



FEDERAL RESERVE

press release

For immediate release

September 22, 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 June 24, 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 June 24, 1969

Authority to effect transactions in System Account.

The information reviewed at this meeting suggested that expansion in real economic activity was continuing to moderate slightly in the second quarter but that prices and costs were remaining under substantial upward pressure. Staff projections for the second half of the year implied further slowing of the rise in real GNP but only a moderate diminution of the rate of price advance.

Data for May offered a rather mixed picture of economic developments. Retail sales, according to the advance report, were virtually the same as in April; after allowing for price increases, reported sales were no higher in May than a year earlier. Housing starts declined for the fourth consecutive month to a level about one-fifth below the very high January rate. New orders for durable goods, which had surged in April prior to the administration's recommendation for repeal of the 7 per cent investment tax credit, declined in May to nearly the level in March. Nonfarm employment again expanded at a slower pace than in late 1968 and early 1969. Nevertheless, the labor market continued tight and unemployment remained at the April rate of 3.5 per cent. In addition,

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industrial production rose considerably from an April level that had been revised upward. In both April and May the advance was concentrated in industries producing business equipment and industrial materials.

Average wholesale prices increased sharply from mid-April to mid-May--mainly because of an exceptionally large rise in prices of farm products and foods, particularly livestock. Average prices of industrial commodities advanced only slightly; as in April, marked declines for lumber and plywood nearly offset increases for other commodities.

Staff estimates of GNP in the second quarter continued to suggest a slowing of growth in consumer expenditures, little change in defense outlays, and a decline in residential construction. However, on the basis of the latest Commerce-SEC survey of capital investment plans of businesses, the estimate of growth in outlays on new plant and equipment in the quarter had been revised upward. The survey results suggested that such outlays had expanded rather steadily in the first half of the year, contrary to earlier indications of a sharp increase in the first quarter and a slight decline in the second. The survey also implied that growth in capital outlays would decelerate markedly after midyear, and that for the year as a whole the rise from 1968 would be less than previously indicated--about 12.5 per cent rather than nearly 14 per cent.

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Growth in GNP was expected to slow further in the second half of 1969 in part because of expectations of a downdrift in residential construction outlays and slackened expansion in business capital spending. In the latter connection, the staff projections assumed that the investment tax credit would be repealed. They also assumed that Federal expenditures would remain under substantial restraint and that the income tax surcharge would be continued at 10 per cent through the end of the year. Except for the third quarter, when the flow of disposable income was expected to be augmented temporarily by the Federal pay raise and the termination of payments on 1968 income tax liabilities, it appeared likely that growth in consumer spending would be held down by smaller employment and income gains. While the rate of price advance was expected to slow somewhat because of reduced demand pressures, it was anticipated that continuing substantial increases in costs would keep prices under considerable upward pressure throughout the year.

Developments in international financial markets had been dominated in recent weeks by extremely large borrowings of Euro-dollars by U.S. banks through their foreign branches. In the 3 weeks ending June 18 such borrowings rose by more than \$3 billion. Together with seasonal pressures in foreign financial markets, the strong bidding for funds by U.S. banks led to sharp further increases in Euro-dollar interest rates until June 10, when the 3-month rate briefly reached 13 per cent. Although Euro-dollar rates subsequently declined, they remained above their levels in late May.

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The pull of high Euro-dollar rates apparently added to the outflow of funds from Germany that had begun after the German Government announced on May 9 that the existing parity of the mark would be maintained. It also led to some selling pressure on a number of Western European currencies, although the market for sterling remained relatively firm and the Swiss franc was strong. Central bank discount rates were increased in a number of countries, including Belgium in late May and Canada, France, and Germany in June.

As a result of the Euro-dollar inflows, the U.S. balance of payments on the official settlements basis reverted to substantial surplus after mid-May. Heavy deficits had been recorded in late April and early May when expectations of a revaluation of the German mark had led to a massive flow of capital to Germany, but the subsequent inflows of funds borrowed by U.S. banks appeared large enough to produce a small official settlements surplus for the second quarter as a whole. On the liquidity basis, however, the U.S. balance of payments was in heavy deficit in the first half of June and a substantial deficit seemed to be in prospect for the second quarter. Outflows of private nonbank funds from the United States to the Euro-dollar market apparently had contributed to the large liquidity deficit of recent weeks.

