would not be appropriate at this time in view of the continuing strength of inflationary pressures and expectations. The uncertainties with respect to fiscal policy,

particularly the possibility of significant easing of fiscal restraint in 1970, were also cited in this connection.

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. It was also agreed that operations should be modified if pressures arose in connection with regulatory action by the Board of Governors in the area of bank-related commercial paper. A number of members expressed the view that operations should not be undertaken to resist tendencies toward lower interest rates should they develop as a result of 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 real economic activity has expanded only moderately in recent quarters and that a further slowing of growth appears to be in process. Prices and costs, however, are continuing to rise at a rapid pace. Most market interest rates have again been advancing in recent weeks, in many cases reaching new highs as a result of demand pressures, including heavy Treasury and foreign official bill sales, and a reversal of earlier market expectations partly stemming from growing concern about the outlook for fiscal policy. In October bank credit declined on average and the money supply changed little, but both appear to be increasing relatively rapidly in November. Recently the net contraction of outstanding large-denomination CD's has slowed markedly, apparently reflecting mainly an increase in foreign official time deposits. However, flows of consumer-type time and savings funds at banks and nonbank thrift institutions have remained weak. In the third quarter a small surplus in U.S. foreign trade re-emerged, but there was another very large deficit

in the over-all balance of payments on the liquidity basis and the official settlements balance, which had been in surplus earlier, was also in deficit. More recently, return flows out of the German mark have apparently contributed to some short-run improvement in the U.S. payments position. 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 or if pressures arise in connection with possible bank regulatory changes.

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

Absent and not voting: Mr. Maisel.

2. Actions with respect to continuing authority directive.

At this meeting the Committee ratified an action taken by members on November 14, 1969, effective on that date, amending paragraph 1(a) of the continuing authority directive to the Federal Reserve Bank of New York regarding domestic open market operations. The effect of the amendment was to raise from $2 billion to $3 billion the limit on changes in holdings in U.S. Government securities in the System Open Market Account between meetings of the Committee. With this amendment, paragraph 1(a) read as follows:

To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than $3.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting.

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

Absent and not voting: Mr. Maisel.

Later in the course of this meeting the Committee amended paragraph 1(a) of the continuing authority directive to restore the $2 billion limit in effect prior to November 14.

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

Absent and not voting: Mr. Maisel.

The action of November 14 was taken after the Account Manager advised that a temporary increase in the "leeway" was needed to accommodate the large reserve-supplying operations found necessary in implementing the current economic policy directive then in effect. The paragraph was restored to its previously existing form on recommendation of the Manager, who advised that the temporary need for the larger leeway had passed.

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on December 16, 1969

Authority to effect transactions in System Account.

Reports at this meeting suggested that growth in real GNP, which had been only moderate earlier in the year, was slowing further and perhaps coming to a halt in the fourth quarter. Prices and costs were continuing to rise rapidly. Staff projections suggested that there would be little or no expansion in real GNP in the first half of 1970 and some slowing in the rate of increase in prices.

With few exceptions, data for November supported the view of a weakening in economic expansion. Industrial production declined for the fourth consecutive month. Although the unemployment rate fell sharply--to 3.4 per cent from 3.9 per cent in October--other measures suggested some further easing of labor market conditions; in particular, total nonfarm employment did not increase, employment and overtime hours in manufacturing fell, and claims for unemployment compensation rose further. Retail sales declined in November and, after adjustment for price increases, remained below the level of a year earlier.

The wholesale price index advanced considerably further from mid-October to mid-November, partly because of an exceptionally large rise in average prices of farm products and foods. Average prices of industrial products also increased substantially.

The latest Commerce-SEC survey of business plans, taken in November, suggested that outlays on new plant and equipment would rise sharply in the first half of 1970. As a result, staff projections of fixed investment spending by business in that period had again been revised upward. However, the strengthening of the outlook in this sector did not appear sufficient to change materially the prospect for little or no growth in real GNP in the first half. On the other hand, it was noted that legislation now under consideration in Congress relating to Federal taxes and social security benefits, if enacted, would result in a considerably greater relaxation of fiscal restraint than had been assumed in the projections.

The U.S. balance of payments appeared to be improving in the fourth quarter; in November the deficit on the liquidity basis had diminished further and the official settlements balance had reverted to surplus. However, the improvement seemed to reflect such relatively volatile elements as return flows from the German mark and a sharp increase in November in outstanding Euro-dollar borrowings of U.S. banks. In recent weeks interest rates in the Euro-dollar market had remained under upward pressure, in part as a result of actions by the German monetary authorities to encourage German banks to reduce their net foreign assets.

