



FEDERAL RESERVE

press release

For immediate release

May 5, 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 February 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 February 4, 1969

Authority to effect transactions in System Account.

According to the information reviewed at this meeting, expansion in real economic activity had been moderating but upward pressures on prices and costs were persisting. Staff projections continued to suggest that the rate of expansion in economic activity would slow further in the first half of 1969.

Available weekly figures indicated that retail sales, which had declined in December, rose in January to about the November level. Tentative estimates implied that industrial production increased further in January but at a slower rate than in late 1968. The labor market continued tight, and the number of persons receiving unemployment compensation remained small.

There were widespread increases in wholesale prices of industrial commodities from mid-December to mid-January, and the average of such prices rose considerably further. The rate of advance in the consumer price index slowed somewhat in December, partly for seasonal reasons, but the index for that month was 4.7 per cent above its year-earlier level.

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Growth in real GNP had moderated to an annual rate of 3.8 per cent in the fourth quarter of 1968 from 5.0 per cent in the third quarter. Expansion in consumer and Federal Government expenditures on goods and services slowed, but there were substantial increases in business capital outlays, residential construction activity, and inventory accumulation. The staff projections for the first half of 1969 suggested that consumer spending would expand only moderately faster than in the fourth quarter, partly because growth in disposable income would be limited by higher social security taxes and retroactive income tax payments. In line with the recently released Federal budget figures, Government purchases of goods and services were projected to remain at the fourth-quarter level. The projections also implied that residential construction activity would be increasingly restricted by the reduced availability of mortgage funds; that the current surge in business capital outlays would slow by the second quarter; and that the rate of inventory accumulation would level off in the first quarter and then decline.

Longer-range staff projections prepared for this meeting suggested that in the second half of 1969 growth in real GNP would remain at a reduced rate and inflationary pressures would diminish. These projections incorporated the budget estimates of Federal expenditures and assumed that the income tax surcharge, which under existing legislation was scheduled to expire on June 30, 1969, would be continued at least through the end of the year. They also assumed that a substantial degree of monetary restraint would be

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maintained. It was noted that the budget estimates implied that fiscal policy would become less restrictive after midyear even if the surtax were continued.

Preliminary data indicated that the U.S. balance of payments on the liquidity basis had reverted to deficit in January, following the substantial surplus recorded in the fourth quarter of 1968. Although little detailed information was available, it appeared likely that the strike of longshoremen, which had begun with the expiration of the Taft-Hartley Act injunction on December 20, was one factor affecting the January balance adversely. In December the balance on merchandise trade was in deficit, and for 1968 as a whole there was a trade surplus of only about \$100 million, compared with about \$3.5 billion in 1967. Exports were 10 per cent higher in 1968 than in 1967, but imports increased by nearly 25 per cent.

The over-all payments balance on the official settlements basis was in substantial surplus in January as a result of a sharp increase in liabilities of U.S. banks to their foreign branches, which more than offset the marked decline that had occurred just before the year-end. To a large extent this heavy inflow of liquid funds through the Euro-dollar market reflected outflows from Germany that were encouraged by the policies of the German Federal Bank and by the ebbing of speculation on a revaluation of the mark.

On January 29 the Treasury announced that in exchange for securities maturing in mid-February, of which about \$5.4 billion

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were held by the public, it would offer 2 new issues--a 15-month, 6-3/8 per cent note and a 7-year, 6-1/4 per cent note, priced to yield 6.42 and 6.29 per cent, respectively. The initial market reaction to the offering was mixed and trading activity associated with the new issues was relatively limited.

System open market operations since the January 14 meeting of the Committee had been directed toward maintaining the firmer conditions achieved in money and short-term credit markets following the mid-December increase in Federal Reserve discount rates. Federal funds continued to trade mostly in a range of 6-1/4 to 6-5/8 per cent. Borrowings by large banks in the major money centers were relatively light in the 3 weeks ending January 29, both because seasonal forces tended to shift reserves toward these centers and because the sizable inflows of Euro-dollars were concentrated at such banks. For all member banks borrowings averaged about \$790 million, not much changed from the \$810 million average of the previous 4 weeks. Average excess reserves fell sharply, however, and net borrowed reserves increased considerably.

Interest rates on various types of short-term securities, which had declined somewhat from their late-December highs in the first half of January, subsequently changed little on balance. The market rate on 3-month Treasury bills moved down from 6.13 per cent on the day before the previous meeting to 6.01 per cent a week later and then advanced to 6.19 per cent on the day before this

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meeting. Yields on long-term securities fluctuated near their recent highs during most of the period, although lately they had come under renewed upward pressure as a result of limited investor interest in new corporate and municipal bond offerings. The volume of new bond issues was relatively large in January, but a smaller volume appeared to be in prospect for February.

