FORTY-SEVENTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1960

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1960

Period	Action	Purpose of action
January-March	Reduced System holdings of U.S. Government securities by about $1.6 billion. Member bank borrowings at the Federal Reserve Banks dropped from an average of $900 million in December to $635 million in March.	To offset the seasonal inflow of reserve funds, mainly from the post-holiday return of currency from circulation, while permitting some reduction in borrowed reserves.
Late March-July	Increased System holdings of Government securities by nearly $1.4 billion. Member bank borrowings at Reserve Banks declined to an average of less than $400 million in July.	To promote further reduction in the net borrowed reserve positions of member banks and, beginning in May, to provide reserves needed for moderate bank credit and monetary expansion.
June	Reduced discount rates from 4 to 3½ per cent at all Reserve Banks.	To reduce the cost of borrowed reserves for member banks and to bring the discount rate closer to market interest rates.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 90 to 70 per cent of market value of securities.	To lower margin requirements from the high level in effect since October 1958 in recognition of decline in volume of stock market credit outstanding and lessened danger of excessive speculative activity in the market.
August	Authorized member banks to count about $500 million of their vault cash as required reserves, effective for country banks August 25 and for central reserve and reserve city banks September 1. Reduced reserve requirements against net demand deposits at central reserve city banks from 18 to 17½ per cent, effective September 1, thereby releasing about $125 million of reserves.	To provide mainly for seasonal needs for reserve funds, and to implement 1959 legislation directed in part toward equalization of reserve requirements of central reserve and reserve city banks.

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1960—Cont.

Period	Action	Purpose of action
August-September	Reduced discount rates from 3½ to 3 per cent at all Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and reduce the differential between the discount rate and market rates of interest.
August-November	Bought or sold at different times varying amounts of Government securities with a net increase in System holdings of about $1 billion, including securities held under repurchase agreement and issues with short maturities other than Treasury bills. Member bank borrowing declined further to average below $150 million in October and November.	To encourage bank credit and monetary expansion by meeting changing reserve needs and offsetting the impact of a large gold outflow without exerting undue downward pressure on short-term Treasury bill rates that might stimulate further outflow of funds.
Late November-December	Authorized member banks to count all their vault cash in meeting their reserve requirements and increased reserve requirements against net demand deposits for country banks from 11 to 12 per cent. The net effect of these two actions, effective November 24, was to make available about $1,050 million of reserves. Reduced reserve requirements against net demand deposits at central reserve city banks from 17½ to 16½ per cent, effective December 1, thereby releasing about $250 million of reserves. Sold U.S. Government securities except for seasonal purchases in last week of December. Member bank borrowings at the Reserve Banks averaged less than $90 million in December.	To provide, on a liberal basis, for seasonal reserve needs, to complete implementation of legislation directed in part toward equalization of reserve requirements of central reserve and reserve city banks, and to offset the effect of continued gold outflow, while avoiding direct impact on short-term rates that might stimulate further outflow of funds.

Following moderate credit expansion in July and August, total bank credit expansion in September, according to preliminary data, was larger than in the corresponding month of other recent years. Business loans at city banks increased fully as much as is usual in September, loans on securities rose much more than seasonally, and bank holdings of securities increased substantially in contrast to the usual decline. These developments appeared to have been associated primarily with heavy tax payments in September. Their liquidity having declined since early in the year, corporations were compelled to sell securities, as well as borrow, in order to meet tax payments. As a result of the pressures on banks and securities markets engendered by the heavy demands for liquidity, there had been some rise in interest rates from the low levels reached in August, notwithstanding actions on the part of the Federal Reserve System to make reserves readily available. The money supply increased slightly more than seasonally in August, and it appeared that there may have been some further increase in September. The Treasury was expected to announce within a few days the terms of refunding of the 1-year Treasury bills maturing in mid-October, along with the terms of an offering to raise new cash.

The latest available information indicated no deterioration in the trade sector of the U.S. balance of payments, but the short-term capital outflow had intensified, apparently due in part to the spread between short-term rates of interest in the United States and the higher rates elsewhere. Net gold purchases by foreigners in September were equal to total purchases for the two preceding months.

In the prevailing circumstances, it was agreed that open market operations should continue to supply needed reserves readily in order to avoid seasonal strain on bank reserve positions, and that doubts should be resolved on the side of ease. The feel and tone of the market were to be emphasized more than statistical guidelines, since the free reserve figure, for example, was still distorted by the inclusion of a widely scattered volume of newly

created reserves that were slow in becoming a factor in the market. To the extent practicable, it was hoped that downward influences on short-term rates could be minimized. The policy directive, which called for encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, was again renewed without change.

> Votes for this action: Messrs. Martin, Balderston, Bopp, Fulton, King, Leedy, Mills, Robertson, Shepardson, Szymczak, Irons, and Treiber. Votes against this action: none.

October 25, 1960

Authority to effect transactions in System Account.

At this meeting the Committee's policy directive was changed in two respects. Clause (b) of the first paragraph, which since August 16, 1960, had provided for open market operations with a view "to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment" was amended to add the words "while taking into consideration current international developments." In addition, the first paragraph of the directive, as approved at this meeting, specified that the aggregate amount of securities held in the System Open Market 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, was not to be increased or decreased by more than $1.5 billion. The comparable figure contained in the preceding directive was $1 billion.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Irons. Votes against this action: none.