Interest rates on most types of domestic market securities had risen considerably further in recent weeks. Yields on long-term Treasury and municipal bonds currently were at new highs, and yields

on new corporate bonds were close to peaks that had been reached in early December. On the day before this meeting the market rate on 3-month Treasury bills was at a record level of 7.92 per cent, 50 basis points above its level of 3 weeks earlier.

These rate advances had occurred against the background of continued heavy demands for funds, and--in the Treasury bill market--large dealer inventories and sustained high financing costs. To an important extent, however, they appeared to reflect expectational factors, including market concern about the possibility that fiscal restraint would be relaxed significantly and the related prospect that the period of severe monetary restraint would be prolonged.

System open market operations since the preceding meeting of the Committee had been directed at maintaining prevailing firm conditions in the money market while taking account of strains in the Treasury bill market as bill rates adjusted sharply upward. The effective rate on Federal funds continued to fluctuate mostly in a range of 8-1/2 to 9-1/2 per cent. Member bank borrowings averaged $1.2 billion in the 3 weeks ending December 10, unchanged from their average in the preceding 4 weeks.

At nonbank thrift institutions there were net outflows of savings funds in October, after quarterly interest crediting, and the inflows in November and early December were at a rate well below that usually expected for the season. Moreover, there was widespread concern about the possibility of very heavy outflows at such institutions around the turn of the year, following year-end interest crediting.

At commercial banks the volume of business loans outstanding changed little over the course of November, and holdings of U.S. Government securities declined somewhat further despite bank underwriting of the tax-anticipation bills auctioned by the Treasury late in the month. Holdings of other securities and loans to securities dealers increased sharply, although perhaps only temporarily. From October to November the bank credit proxy--daily-average member bank deposits--expanded on the average at an annual rate of 11 per cent. After adjustment for further growth in the outstanding volume of funds obtained by banks from "nondeposit" sources--including Euro-dollar borrowings and funds acquired through sales of commercial paper by bank affiliates--the proxy series increased at a rate of about 13.5 per cent. So adjusted, the proxy series had declined at annual rates of 7.5 per cent in October and 4.3 per cent in the third quarter.

Private demand deposits and the money stock also expanded on the average in November. The latter grew at an annual rate of about 3.5 per cent, after rising only fractionally in October and remaining unchanged in the third quarter. U.S. Government deposits increased sharply in November, mainly as a result of Treasury financing operations. Outflows of consumer-type time and savings deposits continued, but the net contraction in the volume of large-denomination CD's outstanding remained more moderate than earlier in the year as a result of further sizable increases in foreign official time deposits.

Revised staff projections suggested that if prevailing conditions in the money market were maintained there would be little change in the bank credit proxy from November to December, and a slight rise after adjustment for an expected further increase in funds from nondeposit sources. It was anticipated that total time and savings deposits would increase somewhat on the average, but that U.S. Government deposits and private demand deposits--as well as the money stock--would decline somewhat. Projections for January suggested that the proxy series would decline at an annual rate of 1 to 4 per cent--and less after adjustment for another expected increase in nondeposit funds--and that the money stock would remain about unchanged.

The Committee agreed that no relaxation of monetary policy would be appropriate at this time, in view of the persistence of inflationary pressures and expectations and the high degree of uncertainty with respect to the extent to which fiscal policy might be relaxed. The members concluded that open market operations should be directed at maintaining the prevailing firm conditions in the money market. It was also agreed that operations should be modified if unusual liquidity pressures should develop. A number of members expressed the view that any tendencies toward lower interest rates that might be produced by market forces should not be resisted.

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

The information reviewed at this meeting indicates that real economic activity has expanded only moderately in recent quarters and that a further slowing of growth appears to be in process. Prices and costs, however, are continuing to rise at a rapid pace. Most market interest rates have advanced further in recent weeks partly as a result of expectational factors, including concern about the outlook for fiscal policy. Bank credit rose rapidly in November after declining on average in October, while the money supply increased moderately over the 2-month period; in the third quarter, bank credit had declined on balance and the money supply was about unchanged. The net contraction of outstanding large-denomination CD's has slowed markedly since late summer, apparently reflecting mainly an increase in foreign official time deposits. However, flows of consumer-type time and savings funds at banks and nonbank thrift institutions have remained weak, and there is considerable market concern about the potential size of net outflows expected around the year end. In November the balance of payments deficit on the liquidity basis diminished further and the official settlements balance reverted to surplus, mainly as a result of return flows out of the German mark and renewed borrowing by U.S. banks from their foreign branches. 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 the money market; provided, however, that operations shall be modified if bank credit appears to be deviating significantly from current projections or if unusual liquidity pressures should develop.

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

Absent and not voting: Mr. Daane.