FORTY-NINTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1962

Period	*Action*	*Purpose of action*
January-February	Reduced System holdings of U. S. Government securities by about $500 million through net sales and redemptions. Member bank borrowings from the Reserve Banks averaged less than $100 million.	To permit further bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds, mainly from post-holiday return of currency from circulation, while minimizing downward pressures on short-term interest rates.
February	Authorized open market transactions in foreign currencies.	To moderate and offset short-term pressures on the dollar in the foreign exchange market.
March-mid-June	Increased System holdings of U. S. Government securities by about $1.3 billion, of which half represented purchases of securities with maturities of more than 1 year. Member bank borrowings from Reserve Banks continued to average less than $100 million.	To promote further bank credit and monetary expansion while avoiding sustained downward pressures on short-term interest rates.
Mid-June-late October	Increased System holdings of U. S. Government securities by about $200 million with net sales and redemptions of Treasury bills of about $700 million being more than offset by purchases of coupon issues, of which two-thirds were issues maturing in more than 1 year. Member bank borrowings from Reserve Banks averaged less than $100 million.	To permit moderate increase in bank credit and money supply while avoiding redundant bank reserves that would encourage capital outflows, taking into account gradual improvement in domestic economy and possibilities for further advance, while recognizing the bank credit growth of past year and continuing adverse balance of payments.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To take into account the recent sharp reduction in stock market credit and the abatement in speculative psychology in the stock market.
October	Reduced reserve requirements against time deposits from 5 to 4 per cent, effective October 25 for reserve city banks and November 1 for other member banks, thereby releasing about $780 million of reserves.	To help meet seasonal needs for reserves, while minimizing downward pressures on short-term interest rates, and to provide for the longer-term growth in bank deposits needed to facilitate the expansion in economic activity and trade.
Late October-December	Increased System holdings of U. S. Government securities by about $1.0 billion, with more than half of the net increase in issues maturing in more than 1 year. Member bank borrowing from the Reserve Banks rose gradually over period, but only to an average of about $200 million.	To help further in meeting seasonal needs for reserve funds while encouraging moderate further increase in bank credit and the money supply and avoiding money market conditions unduly favorable to capital outflows internationally. In mid-December open market operations were modified to provide a somewhat firmer tone in money markets and to offset the anticipated seasonal easing in Treasury bill rates.

Economic activity abroad continued satisfactory in most industrially developed countries and mixed elsewhere.

There was some opinion within the Committee that monetary policy had contributed about as much as it could to domestic economic expansion and that a gradual reorientation of policy toward somewhat less ease would be salutary from the balance of payments standpoint without significantly affecting the domestic use of credit. A view also was expressed, however, that the degree of ease that had prevailed was still needed to facilitate further domestic expansion.

In recognition of the sharp decline in the stock market, there was general agreement that no change of policy should be made at this meeting of the Committee. It was thought desirable, however, to modify the wording of the current policy directive, principally to make clear that the Committee recognized the stock market decline as a factor contributing to its decision to continue policy unchanged at this point. Accordingly, the Committee issued the following current economic policy directive to the Federal Reserve Bank of New York:

In view of the modest nature of recent advances in the pace of economic activity, the continued underutilization of resources, and the uncertainties created by the disturbed conditions in some financial markets, it remains the current policy of the Federal Open Market Committee to promote further expansion of bank credit and the money supply, while giving recognition to the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit and monetary expansion, taking account of the desirability of avoiding sustained downward pressures on short-term interest rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

As originally adopted by the Federal Open Market Committee on February 13, 1962, and reaffirmed on March 6, 1962,

the continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations did not authorize the purchase and sale of Belgian francs. In view of the prospective execution of a reciprocal currency (swap) agreement between the Federal Reserve and the National Bank of Belgium, in addition to those already entered into by the System with other foreign central banks, the continuing authority directive was amended as follows, effective immediately, to add the Belgian franc to the list of currencies authorized to be purchased and sold:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs

Total foreign currencies held at any one time shall not exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. Votes against this action: None.

June 19, 1962

Authority to effect transactions in System Account.

Available economic information confirmed the further moderate gains in activity in May suggested by the incomplete data available at the May 29 meeting. The index of industrial production rose to a record 118 per cent of the 1957 average from 117 per cent in April. Private housing starts also rose further in

May, following a sharp advance in April. Nonagricultural employment showed a small additional gain, and the unemployment rate was down slightly.

The sharp stock market break at the end of May was followed by additional declines in the first part of June. Department store and auto sales apparently were affected somewhat unfavorably in early June by the stock market reaction, but it was too early to judge whether economic activity as a whole would be significantly affected.

