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.

May 29, 1962

1. Authority to effect transactions in System Account.

Following improvement in April, some additional gains in economic conditions were indicated for May. The April index of industrial production moved 1 percentage point higher to a record 117 per cent of the 1957 average, and the index for May appeared likely to hold at that level or rise slightly further.

A major exception to the moderately improved performance of the domestic economy was the continued decline in stock market prices. On May 28, the day preceding the meeting of the Committee, stock prices broke sharply and at the close had fallen to a level 24 per cent below the high reached in December 1961. In addition, and almost apart from the stock market decline and its possible ramifications, questions were being raised about the strength of general economic prospects over the months ahead. Certain leading business cycle indicators, including data on profit margins and business purchasing policies, were being interpreted by some analysts as signs that economic expansion would not continue long.

Bank loans rose more than seasonally during May, while investments were little changed. Further increases occurred in real estate and consumer loans, but security loans declined. Loans to construction firms had been moving up briskly since March, paralleling the pick-up in building activity.

Bank reserves required to support private deposits declined considerably more than seasonally in the first 3 weeks of May, in contrast with a larger than seasonal rise in April. Average free reserves, however, continued relatively high and were not significantly different from the April level.

Recent developments in the U.S. balance of payments, although still unsatisfactory, were viewed as mildly encouraging. However, gold and foreign exchange markets, after having been relatively quiet for some time, recently had shown some nervousness with consequent unfavorable effects on the U.S. dollar.

Economic activity abroad continued satisfactory in most industrially developed countries and mixed elsewhere.

There was some opinion within the Committee that monetary policy had contributed about as much as it could to domestic economic expansion and that a gradual reorientation of policy toward somewhat less ease would be salutary from the balance of payments standpoint without significantly affecting the domestic use of credit. A view also was expressed, however, that the degree of ease that had prevailed was still needed to facilitate further domestic expansion.

In recognition of the sharp decline in the stock market, there was general agreement that no change of policy should be made at this meeting of the Committee. It was thought desirable, however, to modify the wording of the current policy directive, principally to make clear that the Committee recognized the stock market decline as a factor contributing to its decision to continue policy unchanged at this point. Accordingly, the Committee issued the following current economic policy directive to the Federal Reserve Bank of New York:

In view of the modest nature of recent advances in the pace of economic activity, the continued underutilization of resources, and the uncertainties created by the disturbed conditions in some financial markets, it remains the current policy of the Federal Open Market Committee to promote further expansion of bank credit and the money supply, while giving recognition to the country's adverse balance of payments.

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 and monetary expansion, taking account of the desirability of avoiding sustained downward pressures on short-term interest rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. *Votes against this action:* None.

2. Authority to purchase and sell foreign currencies.

As originally adopted by the Federal Open Market Committee on February 13, 1962, and reaffirmed on March 6, 1962,

the continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations did not authorize the purchase and sale of Belgian francs. In view of the prospective execution of a reciprocal currency (swap) agreement between the Federal Reserve and the National Bank of Belgium, in addition to those already entered into by the System with other foreign central banks, the continuing authority directive was amended as follows, effective immediately, to add the Belgian franc to the list of currencies authorized to be purchased and sold:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs

Total foreign currencies held at any one time shall not exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, *Deming*, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. *Votes against this action:* None.

June 19, 1962

Authority to effect transactions in System Account.

Available economic information confirmed the further moderate gains in activity in May suggested by the incomplete data available at the May 29 meeting. The index of industrial production rose to a record 118 per cent of the 1957 average from 117 per cent in April. Private housing starts also rose further in