



# FEDERAL RESERVE

press release

For immediate release

October 13, 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 July 15, 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 July 15, 1969

Authority to effect transactions in System Account.

According to information reviewed at this meeting, real GNP apparently had continued to rise in the second quarter at an annual rate close to that of the first quarter and slightly below the rate of the final quarter of 1968. Average prices, as measured by the GNP deflator, were estimated to have continued upward at the rapid first-quarter pace. There were indications--including further large declines in prices of common stocks--that some attitudes regarding the outlook were beginning to change, but it appeared that inflationary expectations on the whole were still strong.

The latest economic information continued to exhibit the crosscurrents that had been evident in preceding months. Retail sales, according to the advance report, declined in June, and revised estimates for May indicated that they had declined in that month also. On the other hand, industrial production was estimated to have risen considerably further in June, and nonfarm employment expanded more rapidly than in the two preceding months. The labor market remained tight, and the unemployment rate edged down to 3.4 per cent from 3.5 per cent in May.

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Average wholesale prices rose sharply further from mid-May to mid-June as prices of farm and food products again advanced substantially. However, average prices of industrial commodities were unchanged for the first time since mid-1968, as further increases for a variety of commodities, particularly metals and products, were offset by continued marked declines in prices of lumber and plywood. The consumer price index rose much less in May than in March and April--partly because of a smaller advance in service costs, including mortgage interest charges and property taxes--but it appeared likely that the index for June would show a substantial increase. Average hourly earnings continued to advance rapidly in the first half of 1969, although not so rapidly as in late 1968. In the limited number of wage contracts on which negotiations had recently been completed, there had been provision for large increases in wage rates.

Staff projections for the second half of 1969 suggested that expansion of real GNP would slow further--reaching a relatively low rate in the fourth quarter--but that the advance in prices would diminish only moderately from the rapid pace of the first half. Although prospects for congressional action on the administration's tax recommendations were uncertain, the projections assumed that the income tax surcharge would be continued at 10 per cent through the end of 1969 and at 5 per cent in the first half of 1970, and that the investment tax credit would be repealed.

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One of the major forces expected to retard economic growth in the second half was a sharp deceleration in the expansion of fixed capital outlays by businesses, as had been suggested by the recent Commerce-SEC survey. In addition, it appeared likely that outlays on residential construction would decline as a result of limited availability of mortgage funds. Growth in consumer spending was expected to be stimulated temporarily in the third quarter by the Federal pay raise and the ending of retroactive payments on 1968 income tax liabilities, but to slow later on in line with smaller increases in employment and income. Apart from the pay raise, Federal expenditures were expected to remain under substantial restraint.

With respect to the U.S. balance of payments, tentative estimates for the second quarter indicated that the deficit on the liquidity basis had increased substantially further from the high first-quarter rate and that there had been another sizable surplus on the official settlements basis. The liquidity deficit was swollen by very large capital outflows. These included movements of funds into Germany during the period of intense speculation on a revaluation of the German mark in late April and early May and flows of funds to the Euro-dollar market--especially in June--in response to record high interest rates there. There was a sharp decline in foreign purchases of U.S. corporate securities, a shift from inflow to outflow in bank-reported claims on foreigners, and

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apparently some increase in the outflow of direct investment capital. Merchandise exports and imports both increased following the termination of the longshoremen's strike, and in April and May combined there was a very small trade surplus, in contrast to the small deficit of the first quarter.

The second-quarter surplus in the payments balance on the official settlements basis reflected the movements of foreign funds out of other currencies into Euro-dollars that accompanied a huge increase in borrowings by U.S. banks from their foreign branches. These developments were concentrated mainly in June; in the 4 weeks ending June 25, Euro-dollar borrowings of U.S. banks rose by \$3.6 billion to a new high of \$13.6 billion. Some further net increase occurred in early July.

In recent weeks interest rates in the Euro-dollar market had fluctuated below the peaks reached on June 10 but had remained high. On June 26 the Board of Governors announced certain proposals designed to moderate the flow of Euro-dollars between U.S. banks and their foreign branches, including a proposal for a 10 per cent reserve requirement on borrowings by U.S. banks from their branches-- to the extent that these borrowings exceeded the daily-average amounts outstanding in the 4 weeks ending May 28, 1969.

