



FEDERAL RESERVE

press release

For immediate release

September 21, 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 June 23, 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 June 23, 1970

Authority to effect transactions in System Account.

Information reviewed at this meeting suggested that real economic activity was changing little in the second quarter of 1970 after having declined at a 3 per cent annual rate in the first quarter. Prices and costs generally were continuing to rise at a rapid pace, although some important components of major price indexes recently had shown moderating tendencies. Staff projections suggested that growth in real GNP would resume after midyear--although the increase projected for the second half had again been revised downward somewhat--and that the rate of price advance would slow as the year progressed.

Retail sales edged down in May, according to advance estimates, after rising substantially in April. Industrial production declined appreciably in May, and was about 3 per cent below its July 1969 peak. The labor market continued to weaken: the unemployment rate rose to 5.0 per cent, its highest level in more than 5 years; nonfarm payroll employment declined significantly; and the factory workweek was shortened slightly further. Some of the recent reductions in output and employment were attributable to the effects of strikes in the trucking industry and elsewhere.

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Average wholesale prices increased somewhat from mid-April to mid-May, following no change in the month ending in mid-April. In both months prices of industrial commodities advanced and prices of farm products and foods declined. The consumer price index continued to rise at a rapid rate in May.

The staff estimate that real GNP would change little in the second quarter was based mainly on the expectation that inventory investment would level out following the substantial reduction earlier in the year. It now appeared that growth in consumer spending in the second quarter would remain close to the first-quarter rate, and that the unusually large rise in disposable income resulting from retroactive increases in Federal pay and social security benefits would be reflected in a sharply higher rate of personal saving.

With respect to the outlook for the second half of the year, the increases projected earlier for both inventory investment and final sales had been revised downward somewhat. Among major categories of final sales, it was now expected that State and local government outlays would rise somewhat less than earlier projections had suggested and that business fixed investment would turn down in the fourth quarter instead of leveling off. It was still anticipated that Federal expenditures would decline further, that consumer spending would continue upward at a moderate rate, and that residential construction outlays would turn up later in the year.

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The U.S. balance of payments was in very heavy deficit in April and May, according to preliminary data. Because there was a net increase in Euro-dollar borrowings by U.S. banks over these 2 months, the deficit on the official settlements basis was not quite so large as that on the liquidity basis.

In foreign exchange markets the major development in recent weeks had been the decision by the Canadian Government, effective June 1, to allow the exchange rate for the Canadian dollar to float temporarily. This action, which was coupled with a reduction in the Bank of Canada's discount rate from 7-1/2 to 7 per cent, followed very strong gains in Canadian reserves since the beginning of the year. Reaction to the Canadian move tended to add to demands for certain other currencies, including the German mark--which was already in strong demand partly as a consequence of tightness in German credit markets. Tight credit conditions in Germany also were exerting upward pressure on Euro-dollar interest rates in June.

Conditions in domestic financial markets had been highly unsettled at the time of the May 26 meeting of the Committee. During the following week they calmed considerably, and yields on long-term Treasury, corporate, and municipal bonds moved down from their late-May peaks. Contributing to the improvement were: the partial recovery of common stock prices following the sharp, sustained decline that had been under way since early April; the sizable volume of Treasury notes and

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bonds, as well as bills, purchased by the Federal Reserve; and some temporary abatement of the heavy flow of new corporate and municipal security offerings, partly as a result of cancellations and postponements of previously scheduled issues. The calendar of new offerings was still substantial, however, and a resumption of upward pressures on long-term interest rates carried corporate yields to new peaks in mid-June. Market conditions remained sensitive throughout the period, and the prevailing uncertainties were aggravated a few days before this meeting when a major railroad corporation indicated that it was insolvent and was unable to pay off maturing commercial paper.

In short-term markets, interest rates on commercial paper had advanced somewhat recently, and investors in such paper reportedly were becoming increasingly selective. However, most other short-term rates had declined in recent weeks. The market rate on 3-month Treasury bills, at about 6.55 per cent on the day before this meeting, was approximately 45 basis points below its level of 4 weeks earlier.

System open market operations since the preceding meeting had been directed mainly at moderating pressures in financial markets. For this purpose the System provided reserves actively, buying Treasury securities or arranging repurchase agreements on most days in the interval. The effective rate on Federal funds was held for the most part at 8 per cent or below. Average member bank borrowings

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varied over a wide range, from a high of \$1.2 billion in the statement week ending June 3 to a low of \$650 million 2 weeks later.

