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.

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
Austrian schillings

Total foreign currencies held at any one time shall not exceed $1 billion.

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

October 23, 1962

Authority to effect transactions in System Account.

During the evening preceding this meeting of the Committee, the President had announced emergency actions to deal with the crisis that had developed due to the build-up of offensive military weapons in Cuba. The crisis had become apparent suddenly, but in the short time available to receive reports it appeared that the reaction in markets was cautious, though nervous, with the result that no waves of selling or buying had developed. In the corporate security market one large financing proceeded as scheduled the morning of the meeting. The Special Manager of the System Open Market Account for foreign currency operations had

contacted the monetary authorities of major industrial countries by the time of the meeting, and those authorities stood prepared to coordinate such intervention in foreign exchange markets as might become necessary to cushion the impact of any unusual flows of funds that might develop internationally.

The Committee discussion reflected grave concern about possible consequences of the Cuban crisis, but until further information became available no change in monetary policy seemed called for on that account. Economic and financial tendencies, as they had been developing prior to the President's statement, had led to some comment in business and financial quarters about a possible early cyclical turndown in activity. While the general view was that information available to date did not support such a conclusion, at the same time it was clear that the economy at best had been moving sideways in recent weeks. The margin of unutilized manpower and industrial capacity continued large.

In financial markets the impact of the recently announced reduction by the Board of Governors of 1 percentage point in reserve requirements on time and savings deposits at member banks, to become effective shortly, remained to be seen, and the Cuban crisis rendered appraisal of the situation particularly difficult. Sluggishness in the economy, however, appeared to be generating an increasing volume of business and consumer liquidity without a corresponding change in private credit demands. As a consequence, both short- and long-term interest rates had continued to ease prior to the Cuban crisis.

The U.S. balance of payments position deteriorated in the third quarter and even more so in the first half of October. The net capital outflow on private account continued large, especially to Canada. Exports had declined in August contrary to expectations, and the export surplus was the smallest in many years. Increasing concern was reported about prospects for a continuation of economic expansion in Europe; if the European boom should be topping out, U.S. exports would be adversely affected.

In view of the uncertainties presented by the international crisis and the imminence of a Treasury refunding, there was unanimous agreement that no change should be made in policy at this meeting, although the Committee should be prepared to deal promptly with whatever problems might arise. While, as indicated, the policy decision was to maintain the status quo at this time, the wording of the current economic policy directive was changed to reflect awareness of the Cuban emergency situation and to take account of the forthcoming Treasury financing. As changed, the directive issued to the Federal Reserve Bank of New York read as follows:

It is the current policy of the Federal Open Market Committee to encourage moderate further increase in bank credit and the money supply, while avoiding money market conditions unduly favorable to capital outflows internationally. It is also the Committee's policy to cushion such unsettlement in money markets as may stem from international developments of an emergency or near emergency character. This policy takes into account the potential financial effects of the Government's quarantine on armament imports into Cuba, the imminence of a large Treasury refinancing, and the recent stability of economic activity, with a margin of underutilized resources and an absence of inflationary pressures.

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

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

November 13, 1962

1. Authority to effect transactions in System Account.

The Cuban crisis, although far from settled, had eased appreciably by the time of this meeting. While the performance of the domestic economy was still unsatisfactory in terms of utilization of manpower and other resources, the economic atmosphere appeared to have improved. The more encouraging domestic

indications included a high rate of auto sales in October following the introduction of new models; preliminary reports from the October survey of consumer buying plans showing increased strength in plans to purchase new cars and household durable goods; and the results of a recent survey of business plans for new plant and equipment outlays for 1963, showing a modest rise over the estimated 1962 total.

In most domestic financial areas a somewhat more stimulative tone had developed in October and early November. Bank credit had again expanded at a rapid rate in October. Business loan expansion continued larger than seasonal, following a strong showing in August and September. The money supply had risen appreciably in October, and there was a further rapid rise in time and savings deposits. Member bank borrowing from Reserve Banks continued moderate, and free reserves averaged above the $400 million level. The large consumer financial savings and corporate cash flows were sources of downward pressure on interest rates. Treasury, corporate, and municipal bond yields had receded during October to around the lows reached in the spring of the year. However, large Treasury financing operations and Federal Reserve open market operations had contributed by early November to raising short-term rates above the low levels of late October.

Preliminary information on the October balance of payments position of the United States was unfavorable, indicating an over-all deficit of $900 million or more. This was the largest for any month on record and more than double the third-quarter monthly average deficit, owing in part to extraordinary transactions including large transfers to Canada, a large royalty payment to Venezuela, and probably some outflow of U.S. funds caused by the Cuban crisis. Some improvement in the balance of payments was indicated for the first week of November. Despite the sharp deterioration in the October payments position, the dollar remained relatively steady in foreign exchange markets and no serious pressure developed in the London gold market, reflecting in part the increasingly close cooperation