On July 9 and 11 the Treasury auctioned tax-anticipation bills due in December 1969 and March 1970, respectively. Each issue amounted to \$1.75 billion, and payment on each was scheduled

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for July 18. Commercial banks, which were permitted to pay for the bills in full through credits to Treasury tax and loan accounts, successfully bid for the bulk of the issues. The Treasury was expected to announce at the end of July the terms on which it would refund \$3.4 billion of notes maturing in mid-August, of which \$3.2 billion were held by the public. Current estimates suggested that the Treasury also would need to raise some additional new cash during August.

With the banking system remaining under considerable restraint, short-term interest rates recently had risen further on balance. Treasury bill rates fluctuated over an unusually wide range as shifting demand and supply pressures impinged on a market in which dealers were attempting to hold inventories to minimal levels. The market rate on 3-month bills, for example, declined from around 6.50 per cent at the time of the previous meeting of the Committee to about 6.10 per cent in late June in response to strong seasonal demands; the rate then advanced to a range around 7 per cent in reaction to the Treasury's offering of tax-anticipation bills and a large prospective volume of Federal agency financing.

In capital markets, yields on municipal bonds had declined in recent weeks as a result of a sharply reduced volume of current and prospective offerings and light dealer inventories. Yields on

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long-term Treasury and corporate bonds--particularly the latter--also declined for a time in the latter part of June but they turned up near the end of the month, partly because of sizable additions to an already large calendar of corporate offerings. Also contributing to the weakening in the market atmosphere were the delays in congressional action on extension of the income tax surcharge and the announcement by the Federal Reserve of two proposed regulatory actions. These were the proposal on June 26 regarding reserve requirements on Euro-dollar borrowings by U.S. banks and a proposal on June 27 to bring certain Federal funds transactions within the coverage of Regulations D and Q. However, the Government bond market rallied sharply on the Friday before this meeting, following the announcement by a major automobile manufacturer that it had cut back on its capital investment program. On balance, Treasury and corporate bond yields at the time of this meeting were little changed from their levels of 3 weeks earlier.

Secondary market yields on federally underwritten new-home mortgages reached a new high in early July, and the available evidence suggested that mortgage lenders were following highly selective lending policies. Net savings inflows to nonbank thrift institutions slackened considerably in June and for the second quarter as a whole were well below earlier quarters. According to preliminary indications, thrift institutions experienced substantial net outflows of savings in early July, following quarterly interest and dividend crediting.

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System open market operations since the previous meeting of the Committee had been directed at maintaining the firm conditions prevailing in the money and short-term credit markets. Day-to-day variations in the Federal funds rate were more pronounced than earlier, but the average effective rate--approximately 9 per cent--was about the same as in the preceding interval. Member bank borrowings averaged \$1,325 million in the 3 weeks ending July 9, little changed from the previous 4 weeks, and average net borrowed reserves also remained close to their earlier level.

Commercial bank holdings of securities declined slightly in June. Business loans outstanding were unchanged over the month after rising rapidly earlier in the year, and total loans declined slightly. The volume of loans reported as outstanding at the end of June was reduced significantly by sizable sales of loans during the month to bank affiliates, but there apparently had also been some diversion of borrowers' demands to the commercial paper market following the increase in the prime lending rate of banks on June 9.

Total bank credit, as measured by the adjusted proxy series--daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches--was estimated to have declined at an annual rate of about 3 per cent from May to June. The decline in the adjusted proxy series reflected a large reduction in member bank deposits and a partly compensating expansion in the Euro-dollar liabilities of domestic banks to their



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foreign branches. Rough estimates suggested that, if a further adjustment were made for assets sold to affiliates and to customers with bank guarantees, the proxy series would be about unchanged in June.

The money stock was estimated to have increased at an annual rate of about 1 per cent from May to June after declining at a 3 per cent rate in the previous month. The resumption of growth in money reflected an expansion in currency; private demand deposits<sup>1/</sup> declined slightly. U.S. Government deposits were reduced considerably on the average in June. The run-off of large-denomination CD's continued without abatement; since mid-December the outstanding volume of such CD's at weekly reporting banks had contracted by about \$9 billion, or nearly 40 per cent. Other time and savings deposits of banks changed little on the average in June and--as at nonbank thrift institutions--there apparently were substantial net outflows from consumer-type accounts in early July.

