FORTY-FIFTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1958

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1958

Period	Action	Purpose of action
January	Limited net reduction in holdings of U. S. Government securities to $900 million, more than half of which represented securities held under repurchase agreement at end of year. Member bank borrowings declined to an average of $450 million.	To ease reserve positions by absorbing only part of the reserves made available by seasonal factors affecting bank reserve positions.
January	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To recognize that dangers of excessive use of credit for stock market speculation had subsided, since stock prices and the volume of credit in the stock market had declined to levels near or below those prevailing at the time of the previous increase in requirements.
January–February	Reduced discount rates from 3 to 2¾ per cent at 11 Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and increase further the availability of bank reserves in order to encourage bank credit and monetary expansion conducive to resumed growth in economic activity.
February	Reduced reserve requirements on demand deposits from 20 to 19½ per cent at central reserve city banks; from 18 to 17½ per cent at reserve city banks; and from 12 to 11½ per cent at country banks, thus freeing an estimated $500 million of reserves.	
March	Reduced discount rates from 2¾ to 2¼ per cent at 11 Reserve Banks and from 3 to 2¼ per cent at one Reserve Bank.	
March	Reduced reserve requirements on demand deposits from 19½ to 19 per cent at central reserve city banks; from 17½ to 17 per cent at reserve city banks; and from 11½ to 11 per cent at country banks, thus freeing an additional $500 million of reserves.	
February–Mid-April	Purchased about $450 million of U. S. Government securities. Member bank borrowings declined further to an average of about $180 million.	To supplement reserve requirement actions in further increasing the availability of bank reserves.
April	Reduced reserve requirements on demand deposits from 19 to 18 per cent (in two stages) at central reserve city banks and from 17 to 16½ per cent at reserve city banks, thus freeing a total of about $450 million of reserves.	To supplement previous actions to encourage bank credit and monetary expansion and resumed growth in economic activity and to offset current gold outflow.
April–May	Reduced discount rates from 2¼ to 1¾ per cent at all Reserve Banks.	
Mid-April–June	Purchased outright about $1.7 billion net of U. S. Government securities. Member bank borrowings declined further to an average of $100 million at the end of June.	
July–early August	Bought a small volume of U. S. Government securities other than short-term issues and a large amount of securities involved in a Treasury refinancing. Promptly thereafter reduced Treasury bill holdings substantially.	To correct disorderly conditions in the Government securities market, to facilitate the Treasury refinancing, and then to recapture the bank reserves created by the earlier securities purchases.
August	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities. The volume of credit in the stock market and stock prices were advancing sharply and were at or near the highest levels since World War II.
August–early September	Made little change in holdings of U. S. Government securities. Member bank borrowings increased to an average of more than $400 million in early September.	Open market action not taken to offset drains on reserve funds reflecting bank credit and monetary expansion resulting from seasonal factors and the sharp upturn in economic activity.
August–September	Raised discount rates from 1¾ to 2 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with market rates and to increase the cost of borrowing by individual banks from the Reserve Banks in case of increasing demands for bank credit.
October	Raised margin requirements on loans for purchasing or carrying listed securities from 70 to 90 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities.
Late October–early November	Raised discount rates from 2 to 2½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market rates.
Mid-November–December	Increased system holdings of U. S. Government securities about $900 million, including securities held under repurchase agreement. Member bank borrowings rose to average of $560 million in December.	To meet part of reserve needs associated with seasonal factors and a further moderate outflow of gold.

February 11, 1958

Authority to effect transactions in System Account.

The Committee again renewed without change the policy directive that placed emphasis upon operations in the System Account with a view to cushioning adjustments and mitigating recessionary tendencies in the economy.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, and Williams. Votes against this action: none.

