FEDERAL RESERVE

press release

For immediate release September 18, 1967

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 20, 1967. 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

June 20, 1967

Authority to effect transactions in System Account.

Over-all economic activity was expanding at a modest pace, according to reports at this meeting, and prospects for growth later in the year had strengthened. Staff projections suggested that the current advance in real GNP, though moderate, would turn out to be higher than earlier estimates for the second quarter, and that the rate of growth would accelerate in the third quarter. The projections reflected an expectation that final sales would continue to expand rapidly in the second and third quarters, and that the effect on over-all activity of inventory adjustments--which had resulted in a slight decline in real GNP in the first quarter--would diminish progressively.

The rate of business inventory accumulation declined further in April to a low level. It appeared likely that there would be little, if any, net accumulation of inventories in the second quarter as a whole and that there would be a moderate amount of liquidation in the third quarter. Industrial production fell slightly further in May to a level about 2 per cent below the high of December 1966. Manufacturing employment declined again in May, but the reduction was less than in other recent months. The unemployment rate, at 3.8 per cent, was little changed from the April level.

Government spending remained an important source of economic stimulus, with Federal defense outlays continuing to exceed earlier estimates and State and local government expenditures rising steadily.

The staff projections suggested, however, that the rate of growth in defense outlays would moderate in the second and third quarters, and that private sales would account for a larger proportion of growth in total final sales than they had in the first quarter.

Both consumer expenditures for goods and the volume of residential construction activity appeared to have gained some momentum recently. Retail sales were now reported to have increased in April, contrary to the earlier indication that they had not changed in that month, and the advance estimate for May showed a further rise. Housing starts increased substantially in May, and various factors--including the further rise in building permits issued and the substantial increases in mortgage commitments by major groups of lenders--pointed toward higher expenditures on new housing in the months ahead.

A Commerce-SEC survey of business plans, taken in late April and May, suggested that capital spending would rise moderately in the second half of the year. The survey implied a slightly smaller rise in business outlays on plant and equipment in 1967 as a whole than had the survey taken 3 months earlier--2.9 rather than 3.9 per cent. The downward adjustment, however, was attributable mainly to a larger decline in actual outlays in the first quarter than had been implied by the plans reported earlier; for the last three quarters of the year changes in planned outlays were similar to those that had been indicated in the preceding survey.

Average wholesale prices of industrial commodities remained stable in May. Nevertheless, the over-all wholesale price index rose as prices of farm products and foods increased sharply following 7 months of nearly continuous decline. In April the consumer price index increased somewhat more than it had on the average during the winter and early spring.

With respect to the U.S. balance of payments, the surplus on merchandise trade continued to increase in April and net repayments of borrowings abroad by U.S. banks, which had enlarged the deficit on the "official reserve transactions" basis in the first 4 months of the year, were small in May. However, the available data on changes in U.S. reserves and liabilities in recent months suggested that the underlying payments deficit remained large.

Abroad, bond yields had stabilized or risen recently in a number of industrial countries, interrupting the downward trend of interest rates that had been under way since late in 1966. Conditions in some foreign exchange markets had been unsettled as a result of the Middle-East hostilities in early June.

System open market operations since the preceding meeting of the Committee had been directed toward maintaining prevailing conditions in the money market. The System supplied reserves early in the interval and again near its close, partly through purchases of coupon-bearing Treasury securities. In the intervening period the System sold bills to offset part of the large volume of reserves supplied by declines in Treasury balances at Federal Reserve Banks. On June 15 the Treasury temporarily added to its balances by selling a special certificate of indebtedness in the amount of $87 million to the Federal Reserve. The certificate was redeemed the following day.

Growth in nonborrowed reserves of member banks had moderated further in May, and total reserves had declined slightly. In June aggregate bank reserves were rising relatively slowly. In the 3 weeks through mid-June free reserves averaged about $290 million, little changed from the average of $270 million for all of May and somewhat above the April level (revised) of $200 million. Member bank borrowings declined further to an average of about $75 million in the latest 3 weeks, from $95 million in May as a whole and $150 million in April. The Federal funds rate remained close to 4 per cent and rates on bank loans to Government securities dealers were generally stable.

Interest rates on most types of market securities had risen on balance since the preceding meeting of the Committee, with yields on Treasury securities fluctuating widely. In short-term markets yields advanced on finance company paper, bankers' acceptances, Federal agency securities, and negotiable CD's. In late May and early June the market rate on 3-month Treasury bills extended its earlier persistent decline and on June 5 it reached a low for the year of 3.37 per cent. Subsequently the rate moved up and was about 3.60 per cent on the day before this meeting. Yields on intermediate- and long-term Treasury bonds, which had risen to 1967 highs around mid-May, receded late in that month but then advanced sharply in the first half of June to levels above the May peaks. Corporate bond yields had drifted up further after stabilizing for a time in early June.

