When, in late September, Congress enacted legislation granting the Federal Reserve and other financial regulatory agencies temporary additional authority for establishing maximum rates payable on deposits and shares, the Federal Reserve acted promptly to reduce the ceiling rates commercial banks could pay on consumer-type time deposits. This was part of a coordinated effort by the regulatory agencies to limit further escalation of interest rate competition among depositary institutions for consumer saving.

A reduction in the overall degree of monetary restraint was not possible, however, as long as the pace of aggregate economic activity continued to outstrip the growth in resources, and prices remained under strong upward pressure. Federal spending contributed to the rising pressures on the economy, as expenditures increased much more rapidly than revenues. The Federal Government's budget, on the national income accounts basis, moved from a surplus position in the spring to a deficit after midyear. Through August, industrial production and wholesale prices continued to rise rapidly, spurred not only by the sharp acceleration in defense spending but also by continued large increases in business outlays for capital equipment and a rebound in consumer spending, particularly for durable goods.

In September, several fiscal actions were proposed by the President, and subsequently enacted by the Congress, that helped share the task of containing inflationary pressures in the economy. The suspension of the investment tax credit and accelerated depreciation provisions was directed at one of the major expansionary forces in the economy, business capital outlays. Moreover, the President's announcement of intended reductions in lower priority Federal expenditures indicated another area where action to moderate inflationary pressures would be taken.

The monetary and fiscal actions undertaken to convert an overexuberant economy to one expanding at a slower but healthier rate were successful. By fall, business plans for capital spending were being tailored to a more sustainable rate, any new orders for durable goods began to level off. The rise in prices began to slow, too, principally in reflection of larger supplies of agricultural products, but also because demand pressures for some materials were subsiding.

Responding to these signs and portents of abatement in inflationary pressures, monetary policy promptly moved to relax the degree of credit restraint. By November, the provision of reserves to the banking system through open market operations began to increase, and in December, the Board announced that the special discount arrangements outlined in the September 1 letter were no longer needed. Bank credit, which had contracted over the summer and early fall, began a vigorous expansion in December that has continued through the early weeks of 1967. The expansion in bank credit in December was at a 9-percent annual rate, and preliminary estimates put the January expansion at around 15 percent.

Market interest rates have declined substantially from their late summer peaks. For example, yields on new prime corporate bonds have fallen by about a full percentage point and delines in Federal, State, and local bond yields range from a half to a full percentage point. At the moment, bond yields are at their lowest levels in over a year.