Recession in general activity had continued during the month of January and signs of leveling out were not yet at hand. The declines were again general, but they were greatest in durable goods and related industries. The length of the work week had fallen to the lowest level of the postwar period, and by mid-January unemployment had risen close to the postwar peak of 4.7 million that prevailed in February 1950. Manufacturers' new orders for December showed a 2 per cent drop from November and were down 7½ per cent over the year, with new orders for durable goods running a fifth below the previous year. Business inventory liquidation had continued in December, mainly concentrated in durable goods manufacturing, but despite such liquidation the stock-sales ratio rose further to the highest level in a decade. January retail deliveries of new automobiles were some 20 per cent lower than deliveries in the previous month or in January 1957. Preliminary estimates suggested a further decline in gross national product for the first quarter of 1958 of from $4 to $5 billion, annual rate, putting total product back to the level of the first quarter of 1957. Exports in December were down sharply after two months of stability. Favorable factors included total construction activity, which continued at close to record levels in January, and total retail sales including those at department stores.

While business loans at city banks were liquidated in a record-breaking amount during January, the banks had increased their holdings of securities since the end of November. As a result, total loans and investments rose more in December and decreased less after the turn of the year than they did in 1957 or 1956. Time de-

posits at city banks advanced even more sharply in January 1958 than in the same month of the previous year. New security issues by State and local governments were proceeding in record-breaking volume, with some issues which were deferred in 1957 now being brought to the market. Short-term interest rates had declined to the lowest levels since early 1955, while long-term rates had been somewhat firmer during the past two or three weeks. Reserves to cover credit demands had been abundantly supplied through market factors and System operations. Additions to System holdings of Government securities had been much larger in December than usual, while the January decline was smaller than usual. The result was that the reserve position of member banks had shifted from net borrowed reserves of over $300 million during the last week of November to free reserves of over $200 million in the past two weeks. Projections indicated that free reserves might fluctuate around this level during February and increase sharply, though temporarily, in the first half of March unless offset by System operations.

It was the view of the Committee that the policy that it had been following had resulted in placing the System in a quite appropriate posture. If later on there were clear indications that the recession was spiraling, more drastic action might be required. Accordingly, for the present it was felt that the Committee should continue to follow an "even keel policy tipped on the side of ease." In these circumstances, no change was made in the existing policy directive.

March 4, 1958

1. Review of continuing authorities or statements of policy.

This being the first meeting of the Federal Open Market Committee after the new members elected by the Federal Reserve Banks for the year beginning March 1, 1958 had assumed their duties, the Committee reviewed and reaffirmed all continuing statements of policy and authorities for operations. These included the following:

a. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

b. Operations for the System Account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

Votes for this action: Messrs. Martin, Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Vardaman. Vote against this action: Mr. Hayes, Vice Chairman.

Mr. Hayes stated that he would vote to approve the statement if the qualifying phrase, "as a general rule," were inserted after "shall" in the second and fourth lines.

c. Transactions for the System Account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Votes for this action: Messrs. Martin, Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Vardaman. Vote against this action: Mr. Hayes, Vice Chairman.

Mr. Hayes stated that he would vote to approve the action if the word "solely" were deleted from the second line and "primarily" substituted therefor, and if the phrase "as a general rule" were inserted after "shall" in line three.

2. Authority to effect transactions in System Account.

Clause (b) of paragraph (1) of the directive was changed at this

meeting to provide that, among other things, open market transactions would be with a view "to contributing further by monetary ease to resumption of stable growth of the economy." The Committee also deleted from the directive the paragraph authorizing the sale direct to the Treasury from the System Open Market Account for gold certificates of such amounts of Treasury securities maturing within one year as might be necessary from time to time for the accommodation of the Treasury up to an aggregate amount of $500 million face amount.

Votes for these actions: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Vardaman. Votes against these actions: none.

During recent weeks, business activity had shown indications of deepening recession. A further decline during February indicated that the Board's index of industrial production for that month would be about 10 per cent under the mid-1957 high. Employment had continued to decline and unemployment to rise. Preliminary data from a survey of plans for plant and equipment expenditures during 1958 pointed to a decrease for the year of 10 per cent, whereas a similar survey made in the fall of 1957 indicated a decline of 7 per cent. Although the housing market appeared to be holding fairly strong, the over-all summary of economic conditions at the time of this meeting was described as one of little cheer.