Total commercial bank credit rose again in May and early June. The demand for business loans, however, continued moderate. Reserve availability appeared ample, and banks continued to seek outlets for their funds among foreign as well as domestic borrowers. Federal funds were traded at 2.75 per cent most of the time, while the 3-month Treasury bill rate ended the 3-week period slightly above 2.70 per cent. Yields on Treasury notes and bonds showed no decisive trend.

The U.S. balance of payments position continued to be unsatisfactory. Although the deficit all but disappeared in May and, according to tentative and partial figures, in the first half of June, much of the improvement appeared to have reflected an inflow of funds traceable to flight from the Canadian currency. While the U.S. gold stock had not suffered any decline for 5 weeks, gold and foreign exchange markets remained nervous, particularly with respect to the dollar.

In view of the continuing concern for the international position of the dollar and the further, even though gradual, improvement in the domestic economy, a majority of the Committee concluded that a time had been reached when a slightly less easy monetary policy was indicated. The substantial degree of liquidity existing in the banking system was noted, and doubt was expressed whether continued additions to reserve availability at more than a moderate rate would induce additional gains for the domestic economy. A minority of the Committee weighed the balance of domestic and foreign considerations somewhat differently from the majority and were in favor of continuing undiminished the current degree of monetary ease.

Reflecting the majority view that monetary policy should shift toward slightly less ease, the following directive was issued to the Federal Reserve Bank of New York:

It is the current policy of the Federal Open Market Committee to permit the supply of bank credit and money to increase further, but at the same time to avoid redundant bank reserves that would encourage capital outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance of economic activity, the availability of resources to permit further advance in activity, and the unsettlement of financial markets resulting from the sharp decline in stock prices. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall, to the extent consistent with the behavior of financial markets, be conducted with a view to providing a somewhat smaller rate of reserve expansion in the banking system than in recent months and to fostering a moderately firm tone in money markets.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, Mills, and Shepardson. Votes against this action: Messrs. King and Robertson.

Mr. King's dissent was based on the view that recent stock market developments had reduced economic visibility to such an extent that it would be unwise to change policy in the least. He would have preferred to wait until there was a clearer indication of the direction in which the economy might turn.

Mr. Robertson noted that, in view of the labor and material resources still unutilized, greater domestic expansion was needed and could be readily accommodated without inflationary consequences. The recent stock market break, he pointed out, had added a further degree of uncertainty to economic prospects, and in his view the improvement recently achieved in the U.S. balance of payments offered an opportunity for monetary policy to accord a higher priority to domestic goals. In his judgment, this was the wrong time to shift toward a policy calling for any lesser degree of monetary ease.

June 21, 1962

Authority to purchase and sell foreign currencies.

At this meeting, held by telephone, the continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations, as adopted by the Federal Open Market Committee on February 13, 1962, and amended May 29, 1962, was further amended, effective immediately, to add the Canadian dollar to the list of foreign currencies that the New York Bank was authorized and directed to purchase and sell. This action was taken in view of the imminent prospect of a reciprocal currency (swap) agreement being entered into between the Federal Reserve System and the Bank of Canada as part of a broad package of financial assistance—including assistance from the International Monetary Fund, the Bank of England, and the U.S. Export-Import Bank—designed to reinforce the Canadian Government's efforts to defend the Canadian dollar against a speculative wave that threatened to force the Canadian dollar off its recently established par value. As amended, the continuing authority directive read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars

Total foreign currencies held at any one time shall not exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Robertson, and Shepardson. Votes against this action: None.

July 10, 1962

1. Authority to effect transactions in System Account.

Economic activity, as interpreted in reports at this meeting, appeared to be in a period of hesitation. Although advances had continued in May and early June, they tended to be smaller than in earlier months, and adverse trends were reported for some key series. The unemployment rate, for example, was up slightly in June.

Retail sales, which were off slightly in May, appeared on the basis of weekly data to have declined again in June. Business inventory accumulation continued in April and May, but at sharply reduced rates. On the other hand, a survey conducted in late June indicated that business plans for new plant and equipment outlays this year were still largely unchanged, suggesting that they had not been adversely affected by the decline in stock prices. Construction activity continued to rise in June, with gains widely spread among major types of construction.

A principal feature of financial developments since the June 19 meeting was the less easy tone in the money market. The 3-month Treasury bill rate rose to just under the Reserve Bank discount rate (3 per cent), and Federal funds traded at the discount rate most of the time. Yields also had risen on municipal and corporate bonds as well as on U. S. Government bonds. Member bank borrowing at Federal Reserve Banks increased moderately, and free reserves of member banks were somewhat lower than in the preceding 3 weeks.

Bank credit outstanding increased in June, with the increase centered more in loans than investments; the loan increase was widely distributed among types of loans. Loans to brokers and