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Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1963

Period	Description	Purpose
January-mid-May	Reduced System holdings of U.S. Government securities and then increased them in line with seasonal and moderate growth needs of the economy. Total holdings rose about $470 million on balance, owing mainly to net purchases of issues maturing in more than 1 year. Member bank borrowing rose slightly to a level of about $150 million in the first half of May.	To offset seasonal downward pressures on short-term interest rates early in the period and to provide for growth in bank credit and the money supply at a rate consistent with minimizing capital outflows in accordance with the policy of slightly reduced reserve availability adopted at the December 18, 1962, meeting of the Federal Open Market Committee.
Mid-May-late-July	Reduced the degree of reserve availability slightly further. System holdings of U.S. Government securities increased nearly $1.2 billion, about one-fifth representing net purchases of issues maturing in more than 1 year. Member bank borrowing increased further, averaging $275 million over the period.	To achieve a slightly greater degree of firmness in the money market in order to minimize the outflow of capital while continuing to provide reserves for moderate monetary and credit growth.
Mid-July	Raised the discount rate from 3 to 3½ per cent. Raised maximum interest rates payable by member banks on time deposits (other than savings) and certificates of deposit with maturities of 90 days to 6 months from 2½ to 4 per cent and with maturities of 6 months to 1 year from 3½ to 4 per cent.	To help reduce short-term capital outflows by firming U.S. short-term money market rates and permitting member banks to compete more effectively for foreign and domestic funds.
Late-July-December	Reduced a little further the degree of reserve availability. System holdings of U.S. Government securities increased about $1.1 billion, of which more than one-half represented purchases of securities with maturities of more than 1 year. Member bank borrowing averaged about $325 million over the period.	To attain slightly more firmness in the money market, in the context of a higher discount rate, with a view to minimizing the outflow of funds abroad while offsetting seasonal reserve drains and providing for growth needs of the domestic economy.
November	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities. Also increased retention requirements on proceeds of sales from undermargined accounts from 50 to 70 per cent.	To help prevent excessive use of stock market credit, which had increased sharply since July 1962, when margin requirements were lowered from 70 to 50 per cent.

funds, or when it is deemed appropriate to supplement existing market facilities for forward cover as a means of encouraging the retention or accumulation of dollar holdings abroad.

Proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

For such operations, the New York Bank may, where authorized, take over from the Stabilization Fund outstanding contracts for forward sales or purchases of authorized currencies.

5. Exchange Rates

Insofar as practicable, the New York Bank shall purchase a currency through spot transactions at or below its par value, and should lower the rate at which it is prepared to purchase a currency as its holdings of that currency approach the established maximum.

The Bank shall also, where practicable, sell a currency through spot transactions at rates at or above its par value, and should raise the rate at which it is prepared to sell a currency as its holdings of that currency approach zero.

Spot transactions at rates other than those set forth in the preceding paragraphs shall be specially authorized by the members of the Committee designated in Section VIII of the Authorization for Open Market Transactions in Foreign Currencies.

Certain revisions were made in these guidelines at the meeting on May 28, as noted in the entry for that date.

The continuing authority directive with respect to foreign currency operations in effect at the beginning of 1963 was 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, and amended November 13, 1962:

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

Total foreign currencies held at any one time shall not exceed $1 billion.

This directive was amended on several occasions during the year, as noted in entries for various dates. In general, the effects of the amendments were (1) to add certain currencies to the list of foreign currencies in which transactions were authorized, (2) to specify certain additional purposes for which foreign currency transactions were authorized, and (3) to modify the amounts and the form of the dollar limitations specified for foreign currency operations.

January 8, 1963

1. Authority to effect transactions in System Account.

Domestic economic activity, although at record levels, remained lower than needed for the full utilization of existing manpower and industrial capacity. Industrial production and employment showed little change in December from the levels reached in mid-1962, while gross national product was estimated to have increased moderately further in the fourth quarter. Unemployment was estimated to have changed little from the advanced November rate. Department store and new automobile sales continued high, although they were below November levels. New orders for machinery and other equipment rose again in November. Commodity prices at wholesale continued stable in December, and consumer prices were unchanged in November.

In the financial area, yields on private and Government securities with a fixed return showed little net change in recent weeks. Offerings of corporate and State and local government securities were in moderate volume in December and were indicated to continue so in January. Stock market prices in December maintained the advanced levels reached following the Cuban crisis, and in early January rose further.

