FEDERAL RESERVE
press release

For immediate release July 1, 1968

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 April 2, 1968. 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 April 2, 1968

1. Authority to effect transactions in System Account.

The domestic economic situation continued to be characterized by substantial increases in over-all activity and prices. Real GNP was estimated to have grown rapidly in the first quarter and another large rise appeared in prospect for the second quarter. From the preceding autumn, average prices of industrial commodities had advanced through March at an annual rate of about 4.5 per cent, and average consumer prices had risen through February at a rate of nearly 4 per cent. The outlook was for persisting inflationary pressures in the period ahead.

Industrial production was little changed in February; but according to tentative estimates, it had increased moderately in March. Nonfarm employment rose sharply in February, but the labor force also expanded markedly and the unemployment rate increased to 3.7 per cent from 3.5 per cent in January. Weekly retail sales figures for early March suggested that the sharp resurgence of consumer expenditures, under way since the beginning of the year, was continuing.

Consumer spending was expected to increase considerably further in the second quarter, even if a tax increase were enacted, because of the prospective rapid gains in income. In addition, defense outlays were running substantially above the levels that had been anticipated earlier, as had been noted by the President in the March 31 address in which he announced the de-escalation of bombing in North Vietnam. The President also indicated that estimates of defense expenditures in the fiscal year 1969 had been revised upward.

Apart from the consumer and defense categories, changes in activity in broad economic sectors were expected to be relatively moderate in the second quarter. It appeared likely that residential construction activity, which had risen slightly in the first quarter, would change little further. Some increase in the rate of business inventory investment was anticipated, following an apparent slowing in accumulation in the first quarter. On the other hand, growth in fixed investment was expected to level off after a substantial rise in the early months of the year. For 1968 as a whole businesses planned to increase their spending on new plant and equipment by 6 per cent, according to a recent Commerce-SEC survey, compared with a rise in actual outlays of 2 per cent in 1967. The survey indicated that capital spending would increase moderately from the first to the second half of 1968.

Uncertainties continued in the markets for gold and foreign exchange, but the heavy speculative activity of early March abated following the agreement on gold policy reached at the midmonth meeting of gold pool members in Washington. Speculation slackened further after the March 19 announcement by the British Government of a broad program designed to restrict growth of consumer incomes and spending, and after agreement was reached regarding special drawing rights (SDR's) in the International Monetary Fund at the month-end meeting in Stockholm of major industrial countries comprising the "Group of Ten." On March 21 the Bank of England lowered its discount rate from 8 to 7-1/2 per cent. Gold holdings of the U.S. Treasury were reduced in March by $1.4 billion, largely as a result of settlement of the U.S. share of sales by the gold pool before operations of the pool were discontinued at midmonth and of sales to foreign central banks.

Incomplete data on the U.S. balance of payments in the first quarter suggested that the deficit was large on both the liquidity and official settlements bases of calculation, although not so large on either basis as in the fourth quarter of 1967. There had been improvement in flows in some important elements of the capital account, but the surplus on merchandise trade apparently had remained near the low level to which it had fallen in the preceding quarter.

System open market operations in early March--between the meetings of the Committee held on March 5 and March 14--had been directed at achieving somewhat firmer conditions in the money market. Subsequently, operations were directed at confirming the still more restrictive monetary policy signaled by the midmonth increase in the discount rate from 4-1/2 to 5 per cent, while maintaining orderly market conditions. In the last two statement weeks of March net borrowed reserves averaged about $370 million, compared with averages of about $240 million in the first half of the month and of about $90 million in the last half of February. The Federal funds rate moved up to a range around 5 per cent before mid-March and then advanced to a range around 5-1/4 per cent.

Interest rates on most types of market securities fluctuated widely during March but rose on balance. These rate developments reflected events relating to gold, shifts in sentiment regarding prospects for Vietnam peace negotiations and for domestic fiscal action, and the firming of monetary policy. Yields on Treasury securities of all maturities rose sharply until midmonth, when uncertainties in international financial markets were most intense, and subsequently declined somewhat. The swing in the market rate on 3-month Treasury bills was particularly marked; from an early-March level of close to 5 per cent, the rate rose to a peak of 5.45 per cent on March 14 and then fell irregularly to 5.13 per cent on April 1, the day before this meeting. Most other short-term market interest rates were considerably higher on April 1 than they had been 4 weeks earlier, and there had been sizable net increases in yields on long-term corporate and municipal securities.

Growth in bank credit slowed considerably in March, a month in which the Treasury undertook no major financing operations. The bank credit proxy--daily-average member bank deposits--was estimated to have expanded at an annual rate of about 4 per cent, compared with 10 per cent in February. Outstanding business loans at banks increased somewhat, but security loans and holdings of Government securities declined substantially.

