FORTY-FIFTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1958

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1958

Period	Action	Purpose of action
January	Limited net reduction in holdings of U. S. Government securities to $900 million, more than half of which represented securities held under repurchase agreement at end of year. Member bank borrowings declined to an average of $450 million.	To ease reserve positions by absorbing only part of the reserves made available by seasonal factors affecting bank reserve positions.
January	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To recognize that dangers of excessive use of credit for stock market speculation had subsided, since stock prices and the volume of credit in the stock market had declined to levels near or below those prevailing at the time of the previous increase in requirements.
January–February	Reduced discount rates from 3 to 2¾ per cent at 11 Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and increase further the availability of bank reserves in order to encourage bank credit and monetary expansion conducive to resumed growth in economic activity.
February	Reduced reserve requirements on demand deposits from 20 to 19½ per cent at central reserve city banks; from 18 to 17½ per cent at reserve city banks; and from 12 to 11½ per cent at country banks, thus freeing an estimated $500 million of reserves.	
March	Reduced discount rates from 2¾ to 2¼ per cent at 11 Reserve Banks and from 3 to 2¼ per cent at one Reserve Bank.	
March	Reduced reserve requirements on demand deposits from 19½ to 19 per cent at central reserve city banks; from 17½ to 17 per cent at reserve city banks; and from 11½ to 11 per cent at country banks, thus freeing an additional $500 million of reserves.	
February–Mid-April	Purchased about $450 million of U. S. Government securities. Member bank borrowings declined further to an average of about $180 million.	To supplement reserve requirement actions in further increasing the availability of bank reserves.
April	Reduced reserve requirements on demand deposits from 19 to 18 per cent (in two stages) at central reserve city banks and from 17 to 16½ per cent at reserve city banks, thus freeing a total of about $450 million of reserves.	To supplement previous actions to encourage bank credit and monetary expansion and resumed growth in economic activity and to offset current gold outflow.
April–May	Reduced discount rates from 2¼ to 1¾ per cent at all Reserve Banks.	
Mid-April–June	Purchased outright about $1.7 billion net of U. S. Government securities. Member bank borrowings declined further to an average of $100 million at the end of June.	
July–early August	Bought a small volume of U. S. Government securities other than short-term issues and a large amount of securities involved in a Treasury refinancing. Promptly thereafter reduced Treasury bill holdings substantially.	To correct disorderly conditions in the Government securities market, to facilitate the Treasury refinancing, and then to recapture the bank reserves created by the earlier securities purchases.
August	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities. The volume of credit in the stock market and stock prices were advancing sharply and were at or near the highest levels since World War II.
August–early September	Made little change in holdings of U. S. Government securities. Member bank borrowings increased to an average of more than $400 million in early September.	Open market action not taken to offset drains on reserve funds reflecting bank credit and monetary expansion resulting from seasonal factors and the sharp upturn in economic activity.
August–September	Raised discount rates from 1¾ to 2 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with market rates and to increase the cost of borrowing by individual banks from the Reserve Banks in case of increasing demands for bank credit.
October	Raised margin requirements on loans for purchasing or carrying listed securities from 70 to 90 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities.
Late October–early November	Raised discount rates from 2 to 2½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market rates.
Mid-November–December	Increased system holdings of U. S. Government securities about $900 million, including securities held under repurchase agreement. Member bank borrowings rose to average of $560 million in December.	To meet part of reserve needs associated with seasonal factors and a further moderate outflow of gold.

decline or perhaps by a sideways movement after the current decline had run its course. The shift in System credit policy in the fall of 1957 had made it clear that open market operations were being directed toward assuring an adequate volume of credit for all potential borrowers with economically sound credit needs, but on the other hand System policy had not gone to the point of trying to bring about an excessive volume of free reserves.

In concluding that no change should be made in the policy directive, the Committee agreed that a slight easing in the reserve positions of banks would be desirable and that operations in the System Open Market Account should be conducted with sufficient latitude to permit this development to take place within the limits of the directive.

January 28, 1958

Authority to effect transactions in System Account.

The Committee made no change at this meeting in the wording of the directive to the Federal Reserve Bank of New York, which called for operations in the System Open Market Account directed toward cushioning adjustments and mitigating recessionary tendencies in the economy.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, and Williams. Votes against this action: none.

Economic decline had acquired a definite momentum at the time of this meeting, and further decreases in production, employment, and other measures of activity were in prospect. It appeared that the industrial production index for January would show a decline of 2 or 3 percentage points from December, which would put it about 8 per cent below the early 1957 level, and unemployment claims were continuing to increase.

The declines in activity during recent months had been traceable primarily to adjustments in the capital goods area, and it was pointed out that readjustments in this particular area might take

considerable time. Installation of much new capacity during the past few years had eased the supply situation enough so that for some time there had been less incentive for buyers to maintain inventories and, at this time, they were being reduced. While inventory adjustments could occur fairly quickly, the rapidity of adjustment in both the inventory and capital goods areas would partly depend on changes in other demands, including consumer demands, State and local government demands, defense demands, and foreign demands.

The free reserve position attained thus far by member banks had been of moderate size, and monetary expansion, which had paused in the latter part of 1957, had not yet been resumed. Demand for bank loans now appeared to be showing a slackening drift, reflecting a larger than seasonal decline in business loans and also liquidation of dealers' positions in Government securities financed with bank credit in December. A large Treasury financing operation was expected shortly, and, although there were prospects that reserve availability would expand in coming weeks owing to further seasonal decline in deposits and to a reduction in Treasury cash balances, it was suggested that it would be desirable to continue through open market operations at least the present degree of reserve availability until indications of monetary expansion appeared. Some members suggested a more aggressive easing immediately, believing that could be done without disturbance to the forthcoming Treasury financing. Such a policy would be consistent with the reduction in discount rates to the 2¾ per cent level that had been made at several of the Federal Reserve Banks just prior to this meeting.

In all the circumstances, the Committee concluded that, even though the level of economic activity was continuing to decline, there should be no change at this meeting in the policy of supplying reserve funds in a manner that would cushion adjustments and mitigate recessionary tendencies in the economy and that, in view of the desirability of having an "even keel" during the period of the Treasury financing, open market operations should be directed toward maintaining approximately the same condition in the money market that had existed immediately prior to this meeting.