Revised staff projections suggested that the adjusted bank credit proxy would decline at an annual rate of 5 to 8 per cent from June to July if prevailing conditions were maintained in money and

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<sup>1/</sup> It was reported at the meeting that, under present accounting procedures for cash items generated by Euro-dollar transactions of U.S. banks, the recent growth in such cash items appeared to be producing some downward bias in measures of private demand deposits--and hence in measures of the money stock and, to a relatively smaller extent, the bank credit proxy. The staff was studying methods for correcting the bias in question. The information on recent and projected changes in these variables presented at the meeting and included in this policy record does not include such corrections.

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short-term credit markets. The projections allowed for some further growth in Euro-dollar borrowings of U.S. banks from the high level of early July, but they did not include any allowance for possible changes in the extent to which banks were utilizing funds from other nondeposit sources. It was noted, however, that banks were likely to continue to increase their reliance on funds from such sources.

With respect to the various categories of deposits, it was expected that private demand deposits--and the money stock--would expand moderately from June to July and that U.S. Government deposits would decline sharply. Also anticipated were a continuing rapid run-off in large-denomination CD's and a reduction in the average level of consumer-type time and savings deposits.

Projections for August suggested only a slight further decline in the average level of member bank deposits. Credit demands in that month were expected to be influenced by dealer and bank support of Treasury financing operations. In addition, with maturities of CD's in August less than in earlier months, it appeared likely that the run-off would moderate; and prospects seemed to favor some net inflow of consumer-type time and savings deposits.

In the Committee's discussion a number of members commented that the response of the economy to existing monetary and fiscal restraints was as yet inadequate. Considerable concern was

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expressed about the persistence of inflationary pressures and expectations and about the uncertain prospects for congressional action on extension of the income tax surcharge.

The members agreed that the forthcoming Treasury refunding militated against any appreciable change in open market policy at this time. Some, however, expressed the opinion that a slight shift toward greater restraint might be warranted. A contrary view was also advanced, favoring a shading toward slightly less restraint in light of the projections for slackened growth in real GNP, recent and prospective changes in bank credit, and the risk that maintenance of current tight money market conditions for an extended period might lead to developments that would necessitate an undesirably large adjustment toward ease later on.

Other members took the intermediate position that further firming would not be appropriate in view of the high degree of restraint already in effect but that, at the same time, the inflationary environment and the uncertain status of tax legislation militated against even a slight move toward easing. In the latter connection, it was noted that any indications that monetary restraint was being relaxed might reinforce inflationary expectations just at a time when signs were beginning to appear that some attitudes about the outlook were changing.

At the conclusion of the discussion the Committee agreed that open market operations should be directed at maintaining the currently prevailing firm conditions in money and short-term credit markets, with the proviso that operations should be modified, to the

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extent permitted by the Treasury refunding, if bank credit appeared to be deviating significantly from current projections. 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, after moderating slightly in the first quarter, has continued at about the same pace since then. Substantial upward pressures on prices and costs are persisting. Market interest rates have fluctuated widely recently, partly because of varying expectations, although credit demands remain relatively strong. Short-term rates on balance have continued under upward pressure, against the background of considerable restraint on the banking system. In June bank credit showed little change, after allowance for assets sold to affiliates and to customers with bank guarantees. Growth in the money supply resumed at a slow pace, and the run-off of large-denomination CD's which began in mid-December continued without abatement. There apparently were substantial net outflows from consumer-type time and savings accounts at banks and nonbank thrift institutions around midyear, following a period of slackened growth. The over-all balance of payments deficit on the liquidity basis rose sharply in the second quarter; there were large outflows into German marks and into Euro-dollar deposits, and there was no significant improvement in net exports. In contrast, there was another large surplus on the official settlements basis as U.S. banks borrowed heavily in the Euro-dollar market. 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, while taking account of the forthcoming Treasury refunding, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the currently prevailing firm conditions in money and short-term credit

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markets; provided, however, that operations shall be modified, to the extent permitted by the Treasury refunding, if bank credit appears to be deviating significantly from current projections.

Votes for this action: Messrs. Martin, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Robertson, Scanlon, Sherrill, and Treiber. Votes against this action: None.

Absent and not voting: Messrs. Hayes and Mitchell. (Mr. Treiber voted as Mr. Hayes' alternate.)