With short-term interest rates rising on balance, by mid-March banks were generally offering the ceiling rate of 5-1/2 per cent on large-denomination CD's of all maturities; earlier, the offering rate for shorter-term certificates had been below the ceiling. Nevertheless, banks experienced a substantial decline in outstanding CD's during March. The pace of growth in consumer-type time and savings deposits increased somewhat, however, and total time and savings deposits rose slightly more in March than in the preceding month. Government deposits declined, and private demand deposits increased by a relatively small amount. The money supply grew at a faster rate than in February, with more than half of the expansion reflecting an increase in currency holdings of the public.

In the 4 months through March, time and savings deposits and the money supply had grown at annual rates of about 6.5 and 3.5 per cent, respectively, and the bank credit proxy at a rate of about 5.5 per cent--in each case less than half the rate of the preceding 7 months. Inflows of funds to savings and loan associations and mutual savings banks also had been substantially curtailed in recent months.

Bank credit was projected to change little in April and to expand moderately in May--on the assumptions that the Treasury would raise a substantial volume of new cash in connection with its May refunding but would not undertake a major financing earlier, and that money market conditions would remain unchanged. In an alternative projection, in which a slight firming of money market conditions was assumed, the annual rate of change in the bank credit proxy in April was estimated in a range of +1 to -3 per cent.

It was expected that at the currently higher levels of market interest rates banks would find it more difficult in April to attract consumer-type time and savings deposits and that the banks would experience a further run-off of CD's of greater than seasonal dimensions. As a result, total time and savings deposits were projected to expand at a relatively low rate in April. On the other hand, growth in the money supply was expected to be more rapid than in March, largely as a consequence of a sizable decline anticipated in Government deposits.

The Committee agreed that continued firming of monetary policy was desirable in light of present and prospective inflationary pressures, the highly unfavorable developments of recent months in U.S. foreign trade, the persisting uncertainties in international financial markets, and the still uncertain outlook for fiscal action. Some members expressed the view that circumstances might soon require consideration by the System of a further increase in the discount rate.

At the same time, various reasons were advanced for moving cautiously in firming further through open market operations at present. These included some improvement in prospects for restrictive fiscal action by Congress; it appeared likely that the Senate would take affirmative action shortly on a measure providing for an increase in taxes and a reduction in budgeted Federal expenditures. In addition, it was noted that a considerable degree of monetary restraint had already been achieved, the effects of which were still unfolding, and that there had been insufficient time as yet to determine the economic implications of various recent events, including the de-escalation of bombing in North Vietnam. It also was noted that a marked further firming of monetary policy at this time might have undesirably large adverse effects on flows of funds to financial intermediaries. In this connection, some members foresaw a possible need at a later point for the Board to raise ceiling rates on large-denomination CD's, although none indicated that he thought such action was desirable immediately.

At the conclusion of the discussion the Committee agreed that slightly firmer money market conditions should be sought, but that operations should be modified if unusual liquidity pressures developed or if the change in bank credit appeared to be deviating significantly in either direction from the projection. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting indicates that over-all economic activity has expanded at a very rapid pace in early 1968, with prices rising substantially, and that prospects are for a continuing rapid advance in activity and persisting inflationary pressures in the period ahead. Since late fall, growth rates of bank credit, the money supply, and time and savings accounts at financial institutions have moderated considerably. Speculative activity in gold and foreign exchange markets, which was intense in early March, abated after the midmonth agreement on gold policy by gold pool members and appears to have slackened further following the Stockholm agreement regarding Special Drawing Rights. The foreign trade surplus, however, has remained at a sharply reduced level in recent months and the imbalance in U.S. international payments continues to be a matter of serious concern. Most market interest rates have fluctuated widely, although rising on balance, in reaction to international financial developments, the firming of monetary policy, and uncertainties regarding military and fiscal prospects. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and attainment of 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 attaining slightly firmer conditions in the money market; 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, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

2. Ratification of amendments to authorization for System foreign currency operations.

At this meeting the Committee ratified the actions taken by members on March 16 and 17, relating to the System's swap arrangements with the German Federal Bank and the Bank of England. As indicated in the policy record for March 14, 1968, the members authorized the Special Manager to undertake negotiations looking toward increases of $250 million equivalent and $500 million equivalent, respectively, in the two arrangements, on the understanding that any such increases and the corresponding amendments to paragraph 2 of the authorization for System foreign currency operations would become effective upon a determination by Chairman Martin that they were in the national interest. The Chairman made such a determination on March 17, 1968.

Votes for ratification of these actions: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against ratification of these actions: None.