

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 2½ 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 2¾ 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.	
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.	

Period	Action	Purpose of action
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.

feeling that the policy directive should reflect a more positive approach to recovery than was embodied in the wording calling for "cushioning adjustments and mitigating recessionary tendencies in the economy." Agreement was reached on the change indicated, namely, that during the period following this meeting open market operations should be with a view to "contributing further by monetary ease to resumption of stable growth of the economy."

The Committee also discussed whether the discount rates at the Federal Reserve Banks should be reduced further from the prevailing level of $2\frac{3}{4}$ per cent, concluding that the matter should take its course at the respective Federal Reserve Banks.

Elimination from the directive of the third paragraph authorizing the sale direct to the Treasury from the System Open Market Account for gold certificates of Treasury securities up to an aggregate of \$500 million resulted from the belief that under current circumstances, including the action taken by the Congress to increase the national debt limit from \$275 to \$280 billion, such an authorization was not likely to be used.

March 25, 1958

Authority to effect transactions in System Account.

The Committee renewed without change the directive approved at the meeting on March 4, 1958, which called for transactions in the System Open Market Account with a view, among other things, to contributing further by monetary ease to resumption of stable growth of the economy.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

Economic information presented to the Committee indicated a likelihood that industrial production during March would fall below the rate for February, which was 130 per cent of the 1947-49 average. The February figure represented a decline from 135 in December 1957 and 145 last August, which meant that in the six months from August to February industrial production had declined a little more rapidly than in the corresponding periods of early recession in 1948-

49 and 1953-54. Employment had continued to decline in both manufacturing and nonmanufacturing lines, with the decrease particularly marked in durable goods industries. Unemployment had risen sharply to 5.2 million in February, the number of workers on part time had increased further, and the number working overtime had continued to decline. Meanwhile, however, both consumer and wholesale prices were appreciably higher in February than in December, reflecting principally higher prices of food products and higher charges for services. Inventory liquidation was proceeding at a rather rapid pace, while business outlays for plant and equipment were continuing downward, with no turning point yet in sight. Although consumer buying had been well sustained, the February figures on retail sales were below the same month last year and it appeared that this trend might be continuing in March.

In the securities markets, stock prices had moved up irregularly and high-grade corporate bond prices had declined slightly since late January. A more than seasonal reduction in bank loans to business had accompanied declines in economic activity and business inventories, but the banks had been increasing their investments since late in the fall of 1957 and total bank credit outstanding had increased at a season when a decrease is usual. Corporations had obtained large amounts of new capital, and borrowing by the Treasury and other Government entities had been large.

There had been a fair degree of stability in activity abroad. Although the leveling off in activity overseas had had a disproportionate impact on exports from this country, the major part of the downward adjustment in exports appeared to have been completed. Thus far, the recession in the United States had had only a limited impact on the industrialized European countries.

The record of free reserves and short-term interest rates since the last Committee meeting suggested that the degree of ease desired by the Committee had been achieved. However, there was at the same time an occasional tendency for a feeling of relative tightness to develop temporarily in the money centers. The commercial banks, generally speaking, seemed to have adequate reserves at their disposal for the expansion of credit, but it appeared that the reduced level of liquidity which came about in the late stages of the 1955-57 boom might still be exerting some dulling effect on their attitudes toward

lending. Accordingly, it was regarded by some as questionable whether the commercial banking system would be an active instrument in fostering recovery until it had attained substantially greater liquidity.

In the last 130 days the System had moved on a broad front to establish a condition of credit ease. Aside from open market operations making reserves more readily available, the discount rates of the Federal Reserve Banks had been reduced in several steps from 3½ per cent to 2¼ per cent, the latest reduction having been effected in the period since the last meeting of the Committee. In addition, there had been two reductions totaling one percentage point in member bank reserve requirements against demand deposits, the more recent of which became effective for central reserve and reserve city banks on March 20, 1958, and would become effective for other member banks on April 1, 1958. The present posture of Federal Reserve policy was one of ease and it was the view of the Committee that it should continue to be such. Discussion brought out the comment that, although further discount rate reductions might possibly seem logical in view of the level of the Treasury bill and other money market rates, a change on the eve of a Treasury financing might incite undesirable speculation in the Government securities market.

While making no change in the existing policy directive, the Committee concluded that operations in the System Account should be directed toward maintaining a slightly larger volume of free reserves and money market conditions slightly easier than had been achieved since the last meeting of the Committee.

April 15, 1958

Authority to effect transactions in System Account.

This meeting of the Committee resulted in a decision to continue without change the policy directive calling for operations designed to contribute further by monetary ease to resumption of stable growth of the economy.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Robertson, Shepardson, and Szymczak. Votes against this action: none.

Data available to the Committee indicated some slowing down in

the pace of decline for total output and employment, some leveling out in trade, and maintenance of construction activity at close to record levels in value terms. In contrast, there were some developments of an expansive character in finance. While the picture domestically therefore appeared as one of more diversity or crosscurrents than earlier in the year, the over-all drift of the economy nevertheless was still plainly downward. Current statistics offered only slight basis for the hope that the saucing-out phase of the recession was at hand. After allowances for seasonal influences, the labor market continued to show further weakening, while surveys of business plans for plant and equipment expenditures reflected a further substantial projected cutback for 1958 as compared with 1957. The industrial production index for March was estimated to have declined two points further to 128, and preliminary April information indicated further output curtailment, much along the lines of the March pattern but with the possibility of some slowing. Retail trade, seasonally adjusted, was estimated to have been off another one per cent in March, manufacturers' sales and orders continued to show declines, with the fall-off much sharper in durable goods than in nondurable goods lines, and business inventory liquidation was believed to have continued in March at quite a sharp rate. At the same time, prices at wholesale and in consumer markets had risen further to late March, putting the indices a full one per cent above the December 1957 level.

In the financial area, total credit extended by commercial banks had apparently continued to expand during recent weeks, mostly in the form of short-term liquid assets. Savings of consumers held in financial form seemed to be increasing, while consumer debt had been decreasing. Business loans at banks had increased less than at this time in other recent years but corporate issues for new capital continued at a high level, as did new issues of State and local governments, and the Federal Government had become a net borrower. Deposits at banks had increased, on a seasonally adjusted basis. Short- and medium-term interest rates had shown further declines with wide variations, reflecting changes in liquidity, while long-term rates, under the influence of continued heavy borrowing in capital markets, remained firm.

Nearly \$1 billion of reserves had been released by reductions in