FEDERAL RESERVE

press release

For immediate release July 6, 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 April 7, 1970. 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 April 7, 1970

1. Authority to effect transactions in System Account.

The available information continued to suggest that over-all economic activity had weakened further in the first quarter of 1970 and that prices and costs had continued to rise rapidly. Staff projections of real GNP for the remainder of the year had been revised upward somewhat, chiefly in response to recent fiscal developments. However, it was still expected that growth would be moderate and that the rate of price advance would slow somewhat as the year progressed.

Partial data for March suggested that industrial production declined a little further and that retail sales were about unchanged from February. The unemployment rate increased in March for the third consecutive month, to 4.4 per cent. On the other hand, both private housing starts and new orders received by manufacturers of durable goods turned up in February, the latest month for which data were available.

Average wholesale prices of both industrial commodities and farm products and foods rose further from mid-February to mid-March, but the increases were smaller than in the previous month. On a seasonally adjusted basis, the consumer price index advanced in February at about the same rate as during the past year but a little less rapidly than in immediately preceding months.

The staff projections, as revised, suggested that real GNP would edge up, rather than decline slightly further, in the second quarter and that expansion would be somewhat faster in the third and fourth quarters than had been thought earlier--although it would still be well below the economy's growth potential. The major development that led to the revisions in the projections was the announcement, in the wake of the postal strike that occurred in mid-March, of proposed pay increases for postal workers and other Federal civilian and military employees, retroactive to the beginning of the year. It appeared that the planned pay raise would add appreciably to consumer expenditures during the 1970 calendar year and that the new revenue measures concurrently proposed would have little impact before 1971. Also, a sharp decline in total business inventories in January, together with the increase in new orders for durable goods in February, suggested that the inventory adjustment might have been proceeding faster than expected and thus might come to an end sooner.

The U.S. foreign trade surplus expanded sharply in February, as a result of a steep rise in exports and some decline in imports. With respect to the over-all balance of payments, tentative estimates for the first quarter suggested that the deficit on the liquidity basis was at a high rate comparable with the 1969 average. It appeared that a very large deficit was incurred in the first quarter on the official settlements basis--following the surpluses of 1969--as a result of large reductions in liabilities of U.S. banks to their foreign branches.

In foreign exchange markets, pressures on the Italian lira had moderated substantially in recent weeks. Sterling and the Canadian dollar were in strong demand, and most other major foreign currencies tended to strengthen against the U.S. dollar.

On March 19 the U.S. Treasury had auctioned $1.75 billion of tax-anticipation bills due in September. The Treasury was expected to announce in late April the terms on which it would refund securities maturing in mid-May, of which the public held about $5 billion.

Yields on long-term securities--which had declined considerably in February--rose during the first part of March under the pressure of an unusually heavy current and prospective volume of new issues, particularly of corporate bonds. In the latter part of the month, however, long-term yields began moving down again as a result of indications of some relaxation of monetary policy and of the reduction on March 25 in the prime lending rate of banks from 8-1/2 to 8 per cent. Short-term interest rates had tended on balance to decline further in recent weeks. For example, the market rate on 3-month Treasury bills, at about 6.40 per cent on the day before this meeting, was approximately 45 basis points below its level 4 weeks earlier.

The continued decline in short-term rates enhanced the ability of both banks and nonbank thrift institutions to compete for time and savings funds, although the volume of net inflows to nonbank institutions apparently remained quite moderate in the first part of March. At commercial banks, time and savings deposits expanded considerably on the average from February to March; inflows of consumer-type deposits strengthened further, the volume of large-denomination CD's held by individuals, partnerships, and corporations increased significantly for the first time since November 1968, and State and local and foreign official holdings continued to grow rapidly.

Private demand deposits and the money stock changed little during most of March, but in the final week of the month they increased sharply. As in the last week of December, when there also had been a sudden bulge in private demand deposits, the rise appeared to be due in good part to technical factors--on this occasion reflecting the effects on financial clearings of the 4-day Easter holiday abroad, the postal workers' strike, and the air traffic controllers' slowdown. Tentative estimates indicated that, on the average from February to March, the money stock increased at an annual rate of about 11.5 per cent--bringing the growth rate over the first quarter[1/] to a little more than 3 per cent.

