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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.

tions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy in the context of a higher discount rate, System open market operations shall be conducted with a view to attaining a slightly greater degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

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

2. Amendment of continuing authority directive.

The Account Manager suggested that under present conditions the continuing authority directive to the Federal Reserve Bank of New York, which had been amended on June 18, 1963, to raise from $1 billion to $1.5 billion the limit on net changes in the System Open Market Account in the period between Committee meetings, might appropriately be changed to restore the former figure of $1 billion. Accordingly, the Committee amended Section 1(a) of that directive by inserting "$1 billion" and deleting "$1.5 billion."

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

August 20, 1963

Authority to effect transactions in System Account.

According to preliminary figures on industrial production, retail trade, employment, new orders, and private construction, the domestic economy demonstrated somewhat more vigor in July than had been generally anticipated. The industrial production index rose nearly 1 percentage point, to 126.5 per cent of the 1957-59 average, from a June figure that had been revised upward, and the gains were widespread among industries and market groupings.

The labor market also showed some improvement as nonagricultural employment rose further, factory hours of work were maintained at high levels, and the rate of unemployment declined slightly. The number of major labor market areas classified in substantial labor surplus categories had been reduced to the smallest total since mid-1960. Retail trade, which had been on a plateau for some time, showed evidence of advancing in both June and July, with sales in July more than 2 per cent above the May level. According to a recent survey, consumer buying plans also had strengthened. Industrial prices remained relatively stable on average, while stock market prices had risen to the year's high and were close to the record high of December 1961.

The impact of the mid-July increase in the Reserve Bank discount rate, other monetary actions, and the President's program to deal with the deficit in the balance of payments had now been reflected more substantially in the financial sector. Treasury short-term bill rates had risen somewhat further and were about one-third of a percentage point above the 3 per cent level prevailing at the beginning of July. Other money market rates had also risen, and Federal funds recently had been trading quite consistently at 3½ per cent. In longer-term markets yields on Treasury bonds remained practically unchanged at about 4 per cent for most issues, while yields on new issues of corporate and municipal bonds had declined several basis points. Although the volume of corporate and municipal financing continued to be light, dealers had nevertheless encountered some sluggishness in investor demand.

Bank credit, seasonally adjusted, declined substantially in July following a large rise in June, but the average expansion for the 2 months was about the same as that for earlier months this year. The seasonally adjusted money supply rose $900 million in July but increased only slightly further in the first half of August, according to preliminary estimates. Time and savings deposits increased considerably further in July and early August, with the rate of expansion in time deposits accelerating after mid-July when the ceiling on time deposits with maturities of 90 days to 1 year was raised to 4 per cent. Free reserves averaged a little lower in the 4 weeks to mid-August than in the preceding 4-week period.

International transactions in July apparently resulted in a small surplus in the U.S. balance of payments. However, this reflected advance debt repayments by two European countries and reversal of midyear window-dressing operations of some European banks; without these transactions, there would have been a deficit of about $200 million to $250 million. Taking the months of June and July together, and excluding special Government receipts, the deficit was at an annual rate of about $3.5 billion. Fragmentary data for early August indicated no significant change. In the exchange markets the U.S. dollar improved slightly vis-a-vis the Canadian dollar, weakened against the Swiss franc, and was little changed against other major currencies.

The discussion of open market policy for the period immediately ahead related essentially to whether the Committee's directive should continue to call for System Account operations with a view to attaining a slightly greater degree of firmness in the money market or whether operations should be conducted with a view to maintaining the prevailing degree of firmness. Upon consideration of recent economic and financial developments, including the increase in short-term rates during the past several weeks, and in view of prospective large-scale Treasury financing operations, it was the conclusion of the Committee that it would be preferable for the present degree of market firmness to continue unchanged for the time being, pending further evaluation of System policy in the light of de-

velopments affecting the domestic economic situation and the balance of payments. The following current economic policy 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 putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations shall be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

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

September 10, 1963

1. Authority to effect transactions in System Account.

Preliminary figures for August suggested no major change in the domestic business situation, with prospects favoring a continuation of an upward movement at a moderate pace. The unemployment rate edged down, although at 5.5 per cent it was not significantly different from a year earlier. It appeared probable from incomplete information that industrial production in August had changed little from the July level, with sharp declines in auto output—associated with the model change-over—and in steel production approximately offset by rises in other lines. Weekly data suggested that retail sales may have risen slightly further. Scattered reports of price increases for some industrial commodities were about balanced by re-