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ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1957

Digest of Principal Federal Reserve Policy Actions, 1957

Period	Action	Purpose of action
January–June	Reduced holding of U. S. Government securities by about $1.8 billion. Member bank borrowings increased from an average of $400 million in January to $1 billion in June.	To offset the effect on reserves of seasonal factors and the sale of $600 million of gold to the United States Treasury by the International Monetary Fund, and to exert pressure on bank reserve positions by bringing about a higher level of member bank borrowings.
August	Raised discount rates from 3 to 3½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market money rates and maintain the restrictive effect of member bank borrowing.
July–Mid-October	Bought and subsequently sold small amounts of U. S. Government securities at various times. Member bank borrowings remained at or near average of $1 billion.	To meet changing reserve needs and at the same time maintain continuing pressure on bank reserve positions.
Mid-October–December	System holdings of U. S. Government securities increased by $1 billion, including substantial amounts of securities held under repurchase agreement. Member bank borrowings declined to an average of less than $750 million.	To increase the availability of bank reserves and thereby cushion adjustments and mitigate recessionary tendencies in the economy.
November–December	Reduced discount rates from 3½ to 3 per cent at all Reserve Banks.	To reduce the cost of borrowing from the Reserve Banks and eliminate any undue restraint on bank borrowing in view of the decline in business activity and evidences of economic recession.

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

The policy directive of the Federal Open Market Committee in effect at the beginning of 1957 was the directive that had been approved at the meetings on November 27 and December 10, 1956. This directive, which placed emphasis on restraining inflationary developments and which was issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System open market account, read as follows:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System open market account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary developments in the interest of sustainable economic growth, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

ment, which had shown pronounced gyrations over the past two years, being at times more optimistic than the figures and portents, at other times less optimistic, appeared to be developing into a psychology of gloom in some places and was much more cautious about prospects than for some months. That was reflected in inventory policy which, after permitting some rise in the spring months, later was designed to hold inventories in close relationship with sales. On the other hand, the reports to the Committee at this meeting did not present a picture of a settling or declining economy. There was considerable feeling that while inflationary clouds might be breaking up, it would be premature to conclude that they had been scattered.

The most significant financial development reported to the Committee was that there had been a leveling out of interest rates at the advanced level of early August. This leveling out had occurred notwithstanding the increase in Reserve Bank discount rates, the unprecedented two-point rise in the rate of the Bank of England, continued large offerings of new security issues by corporations and State and local governments, and relatively heavy borrowing by the United States Treasury. A smaller than seasonal increase in business loans in the first half of September had been followed by an unusually large decline in the latest week. Required reserves of banks had increased less than anticipated, reflecting the smaller increase in credit and deposits. For the third quarter as a whole, growth in bank loans had fallen further behind the preceding year than had been the case in the second quarter, but bank investments had increased somewhat more than in the previous year. The money supply was less than one per cent higher than a year earlier. This picture suggested that banking developments had kept within the limits envisioned by recent policies of credit restraint and that capital market rates might have reached the level appropriate to the maintenance of equilibrium.

The views of the Open Market Committee at this meeting were that there should be no change in policy or in the Committee's directive at this time. In reaching this conclusion, the Committee did so with the understanding that, in carrying on transactions for the System open market account, an effort would be made to continue the same degree of restrictive pressure that had been sought during the preceding three weeks.

October 22, 1957

Authority to effect transactions in System account.

The Committee renewed its policy directive with the same wording that had been adopted at the meeting on March 5 and at each meeting since, namely, that open market operations were to be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation."

> Votes for this action: Messrs. Hayes, Vice Chairman (presiding), Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, and Williams. Votes against this action: None.