The recent increases in short-term interest rates appeared to have been related in part to pressures associated with the mid-June tax and dividend dates. Conditions in financial markets generally, however, were influenced by the continuing heavy volume of flotations of corporate and municipal securities, and by prospects for a very large volume of Federal debt financing in the second half of the year. Public offerings of new corporate bonds in June appeared likely to be about one-fourth larger than the previous monthly record set in March, and an unusually large volume of offerings was already scheduled for the third quarter. It appeared that the Treasury would need to raise a substantial amount of new cash later in the year, although the magnitude of the Federal deficit in the second half of 1967 would depend in large part on the course of defense spending and on the size and effective date of any increase in income taxes, all of which were uncertain at this time. The Treasury was expected to undertake a short-term cash financing in July, but the size, terms, and date of the offering had not been determined as of the date of this meeting.

In May contract interest rates on conventional mortgages on new homes advanced slightly following six consecutive months of decline, and secondary-market yields on Federally-underwritten home mortgages rose fairly sharply. Inflows of funds to depositary-type institutions remained large, but the share of these funds used to expand mortgage holdings continued low. Thrift institutions reportedly were still rebuilding liquidity primarily because of a relative scarcity of mortgages available for immediate acquisition.

At commercial banks business loans outstanding declined in May, but holdings of Treasury and municipal securities increased markedly. With offering rates on negotiable CD's rising, large city banks recovered much of the CD run-off they had experienced in April. Inflows of other time and savings deposits continued large at banks generally, and total time and savings deposits expanded almost as rapidly from April to May as they had earlier in the year. Private demand deposits and the money supply, which had declined from March to April, rose substantially in May. As a result of sharp declines in Government deposits at banks, however, daily-average member bank deposits--the bank credit proxy--increased at an annual rate of only 2 per cent.

In general, the deposit trends of May--rapid increases in time and savings and private demand deposits and sharp declines in Government deposits--appeared to be persisting in June. On balance, however, the bank credit proxy was expected to increase from May to June at an annual rate in the 7 to 8 per cent range. This was faster than from April to May, but considerably slower than in the first 3 months of the year. The probable growth rate of member bank deposits from June to July depended in large measure on the size and timing of the expected Treasury financing. On the assumption that the Treasury would sell, primarily to the banking system, about $4 billion of new securities shortly after mid-July, the bank credit proxy was projected to rise at an annual rate in the 10 to 12 per cent range if money market conditions were unchanged. Continued rapid growth was projected in private demand deposits, as were some slackening in inflows of time and savings deposits and little change in Government deposits.

The Committee decided that it would be appropriate at this time to maintain about the same conditions in the money market as had prevailed since the preceding meeting, partly because of the expected Treasury financing. Various other reasons were advanced by individual members against seeking firmer money market conditions at present. Among these were the current pressures in capital markets, the prospect--which some members thought had been enhanced recently--that action to raise Federal income taxes might be taken soon, and the absence to date of firm evidence that the widely expected upsurge in economic activity had already begun.

While none of the members advocated seeking easier money market conditions, a number expressed concern about the continued uptrend in long-term interest rates, particularly in light of the risk that higher rates might slow the recovery in the housing industry and in the economy generally. Partly for this reason, the Committee agreed that purchases of coupon issues should continue to be utilized in meeting a portion of the needs for reserves that were expected to develop in coming weeks, although some reservations were again expressed concerning the possible adverse effects in the longer run of such purchases on the functioning of the market for coupon issues. Some members favored purchases of coupon issues on other grounds. These included considerations relating to the balance of payments, currently limited market supplies of Treasury bills, and the composition of the System's portfolio of Government securities.

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

> The economic and financial developments reviewed at this meeting suggest that economic activity is rising modestly, and that prospects for economic expansion later in the year have strengthened. Output is still being retarded by adjustments of excessive inventories, but growth in final demands continues strong, reflecting substantial further increases in Government expenditures and also some strengthening of consumer buying. Prices of farm products have turned up recently, but average prices of industrial commodities have remained stable. The pace of bank credit expansion has increased in recent weeks, but is still well below the rapid rate of earlier in the year. Most long-term interest rates have tended to rise further under the influence of heavy securities market financing, and most short-term yields have also increased. The balance of payments deficit has remained substantial despite some improvement in the foreign trade surplus. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions, including bank credit growth, conducive to renewed economic expansion, while recognizing the need for progress toward reasonable equilibrium in the country's balance of payments.
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> To implement this policy, while taking account of expected Treasury financing activity, the timing and quantity of which are still uncertain, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed since the preceding meeting of the Committee, while continuing to utilize operations in coupon issues in supplying part of reserve needs.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Wayne, and Patterson. Votes against this action: None.