FEDERAL RESERVE

press release

For immediate release

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 September 9, 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 September 9, 1969

1. Authority to effect transactions in System Account.

Revised estimates by the Commerce Department indicated that real GNP had expanded at an annual rate of 2.0 per cent in the second quarter, after rising at rates of 2.5 per cent in the first quarter and 3.5 per cent in the second half of 1968. Average prices, as measured by the GNP deflator, advanced at an annual rate of 5.1 per cent in the second quarter, a little faster than in the first. Staff projections continued to suggest that growth in real GNP would slow further during the second half of 1969, particularly in the fourth quarter, but that upward pressures on prices would diminish only moderately.

Recent economic information offered additional evidence that the expansion in final demands was slowing somewhat. Contrary to earlier indications, both retail sales and nonfarm employment were now estimated to have declined in July, and it was expected that the preliminary estimate of the industrial production index for that month--which had shown a sharp increase--would be revised downward. In August, according to weekly figures, retail sales rose but, after adjustment for price increases, remained below the level of a year earlier. Nonfarm employment advanced at a considerably

slower pace in August than earlier in the year, and tentative indications were that the industrial production index would at most rise only slightly. On the other hand, the unemployment rate edged down to 3.5 from 3.6 per cent in July.

Increases in prices of industrial commodities continued widespread from mid-July to mid-August, and the average rose appreciably. However, the total wholesale price index declined slightly as a result of a reduction in prices of farm and food products. The consumer price index again rose sharply in July, largely because of increases in prices of foods and services.

The staff projection suggested that real GNP would expand in the third quarter at about the second-quarter rate but would rise less in the final 3 months of the year. Growth in private final sales was expected to slow further in the second half, but it appeared likely that the expansion in GNP would be sustained in the third quarter by some increase in business inventory accumulation and by a rise in Federal expenditures resulting from the July pay increase. The projections for the fourth quarter suggested little further change in inventory investment and a renewal of earlier declines in Federal outlays on goods and services.

With respect to other categories of private expenditures, consumer spending was now projected to rise at a slower rate in both the third and fourth quarters than it had in the second,

despite an anticipated increase in the growth rate of disposable income in the third quarter. Declines in residential construction outlays were expected to continue. The latest Commerce-SEC survey of business plans, taken in August, suggested that spending on new plant and equipment would rise more in the third quarter than the May survey had indicated but that such spending would remain about unchanged in the fourth quarter. For 1969 as a whole, the survey implied a level of capital outlays 10.6 per cent above that of 1968, compared with the increases of 12.6 and 14 per cent, respectively, that had been indicated by the surveys taken in May and February.

The deficit in the U.S. balance of payments on the liquidity basis remained very large in both July and August. The official settlements balance was in surplus for July as a whole, mainly because of a large increase in outstanding Euro-dollar borrowings of U.S. banks in the first half of the month. In August, however, when there was a much smaller increase in such borrowings, the payments balance shifted into deficit on the official settlements basis also. Both exports and imports declined in July, but imports fell more and a slight surplus was recorded in merchandise trade that month.

Following the announcement of the devaluation of the French franc on August 8, interest rates in the Euro-dollar market reversed the decline that had been under way since early July, and conditions in foreign exchange markets became unsettled; sterling, the lira, and

the Belgian franc were under selling pressure, and the guilder and mark were in strong demand. Although activity in the exchange markets was greatly reduced after mid-August, uncertainties persisted--partly because of possibilities of a revaluation of the mark following the German elections scheduled for September 28. In mid-August the Bank of Italy increased its basic discount rate from 3-1/2 to 4 per cent.

On August 20 the Treasury auctioned a $2.1 billion strip of bills consisting of additions to outstanding issues maturing from mid-September to late October. Commercial banks, which were allowed to make payment for the new bills through credits to Treasury tax and loan accounts, bid successfully for the bulk of the offering. The Treasury was expected to announce around mid-September the terms on which it would refund notes and bonds maturing on October 1, of which the public held about $5.6 billion.

In the early part of September the Treasury's cash balances at both commercial banks and Federal Reserve Banks had been drawn down to quite low levels. The Treasury temporarily financed part of its cash needs by selling $322 million of special short-term certificates of indebtedness to the Federal Reserve on September 5. It appeared likely that the Treasury would experience further cash drains prior to the mid-September tax date and would need to borrow a substantial amount of additional funds directly from the System in the period through midmonth.

