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Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1963

Period	*Description*	*Purpose*
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.

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.
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> 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 large volume of corporate and municipal bond financing, together with an auction of $300 million of U.S. Government long-term bonds, had resulted in some tendency toward capital market congestion and higher yields. A sizable portion of the auctioned Treasury bonds were still undistributed. Yields on 3-month Treasury bills, however, remained at or close to 2.90 per cent.

Bank credit expansion (seasonally adjusted) in March was large, as bank holdings of U.S. Government securities declined less than seasonally. While business loans were up only slightly further, expansion was appreciable for most other types of loans.

The seasonally adjusted money supply rose by $300 million in March, and in the latter part of the month it was about 2.25 per cent higher than a year earlier; however, it had risen at an annual rate of only 1 per cent compared with late December 1962. Time and savings deposits continued to increase rapidly at about the rate of other recent months.

The U.S. balance of payments deficit continued large in the first quarter of 1963. Comparative analysis was difficult, however, mainly because of the conflicting influences of the dock strike in January and the weakness of sterling in March. The net decline in the U.S. gold stock was unusually small in relation to the payments deficit, which, according to fragmentary data, appeared to have worsened again in the first 10 days of April. Gold and foreign exchange markets had been moderately active at times in the past few weeks, with the dollar generally weaker than earlier this year.

Although the domestic economic situation had shown signs of improvement throughout the country in recent weeks, it appeared to the Committee premature to assume that a vigorous sustained expansion was yet under way. This situation, together with factors such as continuing high rates of unemployment and a lack of evidence of general inflationary pressures, led the majority to favor no change of policy in the direction of lesser monetary ease at this stage. In addition, some members who otherwise might have preferred to move toward a slightly lesser degree of

ease felt that such action would be undesirable at this time because of the aftermath of the Treasury bond auction and impending large refunding operations. Two members, however, favored a shift in monetary policy at this time, one recommending a slightly lesser degree of ease, the other a slightly greater degree of ease.

In line with the majority decision to continue unchanged the policy adopted at the meeting on March 26, the directive issued to the Federal Reserve Bank of New York at that meeting was renewed without change.

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

In dissenting from this action, Mr. Mills expressed the view that financial developments were resulting in undesirable downward pressure on the money supply. The substantial expansion of commercial bank credit in 1962 and early 1963 had been accommodated largely by a sharp expansion in time and savings deposits rather than by expansion of the money supply, he said, and there had not been the stimulative effect on economic activity that would have been obtained from expansion in the money supply itself. Considering the normal lag between policy action and the resulting effects, he felt that it was not too early to alter the tone and direction of monetary policy toward slightly greater ease.

Mr. Treiber felt that within the narrow limits of providing an even-keel base for Treasury financing there was some room for seeking a slightly firmer money market. In his judgment, the ample liquidity in the economy and the recent improvement in domestic activity permitted additional attention to be given to this country's continuing and serious balance of payments problem.