The volume of free reserves had increased during late February, reflecting among other factors a reduction in reserve requirements ordered by the Board of Governors of the Federal Reserve System. At the same time the Committee authorized by telegram the maintenance of a somewhat higher level of free reserves than had been contemplated at the February 11 meeting.

In the market, an expansion in the total volume of bank credit had taken place during February. Business borrowing had been sharply reduced in the past 90 days, but the banks, supplied with ample reserves, had expanded holdings of securities and loans on securities, particularly in February, in contrast with the customary seasonal reduction at that time.

The Committee's discussion of the situation disclosed considerable feeling that the policy directive should reflect a more positive approach to recovery than was embodied in the wording calling for "cushioning adjustments and mitigating recessionary tendencies in the economy." Agreement was reached on the change indicated, namely, that during the period following this meeting open market operations should be with a view to "contributing further by monetary ease to resumption of stable growth of the economy."

The Committee also discussed whether the discount rates at the Federal Reserve Banks should be reduced further from the prevailing level of 2¾ per cent, concluding that the matter should take its course at the respective Federal Reserve Banks.

Elimination from the directive of the third paragraph authorizing the sale direct to the Treasury from the System Open Market Account for gold certificates of Treasury securities up to an aggregate of $500 million resulted from the belief that under current circumstances, including the action taken by the Congress to increase the national debt limit from $275 to $280 billion, such an authorization was not likely to be used.

March 25, 1958

Authority to effect transactions in System Account.

The Committee renewed without change the directive approved at the meeting on March 4, 1958, which called for transactions in the System Open Market Account with a view, among other things, to contributing further by monetary ease to resumption of stable growth of the economy.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

Economic information presented to the Committee indicated a likelihood that industrial production during March would fall below the rate for February, which was 130 per cent of the 1947-49 average. The February figure represented a decline from 135 in December 1957 and 145 last August, which meant that in the six months from August to February industrial production had declined a little more rapidly than in the corresponding periods of early recession in 1948-49 and 1953-54. Employment had continued to decline in both manufacturing and nonmanufacturing lines, with the decrease particularly marked in durable goods industries. Unemployment had risen sharply to 5.2 million in February, the number of workers on part time had increased further, and the number working overtime had continued to decline. Meanwhile, however, both consumer and wholesale prices were appreciably higher in February than in December, reflecting principally higher prices of food products and higher charges for services. Inventory liquidation was proceeding at a rather rapid pace, while business outlays for plant and equipment were continuing downward, with no turning point yet in sight. Although consumer buying had been well sustained, the February figures on retail sales were below the same month last year and it appeared that this trend might be continuing in March.

In the securities markets, stock prices had moved up irregularly and high-grade corporate bond prices had declined slightly since late January. A more than seasonal reduction in bank loans to business had accompanied declines in economic activity and business inventories, but the banks had been increasing their investments since late in the fall of 1957 and total bank credit outstanding had increased at a season when a decrease is usual. Corporations had obtained large amounts of new capital, and borrowing by the Treasury and other Government entities had been large.

There had been a fair degree of stability in activity abroad. Although the leveling off in activity overseas had had a disproportionate impact on exports from this country, the major part of the downward adjustment in exports appeared to have been completed. Thus far, the recession in the United States had had only a limited impact on the industrialized European countries.

The record of free reserves and short-term interest rates since the last Committee meeting suggested that the degree of ease desired by the Committee had been achieved. However, there was at the same time an occasional tendency for a feeling of relative tightness to develop temporarily in the money centers. The commercial banks, generally speaking, seemed to have adequate reserves at their disposal for the expansion of credit, but it appeared that the reduced level of liquidity which came about in the late stages of the 1955-57 boom might still be exerting some dulling effect on their attitudes toward