After declining somewhat in earlier weeks, long-term interest rates turned up around mid-August and subsequently reached new highs in an atmosphere of renewed concern over the persistence of inflationary pressures and expectations of continuing monetary restraint. The advances in yields also reflected a sizable volume of new issues by various Federal agencies, a growing calendar of new corporate bonds, and the possible offering of an intermediate-term issue in the Treasury's forthcoming refunding. The volume of State and local government securities coming to market had remained relatively light, as many potential issuers had been unable to offer bonds because market interest rates exceeded statutory ceilings. However, uncertainties arising out of legislative proposals affecting the tax-exempt status of municipal obligations and further reductions in bank holdings had contributed to sizable increases in yields on such obligations.

Most short-term interest rates, while fluctuating over a fairly wide range, had changed little on balance since the previous meeting of the Committee. The market rate on 3-month Treasury bills, which ranged from about 6.75 to 7.15 per cent over the interval, was at 7.09 per cent on the day before this meeting--up slightly from its level 4 weeks earlier.

System open market operations since the previous meeting had been directed at maintaining firm conditions in the money and short-term credit markets. Operations were complicated over much of the

period by the alternating tendencies towards tautness and ease in the money market and in early September by the sizable declines in the Treasury's cash balances at Reserve Banks. The Federal funds rate fluctuated widely, but the average effective rate--about 9 per cent--was approximately the same as in the previous interval. Member bank borrowings averaged $1,250 million in the 4 weeks ending September 3, unchanged from the preceding 4 weeks, and average net borrowed reserves also were little changed from their earlier level.

Preliminary estimates suggested that commercial banks had increased their holdings of U.S. Government securities in August in connection with bank underwriting of the tax-anticipation bills sold by the Treasury late in the month. However, bank holdings of municipal and Federal agency securities decreased substantially for the second consecutive month. Business loans outstanding, which had changed little in June and July, rose considerably during August but other loans declined by a nearly equal amount.

Total bank credit, as measured by the adjusted proxy series--daily-average member bank deposits, adjusted to include changes in the daily average of liabilities of U.S. banks to foreign branches--declined at an annual rate of about 10 per cent from July to August. It was estimated that with a further adjustment for funds raised from nondeposit sources other than Euro-dollars, the proxy series would have declined at an annual rate of about 8 per cent. The volume of

funds raised through sales of commercial paper by bank affiliates increased somewhat further on the average in August, but outstanding loans sold to nonbank customers under repurchase agreements declined. As a result of an action taken by the Board of Governors in late July, any such repurchase agreements entered into on or after July 25 became subject to Regulations D and Q on August 28.

Private demand deposits and the money stock were estimated to have decreased from July to August--the latter at an annual rate of about 5-1/2 per cent--as U.S. Government deposits rose somewhat on the average following 2 months of substantial decline. There was a further sizable reduction in the outstanding volume of large-denomination CD's, notably at banks outside of New York and Chicago. Net outflows of other time and savings deposits continued, although they were considerably smaller than those in July, following midyear interest crediting. At nonbank thrift institutions, which also had experienced sizable net outflows of savings funds in early July, flows appeared to have remained relatively weak in the first half of August.

Staff projections suggested that the average level of member bank deposits would increase at an annual rate of 2 to 5 per cent from August to September if prevailing conditions were maintained in money and short-term credit markets. It was thought likely that there would be little net change in the combined total outstanding of

Euro-dollar liabilities of banks, funds raised by sales of loans under RP's, and funds raised through sales of commercial paper by bank affiliates. Expectations with regard to Euro-dollar borrowings by U.S. banks were affected by the fact that on August 13 the Board of Governors had established a 10 per cent marginal reserve requirement on such borrowings by member banks. The reserve requirement was to be met beginning with the week of October 16, based on an initial 4-week computation period beginning September 4.

All of the increase in the average level of member bank deposits anticipated in September reflected an expected sharp rise in U.S. Government deposits; both private demand deposits--as well as the money stock--and time and savings deposits were projected to contract further. It appeared likely, however, that the rate of reduction in time and savings deposits would moderate from that experienced earlier in the summer, because a smaller volume of large-denomination CD's would be maturing and because prospects were for somewhat less weakness in other time and savings deposits.

