

FIFTIETH  
*Annual Report*

OF THE  
BOARD OF GOVERNORS  
of the Federal Reserve System

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COVERING OPERATIONS FOR THE YEAR

1963

<i>Period</i>	<i>Description</i>	<i>Purpose</i>
January- mid-May	Reduced System holdings of U.S. Government securities and then increased them in line with seasonal and moderate growth needs of the economy. Total holdings rose about \$470 million on balance, owing mainly to net purchases of issues maturing in more than 1 year. Member bank borrowing rose slightly to a level of about \$150 million in the first half of May.	To offset seasonal downward pressures on short-term interest rates early in the period and to provide for growth in bank credit and the money supply at a rate consistent with minimizing capital outflows in accordance with the policy of slightly reduced reserve availability adopted at the December 18, 1962, meeting of the Federal Open Market Committee.
Mid-May- late-July	Reduced the degree of reserve availability slightly further. System holdings of U.S. Government securities increased nearly \$1.2 billion, about one-fifth representing net purchases of issues maturing in more than 1 year. Member bank borrowing increased further, averaging \$275 million over the period.	To achieve a slightly greater degree of firmness in the money market in order to minimize the outflow of capital while continuing to provide reserves for moderate monetary and credit growth.
Mid-July	Raised the discount rate from 3 to 3½ per cent. Raised maximum interest rates payable by member banks on time deposits (other than savings) and certificates of deposit with maturities of 90 days to 6 months from 2½ to 4 per cent and with maturities of 6 months to 1 year from 3½ to 4 per cent.	To help reduce short-term capital outflows by firming U.S. short-term money market rates and permitting member banks to compete more effectively for foreign and domestic funds.
Late-July- December	Reduced a little further the degree of reserve availability. System holdings of U.S. Government securities increased about \$1.1 billion, of which more than one-half represented purchases of securities with maturities of more than 1 year. Member bank borrowing averaged about \$325 million over the period.	To attain slightly more firmness in the money market, in the context of a higher discount rate, with a view to minimizing the outflow of funds abroad while offsetting seasonal reserve drains and providing for growth needs of the domestic economy.
November	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities. Also increased retention requirements on proceeds of sales from undermargined accounts from 50 to 70 per cent.	To help prevent excessive use of stock market credit, which had increased sharply since July 1962, when margin requirements were lowered from 70 to 50 per cent.

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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 reaffirmed by the Federal Open Market Committee on March 5, 1963:

Pounds sterling  
French francs  
German marks  
Italian lire  
Netherlands guilders  
Swiss francs  
Belgian francs  
Canadian dollars  
Austrian schillings  
Swedish kronor

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of \$25 million equivalent.

Total foreign currencies held at any one time shall not exceed \$1.3 billion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

### 3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1963, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The action taken with respect to the continuing authority directive on foreign currency operations has been described in the preceding portion of the entry for this date.

The Committee reaffirmed its continuing authority directive to the Federal Reserve Bank of New York with respect to trans-

## FEDERAL RESERVE SYSTEM

actions in U.S. Government securities, repurchase agreements, and bankers' acceptances, in the form in which that directive was outstanding at the beginning of the year 1963. The language of the directive is set forth in the preface to this record of Open Market Committee policy actions for 1963.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Scanlon, and Shepardson. Votes against this action: None. Abstaining: Mr. Robertson.

Mr. Robertson, who had voted against the adoption of the continuing authority directive in its present form on March 6, 1962, abstained because he continued to feel that the directive was inadequate and did not provide sufficient guidance and restrictions.

The Committee also reaffirmed its authorization regarding open market transactions in foreign currencies and its guidelines for System foreign currency operations, in the form in which both of these were outstanding at the beginning of the year 1963, as set forth in the preface to this record of policy actions.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

The reaffirmation of the authorization for System foreign currency operations was with the understanding that the program continued to be regarded as experimental in nature.

March 26, 1963

### Authority to effect transactions in System Account.

Reports indicated that business and financial sentiment with respect to short-run prospects for domestic activity had strengthened since the preceding meeting of the Committee as favorable economic data predominated. A recent survey indicated that

business planned to increase fixed capital outlays in 1963 by 5 per cent, instead of the 3 per cent increase reported by a survey last autumn. Business plans for inventory holdings called for a stepping-up of expansion in the second quarter of this year, partly as protection against a possible steel strike in the summer. New orders received by machinery and other durable goods producers had risen somewhat further in February; and stock market prices had maintained the higher level to which they rebounded in early March. Also, consumer plans to spend for automobiles, other durable goods, and homes indicated continuing strength of demand.

