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.

lines took the form of deleting certain words in the first paragraph of Section 2, Exchange Transactions, and inserting two subsequent paragraphs, with the result that the first three paragraphs of the Section were changed to read as follows:

> System exchange transactions shall be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of funds and their destabilizing effects on U.S. and foreign official reserves and on exchange markets.
>
> In general, these transactions shall be geared to pressures connected with movements that are expected to be reversed in the foreseeable future; when expressly authorized by the Federal Open Market Committee, they may also be geared on a short-term basis to pressures connected with other movements.
>
> Subject to express authorization of the Committee, the Federal Reserve Bank of New York may enter into reciprocal arrangements with foreign central banks on exchange transactions ("swap" arrangements), which arrangements may be wholly or in part on a standby basis.

The changes in the Authorization were in paragraph (1) of Section III, relating to specific aims of foreign currency operations. As amended, paragraph (1) provided that such operations were to be conducted, within the basic purposes set forth in Section II:

> To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of disequilibrating fluctuations in the international flow of payments to or from the United States, and especially those that are deemed to reflect temporary forces or transitional market unsettlement.

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

December 4, 1962

Authority to effect transactions in System Account.

A distinct improvement in business psychology had developed in the weeks preceding this meeting, although key measures of

economic activity continued to show little change from the levels existing since midyear. The change in business and financial sentiment both reflected and contributed to the sharp rise that had occurred in stock market prices since late October. Also, both sentiment and stock prices presumably had been influenced by the release of tension as the Cuban crisis eased, as well as by speculation about the effect of an anticipated tax reduction. Total retail sales advanced again in November. New car purchases were at a very high level, although below the October rate.

Other economic information becoming available since the preceding meeting of the Committee was mixed. The industrial production index in October remained at the level at which it had been since July. New orders received by durable goods producers rose in October, and new housing starts recovered most of their September decline. On the other hand, the rate of unemployment rose fractionally in November, returning to the high August-September level. Plans for business investment showed no change in outlays from the third to the fourth quarter, but indicated a small decline for the first quarter of 1963. Commodity price averages continued to register little change; the flurry of advances in some sensitive prices during the Cuban crisis had been largely reversed.

Total bank credit and business loan expansion remained strong. The private money supply in October and November rose sharply above the level existing for many months, and time and savings deposits also rose substantially further.

In contrast to bank credit, capital market financing continued light. Estimates for the fourth quarter indicated declines from a year earlier of one-fourth in corporate security offerings and of one-fifth in State and local financing.

Money markets continued generally steady, with interest rates, particularly in the short-term area, tending to move up slightly. It was noted that, beginning about mid-December and continuing for several months, seasonal forces would be working toward lower interest rates as demands for financing usually are low early in the year and the flow of investment funds normally is large.

The November balance of payments deficit was sharply lower than the record October figure, which had been affected considerably by temporary factors. For the year to date, however, the deficit was only a little short of that for 1961, and there was still no indication that the basic accounts in the payments balance had improved significantly. Foreign exchange and gold markets had remained calm in recent weeks, and the net gold outflow was small.

At this meeting, as at the preceding one, there were varied judgments as to the precise degree of monetary ease to be sought. A large minority—taking into account the relatively high level of domestic activity, the degree of liquidity in the economy and the banking system, and the desirability of help with the balance of payments problem—felt that it was important to follow a policy of slightly less ease. A smaller number of members, influenced more by the persistently low rates of manpower and other resource utilization, felt that a little more ease could help to stimulate domestic employment; this group also questioned whether slightly less ease could contribute significantly to the solution of the balance of payments deficit. After discussion, the majority of the Committee members, including in the end some of those who initially had indicated a preference for shadings of slightly more or slightly less ease, voted in favor of no change at this time from the policy adopted at the November 13 meeting. The wording of the current economic policy directive was changed to delete, as no longer needed, the reference to international emergency conditions contained in the last sentence of the first paragraph of the November 13 directive and to recognize the 2-week, instead of 3-week, interval before the next meeting. The policy directive issued to the Federal Reserve Bank of New York was as follows:

In view of the recent stability of economic activity, with a margin of underutilized resources and an absence of inflationary pressures, 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.

To implement this policy, operations for the System Open Market Account during the next 2 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, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. Vote against this action: Mr. Hayes.

Mr. Hayes voted against this directive for essentially the same reasons that he had opposed the directive at the previous meeting—namely, that in view of ample domestic liquidity and an unsatisfactory balance of payments situation a somewhat less easy policy was appropriate.

December 18, 1962

Authority to effect transactions in System Account.

Information that had become available in the 2 weeks since the preceding meeting of the Committee confirmed the mixed picture of the economic situation. The feeling of increased business optimism with regard to prospects appeared to be continuing, but evidence of solid additional achievement was still limited.

Retail sales, as expected, proved to be higher in November than in October; steel output rose; average weekly hours of work at factories increased; and new orders for machinery advanced again. Automobile sales continued relatively strong in November and early December, and stocks of cars in dealers' hands were low. Early Christmas buying, however, appeared to be somewhat disappointing. Industrial production in November remained unchanged, and nonagricultural employment showed no improvement, both being at about midyear levels. Wholesale commodity price averages continued unchanged.