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. |

high level of $10.2 billion, and it was reported that the Treasury planned to announce a major advance refunding on the day following this meeting.

The U.S. balance of payments deficit for the second quarter was tentatively estimated at a seasonally adjusted annual rate in the neighborhood of $3 billion, much larger than the first-quarter rate of $0.7 billion. The high month of the second quarter was April, however, and after that the monthly deficits were significantly smaller, although still above the first-quarter rate. A decline in the trade surplus from the unusually high first-quarter rate probably accounted for about half of the increase in the deficit. In early July both Belgium and Switzerland increased their discount rates by one-half of a percentage point.

The Committee concluded that its policy should be continued unchanged for the next 3 weeks. The expected Treasury financing was an important factor in this decision, but most Committee members felt that recent domestic and international developments did not call for a policy change at present in any case. 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 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, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, accompanied recently by a more rapid expansion in money supply and some decline in interest rates. It also gives consideration to the relative stability in average commodity prices; the underutilization of manpower and other resources; the country's less favorable international payments position in the second quarter; and the further interest rate advances in important markets abroad.

To implement this policy, and taking into account probable Treasury financing activity, 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, Hayes, Balderston, Daane, Hickman, Mills, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against action: None.

## July 28, 1964

**Authority to effect transactions in System Account.**

Economic activity was continuing to advance, although in some areas expansive tendencies appeared somewhat less strong than earlier in the year. Pressure on resources remained moderate, and industrial prices continued stable.

GNP in the second quarter was estimated at an annual rate of $618.5 billion, about $10 billion above the first quarter. Industrial production rose further in June and was about 4 per cent higher than 6 months earlier. Retail sales in June equaled their record May level and apparently increased moderately further in the first half of July. However, total consumption expenditures increased less in the second quarter as a whole than in the first quarter, despite the tax cut, and personal saving rose sharply. Nonfarm employment rose further in June, but the rate of increase had shown signs of moderating in recent months, and the unemployment rate continued to exceed 5 per cent. Although housing starts rose slightly in June, on balance they had been tending downward since the autumn of 1963. Business inventory policies continued cautious; the rate of inventory accumulation in the second quarter was little larger than the modest first-quarter rate, and inventory–sales ratios remained low.

Both bank credit and the money supply recorded substantial increases in June. Rapid growth in the money supply continued in the first half of July, raising the annual rate of increase for the year to date to over 4 per cent. Time and savings deposits continued to expand at about the average rate of earlier months this year.

Conditions in financial markets generally were affected relatively little by the Treasury's recently completed advance refunding, in which about $9¼ billion of securities maturing within 3 years were exchanged for longer-term issues. Yields on long-term Government bonds increased slightly, but corporate and municipal bond yields showed little change. This relatively small reaction was attributed to continuing large flows of long-term savings and to investor confidence in current levels of interest rates. The downdrift in Treasury bill rates that was evident earlier continued during the exchange period, but it halted, at least temporarily, after a sale of a $1 billion bill strip by the Treasury. It was reported that the Treasury planned to redeem the remaining issues maturing on August 15 with the proceeds of additional short-term financing.

The balance of payments deficit for the second quarter was somewhat lower than estimated earlier, but tentative figures for the first 3 weeks of July showed an increase much larger than expected on seasonal grounds. Supporting detail was not yet available to indicate the categories of the payments accounts in which the increase had occurred.

It was the consensus of the Committee that domestic and international developments, on balance, did not require a change in policy. Recent and prospective Treasury financing activity also militated against a policy change. Some members thought that it would be desirable to maintain as firm a short-term interest rate structure as possible within the context of a generally unchanged policy, in light of the continuing balance of payments problem and particularly in view of an apparent deterioration in the U.S. payments balance in recent weeks. Other members thought such a course was unjustified because the data reflecting recent worsening were highly tentative; the causes of the deterioration were not yet clear; and domestic circumstances in their judgment called for continuing the existing degree of monetary ease. It was agreed, however, that the balance of payments problem warranted continuing close attention by the Committee.





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

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To implement this policy, and taking into account Treasury financing activity, 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, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

## August 18, 1964

**Authority to effect transactions in System Account.**

In July, according to reports at this meeting, domestic business activity continued to expand in an orderly fashion. The industrial production index recorded a substantial further gain as output of materials, business equipment, and consumer goods all increased. Retail sales, which had declined in June according to revised figures, renewed their earlier rise and exceeded the May peak. The unemployment rate declined appreciably to 4.9 per cent—moving below the 5 per cent level for the first time