System open market operations since the May 27 meeting of the Committee had been directed at maintaining the prevailing

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pressure on money and short-term credit markets. Money market conditions were particularly taut in the first half of June as banks aggressively sought funds to meet substantial loan demands, including expected heavy demands from businesses to finance tax payments due at midmonth. Also contributing to the pressures were large shifts of deposits away from money center banks as the Treasury drew down its tax-and-loan account balances. During the period as a whole the effective rate on Federal funds fluctuated mostly in a range of 8-1/2 to 9-1/2 per cent, compared with a range of about 8 to 9 per cent in the previous interval. In the 4 weeks ending June 18 member banks borrowings averaged about \$1,350 million, little changed from the preceding 4 weeks, and the average for net borrowed reserves also was close to its earlier level.

With credit demands remaining strong and the banking system continuing under considerable restraint, most market interest rates had risen appreciably further on balance in recent weeks. Particularly sharp rate advances occurred after major banks increased their prime lending rate by 1 percentage point--to a record high of 8-1/2 per cent--on June 9. Upward pressures on Treasury bill rates were augmented by sales from foreign official accounts--most of which were associated with movements of funds from Germany into the Euro-dollar market--and the 3-month bill rate rose from around 6.10 per cent in late May to a new high of 6.81 per cent on June 12.

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Subsequently, when foreign official sales diminished and demands developed from investors who were redeeming maturing Treasury securities for cash, the 3-month rate declined to a range around 6.50 per cent.

Yields on new corporate and municipal bonds advanced for most of the period since the preceding meeting, but yields on Treasury bonds turned down shortly after the increase in the prime rate and at the time of this meeting were slightly below their levels in late May. The volume of corporate bonds coming to market in June--and in prospect for July--was large, but most of the recent issues had been well received by investors at the higher yields offered. In contrast, the volume of municipal issues had declined substantially--in part because of cancellations and postponements of previously scheduled issues--but distribution of recent issues was proceeding slowly as a result of limited bank demand. Prices of common stocks turned down after mid-May and fell steadily in subsequent weeks.

Average yields on new-home mortgages were unchanged from April to May, but secondary-market yields on federally underwritten mortgages rose sharply to a new high in June, following the increase in the prime rate. Savings inflows at nonbank thrift institutions increased in May from the low April pace but for the 2 months together inflows were at a rate well below that for the first quarter. In May mortgage commitments outstanding at such institutions

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declined for the first time in 1969. Thrift institutions reportedly were continuing to follow cautious commitment policies in June, in anticipation of possibly heavy savings outflows following midyear interest and dividend crediting.

In May, according to revised estimates, declines at a 2 per cent annual rate were recorded for both the money stock and the adjusted bank credit proxy--daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches. Large-denomination CD's continued to run off at a rapid pace, and net inflows of consumer-type time and savings deposits were unusually small. In the face of strong business loan demands and net deposit outflows, banks substantially reduced their holdings of securities, particularly U.S. Government securities. In addition to enlarging their Euro-dollar liabilities to foreign branches, banks apparently made increased use of funds from other nondeposit sources, including sales of loan participations to nonbank customers under repurchase agreements and sales of commercial paper by bank holding companies.

In the first 5 months of 1969 as a whole, growth in the money stock slowed to an annual rate of less than 3 per cent from about 6 per cent in the second half of 1968. The adjusted bank credit proxy declined at about a 1 per cent annual rate after increasing at a 13 per cent pace in the preceding half year.

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Since the beginning of 1969 business loans of banks had expanded at a 17 per cent annual rate, holdings of U.S. Government securities had declined at a rate of more than 21 per cent, and holdings of other securities had changed little on balance.

