FORTY-NINTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1962

Period	*Action*	*Purpose of action*
January-February	Reduced System holdings of U. S. Government securities by about $500 million through net sales and redemptions. Member bank borrowings from the Reserve Banks averaged less than $100 million.	To permit further bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds, mainly from post-holiday return of currency from circulation, while minimizing downward pressures on short-term interest rates.
February	Authorized open market transactions in foreign currencies.	To moderate and offset short-term pressures on the dollar in the foreign exchange market.
March-mid-June	Increased System holdings of U. S. Government securities by about $1.3 billion, of which half represented purchases of securities with maturities of more than 1 year. Member bank borrowings from Reserve Banks continued to average less than $100 million.	To promote further bank credit and monetary expansion while avoiding sustained downward pressures on short-term interest rates.
Mid-June-late October	Increased System holdings of U. S. Government securities by about $200 million with net sales and redemptions of Treasury bills of about $700 million being more than offset by purchases of coupon issues, of which two-thirds were issues maturing in more than 1 year. Member bank borrowings from Reserve Banks averaged less than $100 million.	To permit moderate increase in bank credit and money supply while avoiding redundant bank reserves that would encourage capital outflows, taking into account gradual improvement in domestic economy and possibilities for further advance, while recognizing the bank credit growth of past year and continuing adverse balance of payments.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To take into account the recent sharp reduction in stock market credit and the abatement in speculative psychology in the stock market.
October	Reduced reserve requirements against time deposits from 5 to 4 per cent, effective October 25 for reserve city banks and November 1 for other member banks, thereby releasing about $780 million of reserves.	To help meet seasonal needs for reserves, while minimizing downward pressures on short-term interest rates, and to provide for the longer-term growth in bank deposits needed to facilitate the expansion in economic activity and trade.
Late October-December	Increased System holdings of U. S. Government securities by about $1.0 billion, with more than half of the net increase in issues maturing in more than 1 year. Member bank borrowing from the Reserve Banks rose gradually over period, but only to an average of about $200 million.	To help further in meeting seasonal needs for reserve funds while encouraging moderate further increase in bank credit and the money supply and avoiding money market conditions unduly favorable to capital outflows internationally. In mid-December open market operations were modified to provide a somewhat firmer tone in money markets and to offset the anticipated seasonal easing in Treasury bill rates.

tions attend the meetings of the Committee and obtain guidance for the conduct of their operations.

The policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. During the year 1962 the Bank operated in the area of domestic open market operations under two separate directives from the Open Market Committee—a continuing authority directive and a current economic policy directive, this separation of directives having been decided upon by the Committee at its meeting on December 19, 1961, for reasons set forth on pages 91-94 of the Board's ANNUAL REPORT for 1961. At the beginning of the 1962 calendar year, the continuing authority directive was in the form set forth in the policy record entry for the meeting on January 9, 1962. This directive was changed only once during the year, as described in the policy record entry for the meeting on March 6, 1962. On the other hand, the current economic policy directive was changed frequently during the course of the year, as shown in the respective policy record entries The current economic policy directive that was in effect at the beginning of 1962 instructed the Federal Reserve Bank of New York as follows:

> It is the current policy of the Committee to permit further bank credit and monetary expansion so as to promote fuller utilization of the economy's resources, together with money market conditions consistent with the needs of both an expanding domestic economy and this country's international balance of payments problem.
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> To implement this policy, operations for the System Open Market Account shall be conducted with a view to providing reserves for bank credit and monetary expansion (with allowance for the wide seasonal movements customary at this time of the year), but with a somewhat slower rate of increase in total reserves than during recent months. Operations shall place emphasis on continuance of the 3-month Treasury bill rate at close to the top of the range recently prevailing. No overt actions shall be taken to reduce unduly the supply of reserves or to bring about a rise in interest rates.

January 9, 1962

Authority to effect transactions in System Account.

The domestic economic situation, as it appeared from national and regional reports at this first meeting of the Federal Open Market Committee in 1962, continued to be characterized by growth in output and spending, stability in average prices, and a reduced but still relatively high level of unemployment. There was a continuing sizable deficit in the U.S. balance of payments.

Domestically, preliminary data indicated that the industrial production index for December would show a further 1 or 2 point rise to 115-116 per cent of its 1957 average. While total construction activity dipped in December from its sharply advanced November rate, it remained at a high level and, within the total, private residential construction continued to rise. Retail sales had moved up vigorously in October and November, and department store sales in December were at record levels. Automobile sales, however, declined from their high November levels. Incomplete evidence on price developments in December suggested continued stability in the averages. It appeared that the seasonally adjusted unemployment rate in December remained at about the level of 6.1 per cent to which it had dropped in November from the rates near 7 per cent that had persisted through most of 1961.

