FIFTY-FIRST

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1964

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS IN 1964

Period	Action	Purpose
January–mid-August	Increased the System's holdings of U.S. Government securities, after having reduced them seasonally early in the year. On balance, total holdings rose about $1.1 billion, $300 million of which represented net purchases of securities with maturities of over 1 year. Member bank borrowings averaged about $275 million.	To provide for moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy while fostering improvement in the capital account of U.S. international payments, after offsetting seasonal downward pressures on short-term interest rates early in the period.
Mid-August–late November	Increased the System's holdings of U.S. Government securities by about $1.5 billion, of which $600 million represented net purchases of securities with maturities of more than 1 year. Member bank borrowings averaged about $350 million.	To maintain slightly firmer conditions in the money market with a view to minimizing the outflow of funds attracted by higher short-term interest rates abroad while offsetting reserve drains and providing for growth needs of the domestic economy.
Late November	Raised discount rates from 3½ to 4 per cent. Raised maximum interest rates payable on savings deposits held for less than 1 year from 3½ to 4 per cent and those on other time deposits from 4 to 4½ per cent for maturities of 90 days or more and from 1 to 4 per cent for maturities of 30-89 days.	To counter possible capital outflows that might be prompted by any widening spread between money market rates in this country and the higher rates abroad, following a rise in official and market rates in London, while at the same time ensuring that the flow of savings to commercial banks remains ample for the financing of domestic investment.
Late November–December	Increased the System's holdings of U.S. Government securities by about $765 million, part of which represented securities acquired under repurchase agreements. Member bank borrowings averaged about $275 million.	To offset seasonal reserve drains and to accommodate further moderate expansion in aggregate bank reserves while ensuring that the rise in money market rates following the discount rate actions did not restrict the availability of domestic credit.

April 14, 1964

Authority to effect transactions in System Account.

The data available to the Committee at this meeting did not suggest a quick response by consumers to the early March reduction in income tax withholding rates. Retail sales in that month were below the record February level as sales of durable goods, including new autos, declined and sales of nondurable goods were unchanged.

Other information for March suggested little change from the recent pattern of moderate business expansion. The unemployment rate remained at 5.4 per cent, wholesale commodity price averages continued stable, and the industrial production index again rose by one-half of a percentage point. Revised business inventory figures for January showed a rise rather than the decline previously reported, but preliminary figures for February indicated no further increase, and stock–sales ratios were below their relatively low fourth-quarter average.

Bank credit expanded substantially in March; in the first quarter as a whole it rose at an annual rate of about 11 per cent, compared with 8 per cent in the full year 1963. However, first-quarter growth rates in the privately-held money supply and in commercial bank time and savings deposits were somewhat below those recorded during 1963. These differential movements reflected mainly a recent sizable increase in Government deposits. Among the components of bank credit, first-quarter rates of increase in business loans and in holdings of municipal and Federal agency issues were considerably below those of 1963. On the other hand, the rate of increase in loans other than business loans stepped up in the first quarter, and banks acquired a substantial volume of Government securities after reducing their holdings during 1963.

Free reserves of member banks averaged about $100 million in March, little changed from February, but they were higher in the latter part of the month and in early April.

In security markets, yields on corporate and municipal issues had stabilized in recent weeks at levels close to the highs reached around the turn of the year. However, yields on Treasury notes and bonds—particularly those of intermediate maturity—declined, and rates on 3-month Treasury bills fell below the 3½ per cent discount rate for the first time since early December. The volume of new corporate security offerings was expected to be at a record level in April as a result of an unusually large corporate stock issue. State and local government offerings also were expected to increase sharply.

A substantial surplus was recorded in the U.S. balance of payments in March, according to tentative figures. It appeared possible that a small surplus would be shown for the first quarter as a whole, although this was not yet certain. The improvement occurred despite a continued large volume of short-term bank loans and acceptance credits to foreigners. It apparently was due to a large surplus on trade account, near balance in flows of portfolio capital, and a decline in net Government expenditures abroad. Various projections suggested that the payments balance would deteriorate somewhat over the rest of the year but that it would still show improvement relative to 1963.

The Committee concluded that its recent policy remained appropriate in light of the continued moderate pace of the domestic economic advance and the improvement in the U.S. international payments position. Another factor influencing this conclusion was the expectation that the Treasury would be announcing the terms of its May refunding in about 2 weeks. Some members felt that money market conditions had been unduly easy in the period since the last meeting, as evidenced, among other ways, by the recently higher level of free reserves and the decline in the Treasury bill rate. These members, who were in the minority, advocated open market operations with a view to attaining slightly firmer conditions.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, money supply, and the reserve base, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources, and that it is likely to receive additional stimulus from the recently enacted reduction in Federal income tax rates. This policy also takes into account the facts that the balance of payments position, while improved, may still be adverse, and that the effects of increases in money rates in important countries abroad are as yet uncertain.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Daane, Mills, Mitchell, Shuford, Swan, Wayne, and Treiber. Votes against this action: Messrs. Balderston, Hickman, and Shepardson.

Mr. Hickman dissented from this action because he thought the implementation of policy since the preceding meeting had produced easier money market conditions than the Committee had intended. In his judgment present conditions were inconsistent with the best interests of the U.S. economy in view of current business optimism, earlier growth rates in member bank reserves, and the threat of increased capital flows abroad. Mr. Shepardson noted that consumer prices were continuing to drift upward and that the margin of excess industrial capacity had been reduced significantly. He thought the economy was close to a point where there could be significant upward pressures on prices and that continuation of the current posture of ease might necessitate drastic action later. Accordingly, he favored a moderate reduction from the recently prevailing degree of ease in order to put the Committee in a better position to cope with any inflationary pressures that might develop. Mr. Balderston indicated that he shared the concerns expressed by Messrs. Hickman and Shepardson.