The Committee decided that no change in monetary policy should be made at this time, both on general economic grounds and in light of the forthcoming Treasury refunding. Note was taken of the indications that the rate of real economic growth was slowing, but it was agreed that the persistence of strong inflationary pressures and expectations militated against a relaxation of monetary

restraint at present. At the same time, a number of members emphasized the desirability of avoiding any firming in the stance of policy.

The Committee concluded that open market operations should be directed at maintaining the prevailing firm conditions in money and short-term credit markets, subject to the proviso that operations should be modified, to the extent permitted by the Treasury refunding, if bank credit appeared to be deviating significantly from current projections. It was also agreed to renew the additional provisos that had been included in the previous directive; these called for modification of operations if pressures arose in connection with foreign exchange developments or in connection with regulatory actions taken by the Board of Governors.

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

> The information reviewed at this meeting indicates that expansion in real economic activity slowed somewhat in the first half of 1969 and some further moderation during the second half is projected. Substantial upward pressures on prices and costs are persisting. Long-term interest rates recently have risen to new peaks, while short-term rates have changed little on balance. In August the money supply decreased while U.S. Government deposits rose somewhat; bank credit declined further on average; the run-off of large-denomination CD's continued without abatement; and there were further net outflows from consumer-type time and savings accounts at banks. The U.S. foreign trade surplus was very small in July. The over-all balance of payments deficit on the liquidity basis remained very large in both July and August, while the balance on the official settlements basis shifted into deficit in August as U.S. banks' borrowings of Euro-dollars leveled off. 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 sustainable 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 prevailing firm conditions in money and short-term credit 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 or if pressures arise in connection with foreign exchange developments or with bank regulatory changes.

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Scanlon, and Sherrill. Votes against this action: Messrs. Maisel and Mitchell.

Absent and not voting: Messrs. Daane and Robertson.

Messrs. Maisel and Mitchell dissented from this action for reasons similar to those underlying their dissent from the directive adopted at the previous meeting. They believed that in measuring the degree of monetary firmness or restraint the Committee should give more weight to movements in key monetary aggregates--such as the money stock, private demand deposits, total and nonborrowed reserves, and bank credit--and in longer-term interest rates. In their judgment, the fact that the monetary aggregates had been declining and longer-term interest rates had been rising in recent weeks indicated that restraint had been steadily increasing, even though money market conditions had been relatively stable. They favored maintaining the over-all posture of restraint measured in terms of such aggregates and interest rates, and permitting more flexibility in money market conditions in order to do so.

2. Amendment to continuing authority directive.

The Committee amended paragraph 2 of the continuing authority directive to the Federal Reserve Bank of New York regarding domestic

open market operations, to increase the dollar limit on Federal Reserve Bank holdings of short-term certificates of indebtedness purchased directly from the Treasury from $1 billion to $2 billion. With this change, paragraph 2 read as follows:

> 2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (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 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 $2 billion.

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Maisel, Mitchell, Scanlon, and Sherrill. Votes against this action: None.

Absent and not voting: Messrs. Daane and Robertson.

This action was taken on recommendation of the System Account Manager, who advised that the Treasury's needs for temporary accommodation might well exceed the existing $1 billion limit in the period before the mid-September tax-payment date. It was agreed that the limit in question would revert to $1 billion at the close of business on October 7, 1969, the day on which the next meeting of the Committee was scheduled, unless otherwise decided by the Committee on or before that date.

3. Ratification of amendment to authorization for System foreign currency operations.

The Committee ratified an action taken by members on August 27, 1969, effective September 2, 1969, to increase the System's swap arrangement with the National Bank of Belgium from $300 million to $500 million equivalent, and to make the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations. As a result of this action, paragraph 2 of the authorization read as follows:

> 2. 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:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	100
National Bank of Belgium	500
Bank of Canada	1,000
National Bank of Denmark	100
Bank of England	2,000
Bank of France	1,000
German Federal Bank	1,000
Bank of Italy	1,000
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	300
Bank of Norway	100
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 ratification of this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Maisel, Mitchell, Scanlon, and Sherrill. Votes against ratification of this action: None.

Absent and not voting: Messrs. Daane and Robertson.

The action in question had been taken by members on recommendation of the Special Manager of the System Open Market Account. The latter had advised that the increase in the swap line would be helpful in permitting the National Bank of Belgium to cope with short-run speculative pressures on the Belgian franc arising out of the recent devaluation of the French franc and would thus contribute to stability in foreign exchange markets.