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.

(a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;

(b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies;

(c) purchases through spot transactions and concurrent sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations; and

(d) sales through forward transactions, for the purpose of influencing interest arbitrage flows of funds and of minimizing speculative disturbances.

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance with the Guidelines and up to a total of $100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Ellis. Votes against this action: None.

November 10, 1964

1. Authority to effect transactions in System Account.

Underlying domestic economic conditions appeared to have remained favorable in October despite work stoppages in the

automobile industry. Industrial production and retail sales apparently continued strong apart from the effects of interruptions in auto output, and over-all commodity price averages remained relatively stable. The unemployment rate was unchanged at 5.2 per cent.

Although declines in output in the auto and closely related industries were estimated to have reduced the index of industrial production for October by 2-3 percentage points, activity in other industries probably was maintained or increased further. New car sales were down sharply on a seasonally adjusted basis in October, but sales at furniture and appliance stores and at outlets for nondurable goods were up. Total construction activity edged down further in October, as residential building remained appreciably below the highs reached in the fall of 1963.

Strong upward pressures on wholesale prices were still limited to nonferrous metals. However, selective increases continued to be announced for other commodities, and recent weekly estimates showed a small increase in the average for industrial commodities. The consumer price index rose further in September at the slow pace of recent years.

Results of a private survey of business plant and equipment spending plans, taken in October, indicated that the level of such outlays planned for 1965 was about 5 per cent above the estimated 1964 total and little changed from the rate indicated for the final quarter of 1964 by the August Commerce–SEC survey. The increase in capital spending from 1963 to 1964 was estimated at about 14 per cent on the basis of returns in the private survey. While it was noted that actual outlays in years of business expansion often were larger than those reported as planned in the preceding autumn, these survey results still suggested some possible slowing from the recent growth rate in capital outlays.

Bank credit, after expanding sharply in September, was down moderately by the end of October according to preliminary estimates, perhaps partly because of the effects of the auto industry work stoppages. The money supply, which had grown at an annual rate of about 6 per cent in the third quarter, rose at a 4.6 per cent rate in October, increasing sharply in the first half of the month but then declining in the second half. Commercial bank time and savings deposits rose more than in other recent months. Free reserves at member banks averaged about $90 million, little changed from the September level.

The money market was firm during most of October and early November, although varying conditions in different segments of the market contributed to a slightly easier tone from time to time, notably after the Columbus Day holiday. Bond markets turned stronger in recent weeks as a result of somewhat reduced demands for outside financing, a continuing large flow of savings, and growing investor confidence in current interest rate levels, and at the end of October yields on long-term Government bonds were close to their lowest levels since early August. The Treasury currently was engaged in a $9¼ billion cash offering of new 18-month notes, most of the proceeds of which would be used to redeem securities maturing on November 15.

Preliminary data suggested that the U.S. balance of payments deficit for October, after allowance for seasonal factors, continued at about the same annual rate as in the third quarter, now estimated at $2.3 billion. The trade surplus rose in September mainly because of higher exports in anticipation of a possible port strike. The United Kingdom recently had instituted measures designed to reduce a large deficit in its balance of payments, including a temporary 15 per cent surcharge on imports of manufactured goods, but not including an increase in the discount rate of the Bank of England.

The Committee agreed that no change should be made in monetary policy at this time, although a number of members thought there were some grounds for seeking slightly firmer conditions in the money market and a reduction in the growth rates of bank credit and the money supply from those prevailing during

recent months. Some of these members expressed the view that firmer money market conditions and less easy credit availability would be helpful in limiting private capital outflows from the United States. Others emphasized domestic considerations, indicating that they believed recent money and credit growth rates were offering an undesirable degree of encouragement to latent inflationary pressures. Most members in this group concluded, however, that other considerations militated against a change in policy at this meeting, including the fact that the current Treasury financing was still in process.

Other members thought that no change in policy was warranted at present even apart from the Treasury financing. Among the reasons advanced by individual members who held this view were that the U.S. balance of payments position had not been deteriorating recently, that commodity prices continued stable on average, and that the case for firmer money market conditions based on domestic considerations was, on the whole, weaker at present than it had been earlier in the fall. Some of these members also believed that even a slight shift in policy now might set off market reactions that would culminate in a need to raise the Federal Reserve discount rate, an action that they considered undesirable at present both on domestic grounds and in view of the balance of payments problems of the United Kingdom.

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 apparent underlying strength in current economic conditions, apart from the effects of work stoppages in the automobile industry; indications that the rate of increase in business capital spending may moderate in the coming year; relative stability in broad commodity price averages, even though additional price increases have occurred in some materials markets; and the recent reduction in bank credit and monetary expansion from the high rates of summer. It also gives consideration to the persistence of a sizable deficit in the U.S. balance of payments.

To implement this policy, and taking into account the current Treasury financing, 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, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Hayes.

Mr. Hayes favored undertaking operations designed to encourage somewhat firmer money market conditions immediately after the current Treasury financing was completed. He thought the situation posed by the persistence of a balance of payments deficit at the current rate was sufficiently serious to outweigh other considerations that might argue against a change in policy at this meeting. In his judgment the domestic economy was fully strong enough to withstand a moderate policy change without damage. Moreover, he saw merit in a slight policy change from the domestic standpoint, in light of his views that bank credit had grown at a rapid rate thus far in 1964 and that a threat of inflationary developments existed at present. Accordingly, he dissented from this action.

2. Amendment of continuing authority directive.

On the recommendation of the Account Manager, Section 1(b) of the continuing authority directive to the Federal Reserve Bank of New York was amended to raise the dollar limit on

System Open Market Account holdings of bankers' acceptances from $75 million to $125 million. The concurrent percentage limit on holdings, of 10 per cent of the total of bankers' acceptances outstanding, was left unchanged. With this amendment, Section 1(b) read as follows:

To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $125 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

In 1958, when the $75 million limit on System Account holdings of bankers' acceptances had been established, the dollar volume of acceptances outstanding in the market was less than half of its current level. The increase in the dollar limit to $125 million was considered appropriate in view of the substantial growth in the market since that time.

November 24, 1964

Authority to purchase and sell foreign currencies.

On the day preceding this meeting, which was held by telephone, the Bank of England had raised its discount rate from 5