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.	

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.

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 saucering-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 reserve requirements of member banks since February 26 and an additional $250 million had been supplied by System open market operations through April 9. Reserves had been absorbed by an increase in required reserves of about $200 million resulting from growth in deposits, a rise in currency in circulation, foreign operations, consisting principally of gold withdrawals amounting to about $400 million, and changes in float and other factors. Free reserves in the aggregate had averaged somewhat in excess of $500 million. Although country banks appeared to be well supplied with reserves, banks in New York and Chicago, and probably in some other cities, had experienced wide fluctuations in their reserve positions and had borrowed heavily in the Federal funds market. It appeared that a substantial amount of additional reserves might need to be supplied by the Federal Reserve System in the next few weeks in order to maintain a condition of ease conducive to further credit and monetary expansion.

Reports at this meeting indicated that the directors of some of the Federal Reserve Banks had been giving serious consideration to the establishment of a discount rate lower than the existing 2¼ per cent rate. With the recent Treasury financing now completed, it appeared that those Reserve Banks might act to establish a lower rate rather quickly. A further reduction in the reserve requirements of member banks was seen as a possible means of providing the additional reserves that would otherwise have to be supplied by open market operations during the next few weeks in order to maintain the present level of free reserves. If the reduction were concentrated at central reserve and reserve city banks, it would also have a tendency to relieve pressure that occasionally developed in the money centers. Taken together, it was suggested that such actions on the discount rate and reserve requirements would clearly confirm the current easing posture of monetary policy and reinforce the policy objective of assisting the recovery of the economy.

The Committee was of the view that there was no reason to change its policy directive at this time. Free reserves had averaged slightly higher during the period since the last meeting of the Committee than during the preceding three-week period, and it was agreed that this general level should be maintained. It was noted, however, that if action should be taken in the near future on both the discount

rate and reserve requirements, the level of free reserves would tend to become relatively incidental, as long as the free reserve position did not decrease to an extent that might make it appear as though the System was reversing policy.

May 6, 1958

Authority to effect transactions in System Account.

The policy directive calling for operations to contribute further by monetary ease to resumption of stable growth of the economy was again renewed at this meeting.

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

Although some statistical evidence suggestive of a slowing of economic decline had been accumulating, most of the information available to the Committee at the time of this meeting indicated that the recession was still deepening and that a bottom was yet to be established. Among other things, the index of industrial production was estimated to have dropped another two points to 126 in April, manufacturers' sales and new orders were off again in March to about the same extent as in February, business inventory liquidation in March was found to have amounted to a further $700 or $800 million, seasonally adjusted, and estimates of new construction outlays had recently been revised downward due to lower private expenditures. Unemployment in April decreased less than seasonally, initial claims for unemployment insurance were still running at quite high levels, and the number of continued claims of those unemployed for 15 weeks or more was double that recorded in earlier postwar recessions. At the same time, the average of wholesale prices was holding stable and the average of consumer prices was still rising.

Since the preceding meeting of the Committee, there had been a further reduction to 1¾ per cent in the discount rates of most of the Federal Reserve Banks along with a further reduction of one-half percentage point in reserve requirements against demand deposits at central reserve and reserve city banks, while open market operations had been such as to maintain free reserves generally exceeding $500