While these portents of further expansion in activity substantially reduced whatever expectations there had been for an imminent cyclical recession, they were not sufficient to suggest a major improvement in unemployment. In fact, unemployment had increased again in February, reaching a seasonally adjusted rate of 6.1 per cent of the civilian labor force. The rise reflected the fact that the increase in the labor force was greater than the moderate rise in employment.

Industrial production remained essentially unchanged again in February. Construction expenditures declined, but new housing units started increased a little from the reduced January level. Retail sales showed little change in February around the advanced January rate but, with automobile markets continuing strong, sales rose further in early March. Industrial commodity prices continued stable.

In the financial area corporate and municipal security issues in March were relatively large and appeared likely to continue so in April. Nevertheless, yields on corporate bonds had changed little in recent weeks, while yields on State and local government securities had declined. Large-scale Federal refundings and cash borrowings also took place, with yields on U.S. Government securities remaining in a relatively narrow range. Yields on 90-day Treasury bills, at 2.90 per cent, continued below the Federal Reserve discount rate, while yields on long-term Treasury issues

edged up to an average of 3.94 per cent in the week preceding this meeting.

Seasonally adjusted bank credit expansion continued large in January, February, and early March. Business loans, however, had shown mainly seasonal changes following a rapid increase in late 1962. Real estate and consumer loan demand continued strong.

Free reserves of member banks averaged \$300 million in the 3 weeks ending March 20, little changed from the average for the month of February. The seasonally adjusted money supply rose in the first half of March following a slight drop in February. Time and savings deposits, seasonally adjusted, continued to expand rapidly, but at a somewhat slackened pace in February and the first half of March.

The deficit in U.S. international payments in the first quarter of 1963 was tentatively estimated to be moderately lower than the quarterly average for the years 1962 and 1961. The first-quarter figures were unfavorably affected by the dock strike and a bunching of foreign bond issues but favorably affected by large repayments of bank loans and probably some flows of funds connected with the recent weakness of the pound sterling. Both in 1962 and 1961, however, results of the first quarter had turned out to be considerably better than those for subsequent quarters. (In 1963 the contribution of one favorable but seasonal influence—the reversal of year-end window-dressing operations by foreign banks—was much reduced.) Exchange markets showed, on balance, little net change, except for the pressure on sterling.

The Committee indicated general satisfaction with the degree of monetary and credit ease that had prevailed in recent weeks, and none of the members suggested a major change in policy in either direction. However, in view of the cumulative consequences of large balance of payments deficits, a minority felt it desirable to start moving toward slightly less reserve availability and slightly higher Treasury bill rates. Some other members indicated that they might have been attracted to this policy position except

for the Treasury financing program under way and ahead. Still others, however, expressed serious doubt that a less easy monetary policy, within the ranges discussed, would have any appreciable effect on the balance of payments position, and they felt that a more pronounced shift would have unfavorable consequences for the domestic economy.

The majority position was clearly for maintaining essentially the status quo during the ensuing 3-week period. Nevertheless, in order to keep the current economic policy directive as accurately descriptive of current conditions and policy as possible, minor technical wording changes were adopted. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse U.S. balance of payments position and the increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy in a period of a Treasury bond financing, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Vote against this action: Mr. Hayes.

Mr. Hayes recognized that the scope for policy change during the forthcoming 3-week period was distinctly limited by the Treasury financing program. However, because of the gravity of the threat to the position of the dollar due to cumulative effects of balance of payment deficits, he would have favored moving

toward a slightly lesser degree of monetary ease since he was convinced that somewhat higher interest rates and reduced credit availability could bring important benefits, both actual and psychological.

April 16, 1963

Authority to effect transactions in System Account.

The economic situation had improved noticeably in March, with widespread gains registered by various measures of activity and with business sentiment distinctly better. Industrial production rose 1 percentage point to a level fractionally above the September 1962 high. Production of steel increased substantially, along with orders, partly reflecting inventory accumulation in anticipation of a possible strike in the summer. Nonagricultural employment rose further, with increases reported for most major types of industry and activity. The unemployment rate declined appreciably in March to 5.6 per cent of the civilian labor force, but it appeared that both this decline and the rise in the preceding month probably reflected, in part, difficulties in measuring seasonal changes.

Retail sales rose further in March, with automobile markets continuing exceptionally strong. GNP was tentatively estimated to have risen in the first quarter to an annual rate of \$572 billion, a higher level than had been expected earlier.

Industrial material and other wholesale price averages remained little changed in March and early April. Very recently, however, certain producers of steel had announced price increases for a portion of their products, and it was regarded as quite possible that others would follow suit. Stock market prices advanced further in recent weeks to within about 5 per cent of the December 1961 peak, the record level of corporate profits reported for the fourth quarter of 1962 having been a contributing factor.

Against the background of indications of greater business strength and selective commodity price increases, a relatively