



FEDERAL RESERVE

press release

For immediate release

June 8, 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 March 10, 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 March 10, 1970

1. Authority to effect transactions in System Account.

The latest information lent support to the view that over-all economic activity was weakening further in early 1970 after leveling off in the fourth quarter of 1969. As before, staff projections suggested that real GNP would decline somewhat in the first half of the current year, but would then rise at a moderate rate in the second half. While prices and costs were continuing to increase at a rapid pace, some slowing of their advance was still expected over the course of the year.

In February, according to tentative estimates, industrial production fell for the seventh consecutive month. Employment and hours of work in manufacturing declined substantially. Total nonfarm employment was about unchanged, and the over-all rate of unemployment rose further from 3.9 to 4.2 per cent, its highest level since October 1965. Incomplete weekly data suggested that retail sales, which had declined in January, might have fallen further in February. Private housing starts continued downward in January, reaching their lowest level since April 1967, and new orders received by manufacturers of durable goods dropped considerably after 3 months of moderate reductions.

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Preliminary calculations indicated that wholesale prices of both industrial commodities and farm products and foods had risen further from mid-January to mid-February but that the increases were less than in the previous month. On a seasonally adjusted basis, the consumer price index continued to rise about as fast in January as in the two preceding months.

According to the latest Commerce-SEC survey, taken in February, businesses planned to increase their spending on new plant and equipment by about 10.5 per cent in the full year 1970 but at a slower rate in the first half. However, it seemed unlikely that such spending would accelerate in the second half, as implied by the survey-- particularly in view of recent declines in new orders for machinery and equipment and a reported reduction in the fourth quarter of 1969 in manufacturers' appropriations for capital spending.

The staff projections still allowed for relatively rapid increases in business fixed investment outlays in the first half and a leveling off in such outlays later in the year. The projections also continued to suggest that the rate of inventory accumulation would decline further in the first half and stabilize in the second; that residential construction outlays would fall sharply further in the first half and then turn up; and that defense spending would decline throughout the year. It was expected that consumer spending would be stimulated somewhat in the second quarter by the increase

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in social security benefit payments, and in the third quarter by the elimination of the remaining 5 per cent income tax surcharge at mid-year. It appeared likely, however, that growth in consumer spending would remain moderate in the year as a whole as a result of both smaller gains in wage and salary income and an increase in the saving rate.

U.S. imports rose more than exports in January, and the surplus in U.S. merchandise trade narrowed. According to tentative estimates, the over-all balance of payments--which had been in substantial deficit in January on both the liquidity and official settlements bases--continued in deficit in February.

In foreign exchange markets, demand for sterling remained strong during February. Inflows of funds to the United Kingdom became exceptionally large in early March, and on March 5 the Bank of England reduced its discount rate to 7-1/2 per cent from the 8 per cent rate that had been in effect for about a year. On March 6 the German monetary authorities announced that certain credit-tightening measures, including an increase in the discount rate of the German Federal Bank from 6 to 7-1/2 per cent, were being taken in light of domestic inflationary pressures and of the continued expansion in bank credit. The Italian lira had remained under heavy selling pressure in recent weeks and--also on March 6--the Bank of Italy announced that it was raising its discount rate from 4 to 5-1/2 per cent.

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In markets for domestic securities both long- and short-term interest rates had declined considerably on balance since the beginning of February, despite a very heavy calendar of new corporate bond offerings and a continuing sizable volume of municipal and Federal agency issues. The rate declines reflected the increasing signs that the economy was weakening and the growing belief among investors that monetary restraint would shortly be--or had already been--relaxed. Treasury bill rates fell steadily during much of February, but these rates tended to stabilize later in the month when the Treasury followed its successful refunding operation by a sale of \$1.75 billion of additional tax-anticipation bills due in April and by an increase in the size of its regular auctions of 6-month and 1-year bills. On the day before this meeting the market rate on 3-month bills, at about 6.85 per cent, was 45 basis points below its level 4 weeks earlier and about 85 basis points below its early February level.

The outflows of time and savings funds at banks and at nonbank thrift institutions, which had been very large in January, apparently came to an end in February--as a consequence of both the declines in yields on competing market instruments and the advances in rates offered by these institutions under the new higher ceilings that became effective in late January. Preliminary figures indicated that there were relatively small net inflows of funds to savings and loan associations and mutual savings banks in early February. In January

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net acquisitions of mortgages by savings and loan associations were the smallest for any month in nearly 3 years, and the volume of outstanding commitments was at a 2-year low.

At commercial banks time and savings deposits expanded almost as rapidly over the course of February as they had declined in January, and their average level in February was only fractionally below that in the previous month. There were net increases during February in consumer-type deposits--particularly at country banks--and in the volume of large-denomination CD's outstanding. It appeared that the volume of CD's held by foreign official institutions had increased considerably.

In contrast to time deposits, the average levels of private demand deposits and the money stock contracted sharply from January to February--at estimated annual rates of about 15 and 10 per cent, respectively. The bank credit proxy--daily-average member bank deposits--was estimated to have declined from January to February at an annual rate of more than 9 per cent, and after adjustment for a net increase in funds raised from nondeposit sources, at a rate of more than 6 per cent.

System open market operations since the February 10 meeting of the Committee had been directed at fostering somewhat less firm conditions in the money market, in accordance with the Committee's decision at that meeting and in light of the unfolding evidence of weakness in both the money stock and the adjusted bank credit proxy. The money market remained firm for a time as the effects of large-scale reserve supplying operations were offset by such factors as unexpectedly sharp declines in float, but market conditions subsequently eased. Thus, in

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the latter part of February and early March the average Federal funds rate fell below 8.50 per cent from levels well above 9 per cent earlier in February, and in the week ending March 5 member bank borrowings averaged about \$835 million, compared with average weekly levels of more than \$1 billion during February.