Business loan demands remained strong in early June, although borrowings around the midmonth tax date were smaller than many observers had expected. Staff projections suggested that the adjusted bank credit proxy would decline in both June and July--at annual rates in the ranges of 2 to 4 and 3 to 5 per cent, respectively--if prevailing conditions were maintained in money and short-term credit markets. The projections allowed for the large rise in Euro-dollar borrowings through foreign branches that had already occurred in June and for some anticipated further increases in coming weeks. While the projections did not incorporate allowances for funds raised by banks from other nondeposit sources, it was observed at the meeting that the use of such funds might increase on the average in June by an amount about equivalent to the projected decline in the adjusted proxy series.

With respect to various categories of deposits, the staff projections suggested that in both June and July large-denomination CD's would continue to run off at a substantial rate and that there would be net outflows of other time and savings deposits, particularly around the midyear interest-crediting period. On the other hand, expansion in private demand deposits and the money stock was

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projected to resume in June and to accelerate in July. In the 2 months together, U.S. Government deposits were expected to decline on the average by an amount roughly twice the projected increase in private demand deposits.

In the Committee's discussion it was noted that, while there had been some moderation in the rate of growth of real economic activity, inflationary pressures and expectations remained strong. A few members commented that the continuing inflationary environment might offer grounds for a slight further firming of money market conditions, or at least the resolution of any doubts arising in the conduct of open market operations in that direction. But the consensus of the Committee was that open market policy should remain unchanged at present. In this connection, some members noted the extent to which growth of money and bank credit had already been curtailed, the strains evident in financial markets, and the possibility of unusual liquidity pressures in the weeks ahead.

Comments also were made in the discussion about the desirability of System policy actions in areas other than open market operations--including increases in discount rates, increases in Regulation Q ceiling rates on large-denomination CD's, and actions to limit bank access to various nondeposit sources of funds. While there were some differences of view on these matters, the majority of those commenting thought that increases in discount rates or

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Regulation Q ceiling rates would not be appropriate at this time but that it would be desirable for the Board to consider some actions with respect to nondeposit sources of funds.

With respect to open market policy, the Committee agreed that operations should be directed at maintaining the firm conditions currently prevailing in the money and short-term credit markets. The proviso was added that operations should be modified if bank credit appeared to be deviating significantly from current projections or if unusual liquidity pressures should develop. 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 is continuing to moderate slightly, but that substantial upward pressures on prices and costs are persisting. Most market interest rates have risen considerably on balance in recent weeks, as credit demands continued strong against the background of considerable restraint on the banking system. Growth in bank credit and the money supply thus far in 1969 has been limited, and both declined somewhat on average in May. Large-denomination CD's have continued to run off at a rapid pace recently, and net inflows of consumer-type time and savings deposits have remained small. At nonbank thrift institutions, savings inflows slowed somewhat on average in April and May. Very heavy Euro-dollar borrowing by U.S. banks through their foreign branches produced a large surplus in the balance of payments on the official settlements basis after mid-May. On the other hand, high Euro-dollar interest rates apparently also stimulated outflows of funds from the United States that contributed to a large deficit on the liquidity basis thus far in June. 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 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 the firm conditions currently prevailing 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 unusual liquidity pressures should develop.

Votes for this action: Messrs. Martin, Bopp, Brimmer, Clay, Coldwell, Daane, Mitchell, Robertson, Scanlon, Sherrill, and Treiber. Vote against this action: Mr. Maisel.

Absent and not voting: Mr. Hayes.
(Mr. Treiber voted as his alternate.)

In dissenting from this action, Mr. Maisel observed that on balance conditions in money and short-term credit markets were now considerably firmer than at the end of April while the monetary aggregates had been declining. He was concerned that further tightening to an undesirable degree might occur under the directive favored by the majority today, since the language of the second paragraph was similar to that of the directives the Committee had issued on April 29 and May 27. In addition, he noted that the staff projections suggested that the bank credit proxy, before adjustment for Euro-dollar borrowings, and total reserves of member banks might fall at an annual rate of 10 to 12 per cent in June and July together even if conditions in money and short-term

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credit markets were unchanged. In his judgment, moderate positive rates of growth in bank credit were appropriate under current circumstances, and he thought it would be desirable for the Committee to act now to bring about a transition to maintainable financial conditions. Accordingly, he preferred a directive calling for maintenance of the money and short-term credit market conditions that had prevailed on the average in the second quarter rather than the tighter conditions currently prevailing.