The over-all situation at the time of the October 22 meeting was such as to suggest that the Committee should be especially alert to any sign of breakout from the sidewise movement that had been characteristic of business for some months. In a searching reexamination of the economic situation, the Committee found that the latest quarterly and monthly figures showed continuation through the third quarter of 1957 of many features prevailing earlier in the year, with production steady at a high level, price movements in wholesale markets mixed with the average up, and consumer prices generally continuing upward. September industrial production was at 144, down a point from August but within the narrow 143 to 146 range prevailing so far this year. The economy as a whole showed basic strength, but there was uncertainty as to what combination of demands would prevent recession in activity, or, on the other hand, make for an advance in total output and employment from present levels.

In analyzing the implications of recent business and credit developments for monetary and fiscal policy, it appeared that there had been short-run abatement in inflationary pressures, and questions were raised about potential declines in important sectors of activity. Business sentiment had turned more pessimistic than the current indicator picture, and attitudes of common stock investors appeared to reflect a growing disbelief in the extension of inflationary trends. Business loan expansion was continuing to run behind the preceding year. As a result of the increasing uncertainty as to the business situation, resulting particularly from psychological factors and from international developments including the Russian earth satellite launching, the environment for monetary policy was beginning to look quite different from the boom conditions that initially justified the current restrictive policy. It was suggested that the Federal Reserve System should meet seasonal reserve requirements freely and that, if readjustments then taking place were to gather momentum, some easing of member bank reserve positions and even a decrease in Reserve Bank discount rates might be appropriate. In sum, the economic data presented indicated that developments in business and economic conditions would have to be watched particularly closely in coming weeks in order to make policy adjustments that might be suitable.

The Committee concluded, after reviewing the data, that there was no immediate occasion to reverse its policy of restraint on credit expansion or to make a change in the policy directive. While it was clear that the Committee at this juncture did not wish to make any move which would signal a change in policy, it wished to supply seasonal needs reasonably freely. It did not wish to increase restraint from what it had been. There was some feeling that the Committee should actually diminish restraint a little, but more of the members believed that the Committee should resolve doubts on the side of ease. Thus, in renewing the directive without change, the Committee agreed that although general policy was not to be changed appreciably, it should tend on the easier side from where it had been in recent weeks.

November 12, 1957

Authority to effect transactions in System account.

The directive of the Federal Open Market Committee was changed at this meeting by deleting the clause that had been in effect since March 5, 1957 calling for operations with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation," and by replacing that clause with wording that called for operations with a view, among other things, "to fostering sustainable growth in the

economy without inflation, by moderating the pressures on bank reserves."

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Shepardson, Szymczak, and Williams. Vote against this action: Mr. Robertson.

Data presented to the Committee at this meeting showed that the economic climate domestically was in process of change, that expansive forces had eased, and that contractive forces had become more prominent. Declines were indicated by data for October covering industrial production, employment, and department store sales, and unemployment claims were running sharply above a year earlier. These changes had followed significant weakening in business sentiment as evidenced by sharp declines in stock market prices, in prices of sensitive commodities, and in new orders. There also had been a sizable number of professional forecasts of business decline. The spreading view that business outlays for fixed capital were heading downward had been given recent support by a survey of plans for capital spending in 1958, which showed a decline of a tenth or more. Private demands for bank credit had eased considerably in October, with business loans at city banks showing a substantial decrease in contrast to a marked increase customary during that month. Demands for long-term funds, however, continued strong. Yields on Government securities had declined steadily although moderately in recent weeks. Bank reserve positions had eased somewhat since early October, reflecting in part a decline in required reserves and in part Federal Reserve open market operations.

Among the latest specific data presented at this meeting, the Committee noted that after five months of little change, domestic output at factories and mines was expected to show a drop of as much as two index points from September to October. Declines in output were widespread although most conspicuous in durable goods lines. Both freight carloadings and electric power generation in October were off moderately, the decline in carloadings extending a decline that had begun in April and that for power generation a decline that commenced in August. While total new construction was holding at a high level, industrial construction had continued the decline that had set in in May of this year. Business inventory accumulation had slowed markedly in recent months. Nonfarm