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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

April 5, 1963.

TO: Federal Open Market Committee

FROM: Mr. Young

As a matter of interest, in case you have not previously seen it, there is enclosed a reprint of page 8 of the April 1, 1963 Bond Market Review issued by Salomon Brothers & Hutzler bearing the title "Topics discussed in 1962 as a basis for monetary decisions."

Without attempting to appraise the usefulness of an analysis of the type that Salomon Brothers & Hutzler have made or the accuracy of their tabulation showing the number of meetings at which certain items were referred to, it should be noted that the references to eighteen meetings apparently are based on the meetings held in Washington and do not cover the telephone meeting held on June 21.

Ralph A. Young
Ralph A. Young, Secretary,
Federal Open Market Committee.

Attachment

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TOPICS DISCUSSED IN 1962 AS A BASIS FOR MONETARY DECISIONS

The table below attempts to show the factors that influenced the deliberations of the monetary authorities last year. It is a tabulation of the economic and financial topics mentioned in the resume of the minutes at each of the eighteen regular meetings held by the Federal Open Market Committee (FOMC) in 1962. These resumes are contained in the latest annual report of the Board of Governors of the Federal Reserve System.

The most frequently referred to statistics dealt with the dual tasks of monetary policy — the encouragement of domestic economic growth and the defense of the dollar. Thus, developments in this country's balance of payments was a critical factor in the deliberation of the FOMC in each of their meetings and in connection with these developments frequent reference was made to the competitive position of our short-term rates in the international markets. As indicated in the table, these factors were counter-balanced by domestic economic considerations as evidenced by the frequent reference to such key indicators as the unemployment rate, commercial bank credit, retail sales, and industrial production.

It is also interesting to note the sequence in which the determinants of monetary policy appeared in the FOMC resumes. Generally, developments in industrial production, retail sales, construction activity, and unemployment were mentioned first. This was followed by an analysis of recent financial and market trends. The last portion of each of the resumes was always devoted to an up-to-date evaluation of the balance of payments problem.

The number of times each topic appeared on the agenda can perhaps be used as a crude guide to its importance for the formulation of monetary policy. Only balance of payments data were mentioned in all eighteen meetings. Unemployment statistics came a close second. This was followed by bank credit and short-term interest rates; the latter was closely related to balance of payments considerations. Long-term rates were discussed far less frequently than short-term rates. Trends of industrial production were discussed during only two-thirds of the meetings while money supply was mentioned at less than half the meetings. Trends of gross national products and business inventories were mentioned only twice.

In the course of all eighteen meetings only two substantive changes in monetary policy were

made. At the meetings on June 19th and December 18th, policy was modified in favor of slightly less ease. Both times this was done in spite of unsatisfactory rate of domestic growth in order to assist in maintaining firm short-term rates for balance of payments considerations.

DETERMINANTS OF MONETARY POLICY

<u>Determinants</u>	<u>No. of Meetings in which Determinant was Mentioned in F.O.M.C. Resume</u>
Balance of payments	18
Unemployment	16
Commercial bank credit	15
Short-term rates	15
Retail sales	14
Industrial production	12
Time deposits	12
Bank reserves	11
Long-term rates	10
Construction activity	9
Wholesale prices	8
Money supply	8
Plant and equipment expenditures	8
Demand deposits	7
Common stock prices	7
Treasury financing	6
New orders	5
Volume of corporate bond financing	4
Volume of municipal bond financing	4
Unused economic capacity	3
Corporate profits	2
Business inventories	2
Business liquidity	2
Consumer liquidity	2
Gross national product	2