1/ Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

The bank credit proxy--daily-average member bank deposits--also increased considerably on the average in March. However, banks reduced their reliance on funds from nondeposit sources, particularly Euro-dollar borrowings. After adjustment for this development, the proxy series expanded at an annual rate of about 10 per cent from February to March, resulting in a growth rate over the first quarter of about 0.5 per cent.

System open market operations since the March 10 meeting had been directed primarily at maintaining money market conditions consistent with the moderate growth rates in money and bank credit desired by the Committee. Somewhat less firm conditions were sought early in the period, when projections for March suggested that growth in the monetary aggregates was falling short of the Committee's objectives for that month and for the first quarter. Subsequently, however, the projections were revised upward on the basis of additional data, and no further easing of conditions was sought. Since the previous meeting the Federal funds rate had fluctuated mostly in a 7-1/4 to 8 per cent range, somewhat below the 7-1/2 to 8-1/2 per cent range of late February and early March. Member bank borrowings averaged about $900 million in the 4 weeks ending April 1, compared with about $1 billion in the previous 4 weeks.

Staff analysis suggested that, over the second quarter, annual growth rates of about 3 per cent in the money stock and 5.5

per cent in the adjusted bank credit proxy might be attained if money market conditions remained about the same as those prevailing recently. The indicated quarterly growth rate for the proxy series allowed for continued rapid expansion in time and savings deposits and for a substantial decline in U.S. Government deposits. It appeared likely that in the month of April the proxy series would rise considerably on the average. The money stock was expected to fall rather sharply for a few weeks after its end-of-March bulge before resuming growth, but it was expected to average moderately higher in April than in the previous month.

In the Committee's discussion some members expressed the view that recent developments had reduced the risk of a cumulative downswing in economic activity but that they had increased the risk of a resurgence of inflationary expectations. Others stressed the belief that risks of both types remained significant. In any case, the members agreed that continued moderate growth in money and bank credit over the months ahead--at about the rates indicated in the analysis described above--would be appropriate. It was noted during the discussion that precise achievement of such objectives could not be expected, in part because of the desirability of avoiding excessive fluctuations in money market conditions and in part because of uncertainties regarding future relationships among financial variables.

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

> The information reviewed at this meeting suggests that real economic activity weakened further in early 1970, while prices and costs continued to rise at a rapid pace. Fiscal stimulus, of dimensions that are still uncertain, will strengthen income expansion in the near term. Most long-term interest rates backed up during much of March under the pressure of heavy demands for funds, but then turned down in response to indications of some relaxation of monetary policy and to the reduction in the prime lending rate of banks. Short-term rates declined further on balance in recent weeks, contributing to the ability of banks and other thrift institutions to attract time and savings funds. Both bank credit and the money supply rose on average in March; over the first quarter as a whole bank credit was about unchanged on balance and the money supply increased somewhat. The U.S. foreign trade surplus increased in February, but the over-all balance of payments appears to have been in considerable deficit during the first quarter. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.
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> To implement this policy, the Committee desires to see moderate growth in money and bank credit over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining money market conditions consistent with that objective, taking account of the forthcoming Treasury financing.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Daane, Francis, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, and Swan. Votes against this action: None.

2. Amendments to authorization for System foreign currency operations.

At this meeting the Committee amended paragraph 1 of the authorization for System foreign currency operations in two respects. The limit on System holdings of guaranteed sterling specified in paragraph 1B(4) was reduced from $300 million to $200 million, the level that had been in effect prior to the increases of April and May, 1968; and the authority to have outstanding, under special arrangements with the Bank of Italy, up to $500 million of forward commitments in Italian lire, originally approved in November 1965 and contained in paragraph 1C(2), was removed by the deletion of that paragraph. With these changes, and with the renumbering as 1C(2) of the paragraph previously numbered as 1C(3), paragraph 1 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:
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> 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 $200 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; and

(2) 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.

Votes for these actions: Messrs. Burns, Hayes, Brimmer, Daane, Francis, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, and Swan. Votes against these actions: None.

These actions were taken on the recommendation of the Special Manager, who advised that as a result of recent changes in circumstances the need had passed for the enlarged authority to hold guaranteed sterling and for the authority to have forward commitments in lire under special arrangements with the Bank of Italy.