Bank credit increased sharply in December, with the rise in loans close to or above the record increase of December 1960. At year-end the money supply (conventionally defined to include currency in circulation and privately held demand deposits) was 3 per cent larger than at the beginning of the year and had shown an annual rate of increase of over 6 per cent since August. Incomplete figures for the week ended January 3 showed a rather large decline in loans and investments at city banks, and it was not clear at the time of the meeting whether the sharp December expansion was a transitory development or was indicative of a longer-run tendency. Short-term money market rates rose somewhat to their highest levels since mid-1960, while long-term bond yields remained fairly steady after their advances of November and early December.

Shortly before this meeting the Treasury had announced plans to raise between $1.5 billion and $1.75 billion in new cash during the month of January, partly by offering $2 billion in 1-year bills to replace $1.5 billion in such bills maturing during the month, and partly by a supplementary cash financing the terms of which were to be announced later.

With respect to the U.S. balance of payments, what evidence there was of developments in December indicated continued deterioration in this country's position. Although December balance of payments figures had usually shown some improvement because of year-end debt payments by foreign countries to the U.S. Treasury, preliminary and fragmentary figures for December 1961 indicated a deficit of about the same magnitude as in the two preceding months. The net decline in the gold stock in the fourth quarter, although only about half that in the last quarter of 1960, exceeded the total for the first 9 months of 1961.

It was the judgment of the Committee that both the economic situation and the desirability of maintaining an "even keel" in the money market during the period of the Treasury financing warranted making no change for the coming 2 weeks in the basic policy that had been decided upon at the previous meeting of the Committee (December 19, 1961). Accordingly, the following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the current policy of the Committee to permit further bank credit and monetary expansion so as to promote fuller utilization of the economy's resources, together with monetary conditions consistent with the needs of an expanding domestic economy, taking into account this country's adverse balance of payments as well as the Treasury financing calendar.

To implement this policy, operations for the System Open Market Account during the next 2 weeks shall be conducted with a view to maintaining current money market conditions, without action to alter the level of interest rates.

Votes for this action: Messrs. Martin, Balderston, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, Fulton, and Treiber. Votes against this action: None.

No change was made in the continuing directive, first adopted at the meeting on December 19, 1961, when new procedures calling for separate continuing and current economic policy directives were instituted. The continuing directive, which remained in effect, read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the current economic policy directive adopted at the most recent meeting of the Committee:

(a) To buy or sell U.S. Government securities in the open market for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments, but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1 billion during any period between meetings of the Committee;

(b) To buy or sell prime bankers' acceptances in the open market for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $75 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York;

(c) To buy U.S. Government securities with maturities of 24 months or less at the time of purchase, and prime bankers' acceptances, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (a) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (b) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower.

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 total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $500 million.

January 23, 1962

1. Authority to effect transactions in System Account.

Available evidence indicated little change in the basic economic situation in the 2-week period since the previous meeting of the Committee. While the demand for bank loans appeared to have moderated somewhat following the large increase in December, an expansion in domestic activity evidently was continuing, with prices generally stable. There appeared to be enough unused capacity to accommodate a further increase in production without creating strong pressures on resources or prices.

In the period since the previous meeting, and particularly in the past week, there had inadvertently been a somewhat greater degree of monetary ease than was contemplated by the Committee, as indicated by some downward drift in Treasury bill rates from the levels reached early in the month, lower Federal funds rates, and a relatively large volume of free reserves. This situation had resulted mainly from unexpectedly high levels of Federal Reserve float and a greater than seasonal decline in required reserves.

An announcement was expected on February 1 of the terms of a Treasury financing to be carried out later in the month, and the Committee considered it desirable to maintain steady money market conditions during the financing. There was some senti-

ment at the meeting for moving toward a moderately less easy monetary policy in the period before the financing, in view of the continued expansion of the domestic economy and the persisting deficit in the U.S. balance of international payments. An opposing view was also expressed, however, reflecting a judgment that current domestic developments made any firming actions less appropriate than they might have appeared earlier. On balance, the Committee favored no change in the basic monetary policy that had been in effect for the past several weeks, and the following current economic policy directive was issued to the Federal Reserve Bank of New York:

It continues to be the current policy of the Committee to permit further bank credit and monetary expansion so as to promote fuller utilization of the economy's resources, together with monetary conditions consistent with the needs of an expanding domestic economy, taking into account this country's adverse balance of payments as well as the Treasury financing calendar.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit expansion, while minimizing downward pressures on short-term interest rates. In view of the imminence of Treasury financing, emphasis shall be placed on maintaining a steady money market.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, and Fulton. Votes against this action: None.

2. Authority for program of System foreign currency operations.

At this meeting the Federal Open Market Committee approved a motion that the Committee go on record as favoring in principle the initiation on an experimental basis of a program of System foreign currency operations; that representatives of the Committee be authorized to explore with the U.S. Treasury, on behalf of the Committee, needed guidelines for actual operations, drawing on the experience of the Treasury Stabilization Fund, and to develop plans for effective working relations in the foreign exchange field between the Federal Reserve and the