Staff projections suggested that money and bank credit would grow at moderate rates over the months ahead if the somewhat less firm conditions recently achieved in the money market were maintained. Specifically, the projections suggested that the money stock would rise on the average from February to March at an annual rate of 4 to 7 per cent, resulting in growth during the first quarter as a whole at a rate of about 2 per cent; and that money would continue to expand in the second quarter, at a rate of about 3 per cent. The adjusted bank credit proxy was projected to increase from February to March at an annual rate of 8 to 11 per cent--resulting in a first-quarter growth rate of 0.5 per cent--and at a rate of about 5 per cent in the second quarter. The projections for the adjusted proxy series were influenced to an important degree by the expectation that time and savings deposits would continue to expand rapidly, but that this would be partly offset by slower expansion and then some decline in bank use of nondeposit funds.

The Committee agreed that growth of money and bank credit during coming months at about the rates projected would be appropriate in the current economic environment. Concern was expressed in the discussion about the risks of unduly large changes in money market conditions. Concern also was expressed about both the danger of excessive

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growth in the aggregates and the risk of shortfalls from desirable growth rates, which some members thought were particularly likely for the money stock in a period of economic weakness such as the present. In view of the importance attached to avoiding such extremes, the Committee decided to convey in its directive the objective of achieving growth in money and bank credit over the months ahead at about the moderate rates indicated, and to call for maintenance of money market conditions consistent with that objective.

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, which leveled off in the fourth quarter of 1969, is weakening further in early 1970. Prices and costs, however, are continuing to rise at a rapid pace. Market interest rates have declined considerably in recent weeks, partly as a result of changing investor attitudes regarding the outlook for economic activity and monetary policy. Both bank credit and the money supply declined on average in February, but both were tending upward in the latter part of the month. Outflows of time and savings funds at banks and nonbank thrift institutions, which had been sizable in January, apparently ceased in February, reflecting advances in rates offered on such funds following the recent increases in regulatory ceilings, together with declines in short-term market interest rates. The U.S. foreign trade surplus narrowed in January and the over-all balance of payments deficit has remained large in recent weeks. 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.

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.

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

Absent and not voting: Mr. Francis.
(Mr. Kimbrel voted as his alternate.)

2. Amendment to continuing authority directive.

At its meeting on October 7, 1969, the Committee had modified paragraph 2 of the continuing authority directive regarding domestic open market operations by adding language authorizing Reserve Banks other than the New York Bank to purchase special short-term certificates of indebtedness from the Treasury for their own account at times when the New York Bank was closed. At this meeting the Committee amended the language adopted at that time for purposes of clarification.

After this amendment, paragraph 2 read as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, if the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate $\frac{1}{4}$ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$1 billion.

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

Absent and not voting: Mr. Francis.
(Mr. Kimbrel voted as his alternate.)

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Another amendment to the continuing authority directive that had been made on October 7, 1969, involved the addition of a paragraph 3 authorizing the Reserve Banks to engage in lending of U.S. Government securities held in the System Open Market Account, under such instructions as the Committee might specify from time to time. That action had been taken on the basis of a judgment by the Committee that in the existing circumstances such lending of securities was reasonably necessary to the effective conduct of open market operations and to the effectuation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager of the System Open Market Account that the lending activity in question remained necessary and, accordingly, that the authorization should remain in effect subject to periodic review.

The Committee also approved certain modifications that had been recommended by the Manager, in light of the operating experience to date, in the instructions it had issued in conjunction with this authorization. Among the more important of these were an increase from \$75 million to \$150 million in the dollar limit on the par value of securities involved in outstanding loans to any individual dealer at any time; a lengthening from three to five business days of the limit on the duration of loans to dealers, with loans remaining

subject to renewal; and certain revisions in the rates to be charged on contracts renewed beyond their initial maturity.

3. Amendment to authorization for System foreign currency operations.

The Committee approved an increase from \$1,000 million to \$1,250 million equivalent in the System swap arrangement with the Bank of Italy, and the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations, subject to the understanding that the action would become effective upon a determination by Chairman Burns that it was in the national interest. Chairman Burns made the indicated determination later on the day of this meeting. As a result of this action, paragraph 2 read as follows:

The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>
Austrian National Bank	200
National Bank of Belgium	500
Bank of Canada	1,000
National Bank of Denmark	200
Bank of England	2,000
Bank of France	1,000
German Federal Bank	1,000
Bank of Italy	1,250
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	300

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<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>
Bank of Norway	200
Bank of Sweden	250
Swiss National Bank	600
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,000

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

Absent and not voting: Mr. Francis.
(Mr. Kimbrel voted as his alternate.)

This action was taken on recommendation of the Special Manager, who advised that it should prove helpful in providing against destabilizing short-run pressures on the lira. It was understood that the U.S. Treasury would concurrently make available a \$250 million swap facility to the Bank of Italy.

4. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1970, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The actions taken with respect to the continuing authority directive for domestic open market operations and the

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authorization for System foreign currency operations have been described in the preceding portions of the record for this date. Except for the changes resulting from those actions, the Committee reaffirmed the two instruments, and also the foreign currency directive, in the form in which they were outstanding at the beginning of the year 1970.

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

Absent and not voting: Mr. Francis.
(Mr. Kimbrel voted as his alternate.)