Yields on home mortgages in the secondary market rose further in January and late in the month exceeded the high that had been recorded in the preceding June. Average contract interest rates on conventional mortgages had reached postwar record levels in December, the latest month for which data were available. Effective January 24 the regulatory maximum contract rate on federally underwritten home mortgages was increased from 6-3/4 to 7-1/2 per cent. Net inflows of deposits to nonbank financial intermediaries had moderated further in December, and withdrawals during the turn-of-the-year interest-crediting period were somewhat larger than a year earlier.

The volume of large-denomination CD's outstanding at banks continued to decline sharply in January as short-term market interest rates remained at levels relative to the Regulation Q ceilings that placed banks at a competitive disadvantage in their efforts to replace maturing CD's. The CD attrition was heaviest at large money market banks. Net inflows of other time and savings deposits weakened, partly because of withdrawals after the year-end interest-crediting

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date, and total time and savings deposits declined at an annual rate of about 10.5 per cent from December to January. Expansion in private demand deposits and the money stock moderated--the latter to an annual rate of about 4.5 per cent from 7.5 per cent in the previous month--as U.S. Government deposits rose.

Business loans at banks increased markedly in January. However, other loans declined slightly, net acquisitions of municipal securities remained at a reduced rate, and holdings of Treasury securities declined considerably. Total bank credit, as measured by the proxy series--daily-average member bank deposits--was estimated to have declined at an annual rate of 4.5 per cent from December to January, compared with growth at about a 13 per cent rate in the previous month and also over the second half of 1968 as a whole. After adjustment for changes in the daily average of U.S. bank liabilities to foreign branches--which, as noted earlier, increased substantially in January--the proxy series declined at an annual rate of about 1.5 per cent.

Some slowing of the growth of business loans from the rapid January pace was expected in February. Staff projections suggested that if existing Regulation Q ceilings and prevailing money market conditions were maintained the run-off of CD's outstanding would continue at a rapid rate--although not so rapid as in January, mainly because it appeared that the volume of CD's maturing would be smaller than in that month--and that inflows of other time and

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savings deposits would improve only moderately from January. The projections for February implied that U.S. Government deposits would rise substantially further and that private demand deposits and the money stock would decline somewhat. The bank credit proxy was projected to decline from January to February at an annual rate of 3 to 6 per cent. After adjustment for the increase in U.S. bank liabilities to foreign branches that had occurred over the course of January, the decline in the proxy series was projected to fall in a range of zero to 3 per cent.

The Committee agreed that current and prospective economic conditions did not call for a change in monetary policy at this time, and that in any case the Treasury refunding now under way militated against a change in policy. Some members, noting the decline in the bank credit proxy experienced in January and the small further decline projected for February, expressed concern about the risk that the current stance of policy might have unduly restrictive consequences and thus might have to be reversed shortly. While others thought that current bank credit developments were not unduly restrictive, particularly in light of the rapid expansion in the latter part of 1968, there was general agreement that a resumption of bank credit growth, although at a moderate rate, would be desirable before long.

The Committee decided that open market operations should be directed at maintaining the prevailing firm conditions in money and

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short-term credit markets. The proviso was added that operations should be modified, to the extent permitted by the Treasury refunding, if bank credit appeared to be deviating significantly from current projections. It was suggested that the allowable deviation in bank credit before the proviso was to be implemented should be smaller if the deviation were in a downward direction than in the opposite case. It also was suggested that, if the proviso clause were implemented in the direction of less firm money market conditions, care should be taken to avoid giving misleading signals about the basic stance of monetary policy.

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. Market interest rates recently have fluctuated near the highs reached around the turn of the year. Bank credit contracted slightly in January on average, as the outstanding volume of large-denomination CD's continued to decline sharply, inflows of other time and savings deposits slowed, and growth in the money supply moderated. The U.S. balance of payments on the liquidity basis appears to have reverted to deficit in early 1969, but large inflows of Euro-dollars have had the effect of keeping the official settlements balance in surplus. 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.

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To implement this policy, while taking account of the current Treasury refunding, 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, to the extent permitted by the Treasury refunding, if bank credit appears to be deviating significantly from current projections.

Votes for this action: Messrs.
Martin, Hayes, Brimmer, Daane, Galusha,
Hickman, Kimbrel, Maisel, Mitchell, Morris,
Robertson, and Sherrill. Votes against
this action: None.