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.

with the result that the total at the end of April was the largest since July 1957 and was equal to the total at the end of April 1957. Time deposits, other than interbank, were about $7 billion larger than at the same time in 1957, while interbank and United States Government deposits had also risen to higher levels than a year earlier. In addition to the growth in the volume of deposits, the rate of turnover of demand deposits had increased in April, contrary to the usual seasonal trend, and was about the same as in April 1957. Free reserves held close to $500 million during May, substantial drains on reserves attributable to the continued gold outflow and to a larger than seasonal increase in currency in circulation having been largely offset by additional reserves supplied through open market operations and other factors.

Estimates presented to the Committee indicated that reserve needs would be rather large in June and the first half of July, arising in part from seasonal factors and from a larger than usual increase in Treasury deposits at banks. Therefore, in the absence of System action free reserves might generally average much less than the levels that had prevailed recently.

In the light of these estimates and related factors, including the imminent and sizable Treasury financing operation, the Committee considered how best to implement and maintain the current posture of monetary ease without further depressing Treasury bill rates. It was the consensus that no change should be made in the language of the policy directive and that operations in the System Account should be directed toward maintaining an even keel over the ensuing period. In terms of approach, this contemplated that the Account Management would place emphasis on the tone and action of the market and the course of credit developments.

June 17, 1958

Authority to effect transactions in System Account.

The directive was renewed without change, continuing the policy of contributing further by monetary ease to resumption of stable growth of the economy.

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

Economic information available for this meeting was generally on the encouraging side and was confirmatory of the report at the May 27 meeting that bottoming out of recession was in fact occurring. However, analysis of the data suggested that the haze obscuring the outlook had not suddenly lifted, and that it was the better part of wisdom not to conclude as yet that a recovery pattern had definitely taken form. On the other hand, it could not be denied that there was a possibility that an accelerating recovery movement was now shaping up.

High levels of consumer and Government demands seemed to be roughly offsetting recessionary forces generated in the investment area of the economy. Heavy demands on capital markets, including a Treasury bond offering for cash, had been met in part by substantial expansion in bank holdings of securities and loans on securities. Additional reserves had been supplied by System purchases of securities, but on balance free reserves had been somewhat lower than in May. The money market had continued relatively easy until the week of this meeting, but with the mid-June needs for funds for taxes, dividends, and other payments, and with settlement for the recent Treasury offering of securities, it seemed clear that substantial financing needs would have to be met by the banking system during the next two or three weeks which would include the July 4 holiday demand for currency.

Despite the encouragement expressed by most Committee members regarding the business outlook, it did not appear that the time had arrived for backing away from the Committee policy of outright monetary ease or for creating a public impression that the Committee might be backing away from it. There was general agreement that over-all Federal Reserve credit policy should not be changed at this time and that, during the next three weeks, the System should stay about where it was. However, a minority suggested that, apart from open market operations, it might be desirable for some of the need for additional reserves during the immediate future to be met by a further reduction in reserve requirements for member banks. Another and contrasting variation from the general view was that reserves had been supplied in over-generous amounts during the past two months and that further injections to maintain the recent level of around

$500 million of free reserves would abet speculation in the Government securities market and create excessive liquidity.

Consideration of the foregoing factors resulted in a decision that at this meeting the Committee should make no change in Federal Reserve credit policy and that for the next three weeks no action should be taken to cause the tone of the market to get materially easier or tighter.

July 8, 1958

Authority to effect transactions in System Account.

No change was made at this meeting in the Committee's directive calling for open market operations 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.

A summary of the economic data presented at this meeting was that performance of the economy in May and June had been better than had been anticipated. The index of industrial production over those two months had risen two points, and final data might show the rise to be three points. Gross national product for the second quarter was currently estimated to be at least moderately higher than in the first quarter. Whether an abrupt turnabout of activity was taking place or whether the extended improvement merely reflected a temporary rebound of production that had been far below consumption was yet to be determined. However, the odds seemed to favor more than a rebound improvement.

An important feature of the recent strengthening was that it represented a composite of small improvements over a wide range of activities, rather than dominant activity in one or two areas. One big uncertainty in the situation was the possibility of cyclical downturn in European business activity and of a new surge in inflationary forces in the Latin American and Far Eastern countries. However, the evidence at this time did not warrant the inference that European recession was likely to become a force affecting adversely United

States and world trade developments, although it was apparent that developments in those markets would require close observation in the months ahead.

On the financial side, the most striking development since the June 17 meeting had been severe pressure on the Treasury bond market. The underlying feature had been the large commitments in Treasury bonds made by temporary holders, many for pure speculation, induced by expectations of further declines in interest rates, and the attempt to close out those commitments at a time when the money market was under adverse pressure because of exceptionally heavy seasonal liquidity demands. This had called for exceptional amounts of Federal Reserve credit, and the increase in required reserves in the five weeks ending July 2 had been one of the largest on record for a period of that length. System open market operations had supplied $1.4 billion of additional reserve funds, and purchases of Government securities for Treasury investment accounts had been made, notwithstanding which interest rates rose. The Treasury bond market had been notably weak under the influence of the closing out of speculative commitments, and yields on such securities had risen sharply. In addition to the present disturbed atmosphere of the Government bond market, it was noted that important Treasury financing operations were in prospect between this and the next meeting of the Committee.

While some members of the Committee felt that the likelihood of a rapid upturn in economic activity argued for less ease, the Committee reached the conclusion that, on balance, there should be no change in policy at this time and that the directive should be renewed in its existing form calling for continued monetary ease.

July 18, 1958

Authority to effect transactions in System Account.

The Federal Open Market Committee authorized the Federal Reserve Bank of New York to purchase for the System Open Market Account in the open market this afternoon $50 million or less of Government securities at the discretion of the Manager of the System Open Market Account on scale wherever the Manager deemed it appropriate in order to steady the market.