

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 2½ 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.	
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.	

Period	Action	Purpose of action
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.

reserve requirements of member banks since February 26 and an additional \$250 million had been supplied by System open market operations through April 9. Reserves had been absorbed by an increase in required reserves of about \$200 million resulting from growth in deposits, a rise in currency in circulation, foreign operations, consisting principally of gold withdrawals amounting to about \$400 million, and changes in float and other factors. Free reserves in the aggregate had averaged somewhat in excess of \$500 million. Although country banks appeared to be well supplied with reserves, banks in New York and Chicago, and probably in some other cities, had experienced wide fluctuations in their reserve positions and had borrowed heavily in the Federal funds market. It appeared that a substantial amount of additional reserves might need to be supplied by the Federal Reserve System in the next few weeks in order to maintain a condition of ease conducive to further credit and monetary expansion.

Reports at this meeting indicated that the directors of some of the Federal Reserve Banks had been giving serious consideration to the establishment of a discount rate lower than the existing 2¼ per cent rate. With the recent Treasury financing now completed, it appeared that those Reserve Banks might act to establish a lower rate rather quickly. A further reduction in the reserve requirements of member banks was seen as a possible means of providing the additional reserves that would otherwise have to be supplied by open market operations during the next few weeks in order to maintain the present level of free reserves. If the reduction were concentrated at central reserve and reserve city banks, it would also have a tendency to relieve pressure that occasionally developed in the money centers. Taken together, it was suggested that such actions on the discount rate and reserve requirements would clearly confirm the current easing posture of monetary policy and reinforce the policy objective of assisting the recovery of the economy.

The Committee was of the view that there was no reason to change its policy directive at this time. Free reserves had averaged slightly higher during the period since the last meeting of the Committee than during the preceding three-week period, and it was agreed that this general level should be maintained. It was noted, however, that if action should be taken in the near future on both the discount

rate and reserve requirements, the level of free reserves would tend to become relatively incidental, as long as the free reserve position did not decrease to an extent that might make it appear as though the System was reversing policy.

May 6, 1958

Authority to effect transactions in System Account.

The policy directive calling for operations to contribute further by monetary ease to resumption of stable growth of the economy was again renewed at this meeting.

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

Although some statistical evidence suggestive of a slowing of economic decline had been accumulating, most of the information available to the Committee at the time of this meeting indicated that the recession was still deepening and that a bottom was yet to be established. Among other things, the index of industrial production was estimated to have dropped another two points to 126 in April, manufacturers' sales and new orders were off again in March to about the same extent as in February, business inventory liquidation in March was found to have amounted to a further \$700 or \$800 million, seasonally adjusted, and estimates of new construction outlays had recently been revised downward due to lower private expenditures. Unemployment in April decreased less than seasonally, initial claims for unemployment insurance were still running at quite high levels, and the number of continued claims of those unemployed for 15 weeks or more was double that recorded in earlier postwar recessions. At the same time, the average of wholesale prices was holding stable and the average of consumer prices was still rising.

Since the preceding meeting of the Committee, there had been a further reduction to 1¾ per cent in the discount rates of most of the Federal Reserve Banks along with a further reduction of one-half percentage point in reserve requirements against demand deposits at central reserve and reserve city banks, while open market operations had been such as to maintain free reserves generally exceeding \$500

million. Financial developments during this period were influenced by the additional availability of bank reserves and by the activities of banks in endeavoring to put their available funds to use. Demands on capital markets continued heavy. In the five weeks ended April 30, banks in leading cities showed a further increase of over \$2.5 billion in total loans and investments, and it appeared that during the five months since the end of November, a period in which bank credit usually declines, total loans and investments of all commercial banks may have increased by \$7 billion or more. The increase in April reflected almost wholly additions to holdings of United States Government securities, particularly the new Treasury five-year notes. Demand deposits adjusted at city banks increased during the five weeks prior to April 30 by about \$1,200 million, compared with a growth of \$750 million in the same period of 1957, while time deposits continued to increase at a much faster pace than the previous year.

The pattern of economic and financial developments caused the Committee to conclude that the prevailing policy of ease should be continued and that no change should be made in the outstanding policy directive.

May 27, 1958

Authority to effect transactions in System Account.

The Committee again continued without change the policy directive providing for operations in the System Account with a view to contributing further by monetary ease to resumption of stable growth of the economy.

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

The composite of current economic indicators reported at this meeting suggested that the recession in economic activity had been leveling off and that a bottom to the decline might be in the making. The decline in industrial production, over all, seemed to have been checked in May, and a number of other indicators, including retail sales, personal income, residential building, and new orders received by durable goods manufacturers, likewise appeared to have stopped

receding or to have risen slightly. While inventory liquidation had probably been continuing in the aggregate, some key material markets suggested a lessening in such liquidation. Also, although initial and continued unemployment compensation claims were still very high, the trend was indicative of a little firmer labor market. March figures for exports had risen from February, while imports continued to be well maintained at the moderately reduced level of the first two months of the year. In agriculture, the income outlook was quite favorable. Capital market activity had been well sustained and banking developments were in the direction of a strengthening of business and individual liquidity positions. As to prices, a degree of flexibility in the area of industrial commodities seemed to be emerging gradually, especially at the wholesale level.

The Committee recognized that each of the favorable factors needed qualification and that a number of other factors in the current situation raised questions about the imminence of recovery. Furthermore, there were reports of a substantial speculative interest in the Treasury issues maturing in June, a factor that suggested the need for close attention in view of the forthcoming Treasury refunding operation. On balance, therefore, it seemed prudent to view the forthcoming period as one of gradual testing, with the realization that on the basis of past cyclical patterns the period of testing might last for some time.

Short-term interest rates recently had declined to new low levels while long-term rates, after declining somewhat in April, rose slightly in early May. New security financing by corporations and by State and local governments continued in large volume. Recent figures showed that total loans and investments of all commercial banks increased by about \$4 billion in April—a larger growth than had previously been estimated—thus bringing the total increase since the end of November 1957 to above \$8 billion. Marked increases occurred during April in both loans and investments at country banks and in holdings of investments by city banks, where declines in business loans were offset by increases in loans on securities. In May, the decline in total loans and investments at city banks had been smaller than usual at that time. Demand deposits adjusted and currency outside banks showed a seasonally adjusted increase of \$900 million in April following similar increases in February and March,