Earlier on the day of this meeting the Board of Governors had amended Regulation Q, effective the next day, to suspend interest rate ceilings on CD's and other single-maturity time deposits in denominations of \$100,000 and over with maturities of 30 through 89 days.^{1/} This action was taken in recognition of the possibility that current uncertainties in financial markets, including the commercial paper market, could result in unusual demands upon commercial banks for short-term credit accommodation.

During the course of May the outstanding volume of large-denomination CD's of all maturities had declined slightly. Growth in such CD's had been substantial from early February through mid-April, but had slowed considerably in the latter part of April when increases in interest rates on competitive short-term securities reduced the relative attractiveness of CD's offered at then-prevailing ceiling rates. Inflows of other types of time and savings funds at banks--and at nonbank thrift institutions--had remained sizable in May.

The annual rate of increase in the money stock from April to May was about 4 per cent--less than half the rate estimated at the time of the May 26 meeting and even further below the rapid rates

^{1/} The ceiling rates on such deposits had been 6-1/4 and 6-1/2 per cent for maturities of 30-59 days and 60-89 days, respectively.

experienced in March and April. According to tentative estimates, the money stock was declining slightly on the average in June. These estimates implied that the annual rate of growth of money over the second quarter^{2/} would be about 4.5 per cent, compared with 3.8 per cent in the first quarter.

The bank credit proxy--daily-average member bank deposits--was about unchanged on the average in May after adjustment for an increase in banks' use of funds from nondeposit sources. In March and April the adjusted proxy series had risen considerably. Tentative estimates suggested that the adjusted proxy series was expanding at a substantial rate in June; and that its growth over the second quarter would be at an annual rate of about 7 per cent, following the 0.5 per cent increase of the first quarter.

Staff analysis suggested that if prevailing money market conditions were maintained the money stock would increase at an annual rate of about 5 per cent over the third quarter--growing somewhat faster than this from June to July and then slowing as the quarter progressed. It was expected that growth in time deposits--and, consequently, in the bank credit proxy--would be stimulated by the Board's suspension of Regulation Q ceiling rates on large-denomination CD's of less than 90 days maturity. According to a rough estimate presented at the meeting, the adjusted proxy series might grow in

^{2/} Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

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the third quarter at an annual rate of about 9 per cent. It was noted, however, that any such estimates were highly uncertain in part because of the difficulties of foreseeing the extent to which credit flows would be shifted to banking channels from the market.

The Committee concluded that uncertainties and strains in financial markets remained sufficiently great to warrant giving continued priority in open market operations to the objective of moderating pressures in those markets. The members also decided that, to the extent compatible with that course, operations should be directed at fostering moderate growth in money and bank credit in the longer run--including growth in money over the third quarter at about the 5 per cent annual rate indicated by the analysis noted above. It was agreed that more rapid growth in bank credit than contemplated earlier would not necessarily be inconsistent with the Committee's longer-run objective; to the extent that the Board's Regulation Q action resulted simply in a shift of credit flows from market to banking channels, it would not involve an increase in over-all credit flows.

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 is changing little in the current quarter after declining appreciably earlier in the year. Prices and costs generally are continuing to rise at a rapid pace, although some components of major price indexes recently have shown moderating tendencies.

Since late May market interest rates have shown mixed changes following earlier sharp advances, and prices of common stocks have recovered part of the large decline of preceding weeks. Attitudes in financial markets continue to be affected by uncertainties and conditions remain sensitive, particularly in light of the insolvency of a major railroad. In May bank credit changed little and the money supply rose moderately on average, following substantial increases in both measures in March and April. Inflows of consumer-type time and savings funds at banks and nonbank thrift institutions have been sizable in recent months, but the brief spring upturn in large-denomination CD's outstanding at banks has ceased. The over-all balance of payments was in heavy deficit in April and May. 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, in view of persisting market uncertainties and liquidity strains, open market operations until the next meeting of the Committee shall continue to be conducted with a view to moderating pressures on financial markets. To the extent compatible therewith, the bank reserves and money market conditions maintained shall be consistent with the Committee's longer-run objective of moderate growth in money and bank credit, taking account of the Board's regulatory action effective June 24 and some possible consequent shifting of credit flows from market to banking channels.

Votes for this action:

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

Absent and not voting: Mr. Hayes.
(Mr. Treiber voted as his alternate.)