Seasonally adjusted commercial bank credit in December was estimated to have increased sharply further, about in line with the growth in other recent months. Bank loans continued to register a substantial increase. The conventionally defined money supply (currency in circulation and privately held demand deposits) rose sharply, and time and savings deposits increased substantially further. Required reserves of member banks averaged more than 3 per cent higher than in December 1961; for the past 4 months they had increased at a seasonally adjusted annual rate exceeding 9 per cent. Excess reserves and member bank borrowing from the Federal Reserve Banks both moved higher as banks made year-end adjustments in their reserve positions, with free reserves declining considerably, and the money market continuing relatively firm. In accordance with the current economic policy directive adopted at the preceding meeting (December 18, 1962), System operations since then had been conducted with a view to maintaining slightly less easy monetary conditions.

The U.S. balance of payments in the fourth quarter of 1962, apart from special receipts, was still in serious deficit, although not on a scale comparable with the large single-month deficit in October. Gold and foreign exchange markets had been relatively calm in recent weeks.

Differences of view with respect to monetary and credit policy, at least for the near future, were quite small at this meeting, with a general consensus in favor of continuing unchanged the policy of slightly less ease adopted at the December 18 meeting, to which credit markets had adjusted gradually and smoothly. Factors taken into account in arriving at the current policy consensus included the Treasury's $250 million bond offering to underwriters, other pending Treasury financing operations, and the lack of significant change in domestic economic conditions or in the international financial position of the United States.

After some discussion of the wording of the December 18 current policy directive, the phrasing of that directive—but not the substance—was changed somewhat. Accordingly, the following current policy directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate further, though more moderate, growth in bank credit and the money supply, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the lack of significant improvement in the U.S. balance of payments and the recent substantial increases in bank credit, demand deposits, and the reserve base, but at the same time recognizes the modest progress of the domestic economy during 1962, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting seasonal downward pressures on short-term interest rates, while providing for moderate reserve expansion in the banking system.

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

Mr. Robertson, in dissenting, indicated that the Treasury financing program and the continued reserve expansion during the past 3 weeks inclined him toward a position of no change in policy at this time. However, he believed that primary emphasis should not be placed on maintenance of the Treasury bill rate and that no actions should be taken to tighten marginal reserve positions simply in order to resist a decline in the bill rate. Instead, primary emphasis should be placed on insuring the maintenance of an availability of reserves that would stimulate the domestic economy, and in his opinion the wording of the policy directive was inconsistent with this view.

2. Authority to purchase and sell foreign currencies.

The continuing authority directive to the Federal Reserve Bank of New York on System foreign currency operations, last amended October 2, 1962, was further amended, effective immediately, to increase from $1.0 billion to $1.3 billion the authorized maximum holdings of foreign currencies at any one time. 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, and amended November 13, 1962:

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

Total foreign currencies held at any one time shall not exceed $1.3 billion.

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

At this date reciprocal currency (swap) agreements totaling $900 million were outstanding on a standby basis with 9 foreign central banks and the Bank for International Settlements, as follows:

	(In millions of dollars)
Austrian National Bank	50
National Bank of Belgium	50
Bank of Canada	250
Bank of England	50
Bank of France	50
German Federal Bank	50
Bank of Italy	150
Netherlands Bank	50
Swiss National Bank	100
Bank for International Settlements	100

There were in prospect the execution of a similar agreement with the Bank of Sweden and an enlargement of certain of the existing swap facilities. In addition, the Federal Reserve held a modest quantity of certain foreign currencies that had been acquired from the U.S. Treasury Stabilization Fund at the outset of the Federal Reserve program of foreign currency operations in February 1962. In the circumstances it was considered appropriate to increase the maximum amount of foreign currencies authorized to be held at any one time.

January 29, 1963

1. Authority to effect transactions in System Account.

Statistics available indicated virtually no change in general domestic business conditions from 3 weeks and 6 weeks earlier. Through December industrial activity, nonagricultural employment, and wholesale prices continued at the levels of other recent months. Personal income and retail sales rose further to record levels in December; consumer prices edged down after having leveled off in the autumn. The number of housing units started and the volume of new orders received by producers of machinery and other durable goods declined in December from advanced levels. Partial data suggested that retail sales continued high in January, while the unemployment rate remained in the relatively high range where it had been for many months.

Most business and other projections, including those prepared by the Council of Economic Advisers, reflected caution in appraising economic prospects and suggested little likelihood of an upsurge in activity in 1963 sufficiently strong to bring about a significant reduction in the rate of unemployment.

In contrast to business activity, key financial indicators and projections showed a degree of strength that on occasion in the past had foreshadowed a pick-up in underlying economic activity. There was a further sharp rise in the seasonally adjusted money supply in the first half of January, although indications for