Gross national product in the third quarter of the current year was estimated to have declined from the second quarter by a fraction of one per cent, and industrial production, as measured by the Board's index, appeared to have contracted by approximately 3 per cent from July to September. Thus, although economic activity remained at a relatively high level, a downward drift continued. In September, factors on the favorable side included an increase in new orders for durable goods, a slight decline in unemployment, and maintenance of a high level of personal income. However, industrial production, nonfarm employment, the average workweek in manufacturing, and retail sales were down from August, while housing starts decreased about 17 per cent to a rate one-third below the peak reached in 1959. Such information as had become available for the first part of October suggested no significant change in the over-all trend, although it appeared that some improvement in consumer spending may have occurred in view of a modest strengthening of department store sales and satisfactory, though not spectacular, public acceptance of new model automobiles. Initial unemployment compensation claims continued at high levels in early October, and the rate of steel output showed little change.

While no downturn in the volume of exports was indicated by available statistics, the outflow of short-term capital from the United States appeared to have continued through the first three weeks of October, apparently reflecting at least in part the relative attractiveness of short-term rates in foreign centers. The outflow of gold also persisted, and within the week preceding this meeting speculative demand from private sources had pushed the gold price in the London market substantially above $35 an ounce.

Analysis of bank loan developments during the four weeks prior to this meeting indicated that most of the record-breaking expansion during the previous four weeks was attributable to temporary factors, particularly heavy borrowing for tax payment purposes, and did not reflect a basic change in the economic climate. For the 8-week period as a whole, the net change in bank loans appeared to have been close to the customary seasonal pattern. Yields on Treasury bills, which had advanced substantially during the first ten days of October, declined sharply thereafter to approximately the low levels of early August, but yields on medium- and long-term securities remained relatively high and in fact had been following an upward trend until the past few days.

Projected movements in required reserves and market factors indicated a need for additional reserves in the amount of approximately $1,300 million for seasonal purposes during the remainder of the calendar year, and the projections also indicated substantial drains on reserves in the forthcoming 2-week period due to market factors. The Treasury was expected to announce shortly the terms of refunding of a large quantity of securities maturing in mid-November.

It was the consensus that seasonal reserve needs should continue to be met on a liberal basis, with doubts arising in the conduct of open market operations resolved on the side of ease and with emphasis placed on the tone of the market. At the same time, there was a general view that it would be desirable if the objective indicated by the consensus could be accomplished with a minimum of downward pressure on the 90-day Treasury bill rate, particularly in light of the disparity already existing between that rate and short-term rates abroad. If, however, a conflict should arise between providing additional reserves and a further decline in the bill rate, it was understood that the first of these considerations would take precedence.

The prevailing circumstances suggested that during the forthcoming period occasions might arise when it would be found advisable to conduct open market transactions not only in bills but also in other Treasury securities, to the extent permissible within the framework of the Committee's operating policy which limited open market transactions to short-term securities except in the correction of disorderly markets. Reference also was made to possible alternative methods of supplying reserves, including adjustment of member bank reserve requirements through the release of additional vault cash to be counted as required reserves or through a reduction of the reserve requirement against demand deposits of member banks in central reserve cities, both of which actions would serve to implement the reserve requirement legislation enacted in 1959.

Insofar as it described the objectives of domestic monetary policy, the existing directive to the New York Reserve Bank was regarded as continuing to be appropriate. However, in view of the increasing import of international developments in relation to problems within the Open Market Committee's jurisdiction, a matter to which the Committee had been giving close attention for some time, it was considered desirable that specific reference now be made to such developments in the policy directive. Accordingly, clause (b) of the directive was amended for that purpose. The other change in the first paragraph of the directive, enlarging the permissible magnitude of Open Market Account operations until the next Committee meeting, was made in recognition of the volume of transactions that might have to be conducted by the Account in pursuing a program such as envisaged by the consensus.

November 22, 1960

Authority to effect transactions in System Account.

Although the downward drift of certain key statistical indicators that had been in process since about the middle of the year leveled off in October, this appeared to be attributable for the most part to temporary or unusual factors; no fundamental moderation of recessionary tendencies in the general economy was believed to have occurred. As to prospects for the near-term future, recently released surveys of the expectations of business-

men and consumers failed to provide a basis for optimism regarding any significant reversal of trends. The October rise in the seasonally adjusted rate of unemployment was a matter of concern, especially since normal seasonal trends might be expected to result in a further increase in the number of unemployed over the next several months. The prevailing tone was therefore one of mild deterioration, but the declines in economic activity that had occurred thus far were less severe than those in 1954 and 1957-58, and the available evidence did not seem to suggest impending acceleration of the rate of decline.

Statistics through the end of October indicated that some monetary expansion, in accordance with the objectives stated by the Committee in its current policy directive, had been taking place. Over a 4-month period total loans and investments of all commercial banks had increased almost 4 per cent, with the growth concentrated in holdings of Government securities. While most of this growth in earning assets reflected expansion in time deposits, the active money supply (demand deposits and currency) also had risen. The increase in member bank total reserves in the 6-month period ending with October was a direct reflection of the credit-easing actions taken by the Federal Reserve, which, in the attainment of domestic credit policy objectives, had more than compensated for the impact on reserves of the outflow of gold.

The fairly large outflows of capital from the United States that began earlier in the year appeared to have been continuing, and foreign gold purchases thus far in November exceeded the total for each of the two preceding months. Apart from capital movements, however, the United States apparently was close to equality of its international receipts and payments, with the merchandise trade surplus continuing to be substantial.

It was the consensus that no change in the current degree of monetary ease was called for and that a comfortable reserve position should be maintained in the market. One member of the