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.

accord a higher priority to domestic goals. In his judgment, this was the wrong time to shift toward a policy calling for any lesser degree of monetary ease.

June 21, 1962

Authority to purchase and sell foreign currencies.

At this meeting, held by telephone, the continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations, as adopted by the Federal Open Market Committee on February 13, 1962, and amended May 29, 1962, was further amended, effective immediately, to add the Canadian dollar to the list of foreign currencies that the New York Bank was authorized and directed to purchase and sell. This action was taken in view of the imminent prospect of a reciprocal currency (swap) agreement being entered into between the Federal Reserve System and the Bank of Canada as part of a broad package of financial assistance—including assistance from the International Monetary Fund, the Bank of England, and the U.S. Export-Import Bank—designed to reinforce the Canadian Government's efforts to defend the Canadian dollar against a speculative wave that threatened to force the Canadian dollar off its recently established par value. As amended, the continuing authority directive read as follows:

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
Canadian dollars

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, Robertson, and Shepardson. Votes against this action: None.

July 10, 1962

1. Authority to effect transactions in System Account.

Economic activity, as interpreted in reports at this meeting, appeared to be in a period of hesitation. Although advances had continued in May and early June, they tended to be smaller than in earlier months, and adverse trends were reported for some key series. The unemployment rate, for example, was up slightly in June.

Retail sales, which were off slightly in May, appeared on the basis of weekly data to have declined again in June. Business inventory accumulation continued in April and May, but at sharply reduced rates. On the other hand, a survey conducted in late June indicated that business plans for new plant and equipment outlays this year were still largely unchanged, suggesting that they had not been adversely affected by the decline in stock prices. Construction activity continued to rise in June, with gains widely spread among major types of construction.

A principal feature of financial developments since the June 19 meeting was the less easy tone in the money market. The 3-month Treasury bill rate rose to just under the Reserve Bank discount rate (3 per cent), and Federal funds traded at the discount rate most of the time. Yields also had risen on municipal and corporate bonds as well as on U. S. Government bonds. Member bank borrowing at Federal Reserve Banks increased moderately, and free reserves of member banks were somewhat lower than in the preceding 3 weeks.

Bank credit outstanding increased in June, with the increase centered more in loans than investments; the loan increase was widely distributed among types of loans. Loans to brokers and others against stock market collateral, however, declined considerably. Effective July 10, 1962, margin requirements for stock market credit were reduced from 70 per cent to 50 per cent by the Board of Governors of the Federal Reserve System.

The international financial situation remained unsatisfactory as the dollar weakened further in international exchange, and gold markets became more active. The balance of payments continued its improved position, and transfers to foreigners of gold and other liquid assets in the second quarter were considerably smaller than in the first quarter. To an extent as yet undetermined, however, it appeared that much of the improvement might have been due to the large Canadian reserve losses. With the Canadian position becoming stabilized, some reversal of flows in favor of Canada was expected.

Members of the Committee were in general agreement that domestic economic expansion had lost much of its momentum since spring, and some question was raised as to whether the cyclical upswing, which began in early 1961, might be topping out. At the same time, continuing concern was expressed about the U. S. international financial situation.

Within the Committee, there were some differences of emphasis and interpretation in relating domestic and international developments to current monetary policy. The consensus, however, was for continuation of the degree of ease contemplated by the policy adopted at the June 19 meeting. A minority view placed greater emphasis on the advantages of an easier policy for stimulating the slackened rate of expansion in domestic activity and questioned the usefulness of a less easy policy for dealing with current international financial problems.

In order to make clear that no further reduction from the present degree of ease was intended, the wording of the current policy directive was modified to clarify that intent. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the current policy of the Federal Open Market Committee to permit the supply of bank credit and money to increase further, but at the

same time to avoid redundant bank reserves that would encourage capital outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance in economic activity, the availability of resources to permit further advance in activity, and the unsettlement of financial markets. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall, to the extent consistent with the behavior of financial markets, be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a moderately firm tone in money markets.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Shepardson, and Treiber. Votes against this action: Messrs. Mitchell and Robertson.

In dissenting from this action, Mr. Mitchell expressed the view that the behavior of the economy indicated sufficient danger of another abortive recovery to call for a more stimulative monetary policy. Since the domestic economic outlook had been worsening and the balance of payments position had been improving, an easier monetary policy seemed to him both desirable and feasible. He did not agree that monetary ease had been pursued so far that it would be useless to expect further easing to do any good. Interest rates did not indicate this to be the case. Moreover, bank credit expansion had not been excessive. Effective credit expansion was, in his judgment, less than shown in the statistics because the change in Regulation Q effective as of the first of this year, permitting higher rates on time and savings deposits, had resulted in shifting some funds to commercial banks from other financial intermediaries.

Mr. Mitchell felt that even the slight move toward lesser ease at the preceding meeting had had unfavorable repercussions on yields. He also doubted that moderately higher short-term rates would in fact significantly improve the balance of payments position. In the circumstances, he favored a policy directed toward increasing free reserves and permitting bill yields to fall—perhaps to 2.5 per cent—which would add to downward pressure on longer-term yields.

Mr. Robertson, who dissented for the same reasons he had expressed at the June 19 meeting, stated that he was in full agreement with Mr. Mitchell's position. He felt that the economic information presented to the Committee indicated that the date of such meeting was precisely the wrong time for adopting a less easy monetary policy and that the move should now be reversed.

2. Authority to purchase and sell foreign currencies.

The continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations, as adopted by the Federal Open Market Committee on February 13, 1962, and most recently amended by the Committee on June 21, 1962, was further amended at this meeting, effective immediately, to increase from $500 million to $750 million the maximum amount of foreign currencies authorized to be held at any one time. By this date, reciprocal currency (swap) agreements totaling $450 million had been entered into by the Federal Reserve System with five foreign central banks—the Bank of France, the Bank of England, the Netherlands Bank, the National Bank of Belgium, and the Bank of Canada; and there was in prospect the execution of similar agreements with the Bank for International Settlements, the Swiss National Bank, and the German Federal Bank that would, if executed, raise the total U.S. dollar equivalent of foreign currencies involved in such agreements to $700 million. In addition, the System held some $33.5 million equivalent of foreign currencies acquired from the Treasury Stabilization Fund at the outset of the Federal Reserve program of foreign currency operations.

As amended, the continuing authority directive read as follows:

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
Canadian dollars

Total foreign currencies held at any one time shall not exceed $750 million.

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

July 31, 1962

Authority to effect transactions in System Account.

Incomplete and scattered data for July suggested mild improvement in the economy, following indications of a slackened pace of expansion in June. The unemployment rate was down slightly, auto and department store sales recovered to about the May levels, and early clues as to the course of industrial production offered hope of some increase. On the other hand, manufacturers' appropriations for fixed capital purposes were indicated to have declined in the second quarter.

In credit and money markets the atmosphere was one of considerable uncertainty. Bank credit, seasonally adjusted, declined substantially in July, partly because Treasury cash financing was much smaller than usual for that month. Security loans for all purposes were sharply lower. Business loan demand showed little change, while bank holdings of real estate loans and of securities other than U.S. Governments continued to increase substantially.

The private money supply, although aided by shifts from Government to private deposits, remained at roughly the level that had been maintained since late 1961. Time and savings deposits (not included in the money supply, as conventionally defined) apparently continued to grow in July, but at a slower pace than