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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.

the Federal Reserve and the Bank of Sweden, and the consummation of a $50 million agreement was announced on January 17, 1963. The consummation of the agreement was accompanied by the addition of Swedish kronor to the list of foreign currencies that the Committee's continuing directive on foreign currency operations authorized the Federal Reserve Bank of New York to purchase and sell in accordance with the guidelines on System foreign currency operations originally issued by the Committee on February 13, 1962, and amended on November 13, 1962. The amendment of the continuing authority directive to add Swedish kronor to the list of foreign currencies was ratified at this meeting.

February 12, 1963

Authority to effect transactions in System Account.

The domestic economic situation at the time of this meeting was little changed from other recent months. Exceptionally inclement weather in many areas affected business activity, as did several important labor disputes. Industrial production, nonagricultural employment, and unemployment in January had about equaled their December levels and were approximately the same as in mid-1962. New orders for durable goods declined again in December. Retail sales were estimated to have been fractionally lower in January than in December but well above levels of the past summer. Automobile sales, however, were higher than in December. The length of the work week in manufacturing had declined further in January. Average hourly earnings of factory workers were unchanged in January and were less than 2 per cent above a year earlier, a small increase as compared with other postwar years. Corporate profits apparently rose appreciably in the fourth quarter of 1962.

The seasonally adjusted money supply declined slightly more in the second half of January than it had risen in the first half, but for the month it averaged somewhat higher than in Decem-

ber. The rate of growth of time and savings deposits accelerated somewhat during January. Seasonally adjusted bank credit rose further, with the rise concentrated in security holdings. Total reserves, as well as required reserves against private deposits, had declined over the 3 weeks preceding this meeting. Free reserves also had declined, and member bank borrowings from Federal Reserve Banks had averaged somewhat higher. The money market had firmed a little in the past 2 weeks, with yields on 90-day Treasury bills varying in a range between 2.93 and 2.96 per cent, and the Federal funds rate at or just under the discount rate of Federal Reserve Banks.

Capital market financing for February was indicated to be somewhat above the moderate volume in January owing to a considerably larger volume of municipal financing. The February Treasury refunding was regarded as highly successful, and the market was now awaiting an advance refunding operation which the Treasury had indicated would be forthcoming.

Stock market prices, which had risen further in January on active trading, showed little additional rise in early February. Yields on U.S. Government, municipal, and corporate bonds had risen somewhat during the past few weeks as investor caution increased.

The over-all deficit in the U.S. balance of payments was now estimated for the month of January at about $400 million, a somewhat better showing than indicated by reports at the January 29 meeting. Foreign bond issues and private placements in the U.S. market reached a large volume. Gold and foreign exchange markets were generally quiet, but the pound sterling and the Canadian dollar weakened in late January and early February as a result of political developments.

The Committee was unanimously of the view that no change should be made in monetary policy from that followed in recent weeks. This view reflected a desire to maintain a steady market tone during forthcoming Treasury financing operations. Also, business and financial sentiment was reported as being affected by uncertainties surrounding the discussion of tax legislation, by the size of the Federal deficit, and by the continuing balance of payments problem. Developments abroad, notably the French veto of British entrance into the Common Market and the Canadian tension over defense policy, added to the atmosphere of business uncertainty.

While there was agreement that no change in monetary policy was to be made at this time, some technical changes in the wording of the current economic policy directive were deemed appropriate in the light of recent developments. After discussion of these changes, unanimous approval was given to the following directive to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse U.S. balance of payments position and the substantial increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy, and in view of the forthcoming Treasury financing, 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 downward pressures on short-term interest rates, while accommodating moderate reserve expansion.

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

Although he voted to approve this directive, Mr. Robertson indicated he did not favor continuing the clause in the second paragraph: "and to offsetting downward pressures on short-term interest rates." He felt that retention of this clause, well beyond the period of strong seasonal rate pressures, suggested Committee preoccupation with the maintenance of a particular level of

bill rates rather than with the promotion of a general monetary atmosphere appropriate to the objectives of the Committee.

March 5, 1963

1. Authority to effect transactions in System Account.

On balance, the domestic economic picture had not changed significantly since the preceding meeting of the Committee. Special influences, such as unusually severe winter weather and strikes in some key industries, had affected some of the statistical readings but most changes, both favorable and unfavorable, were quite small.

Automobile production and sales continued high in February. Total retail sales also continued close to record levels. Personal income increased in January owing to large dividend payments on veterans' insurance, which more than offset a sizable increase in employee contributions to social security. The labor market showed little change, although the seasonally adjusted rate of unemployment edged up in January and again in February.

The industrial production index in January was down fractionally from December but stayed in the narrow range that had prevailed since July 1962. New orders received by durable goods producers, on the other hand, rose appreciably to a level slightly above the October 1962 high.

Consumer prices in January reversed the slight decline experienced in December; they were 1.4 per cent above a year earlier, with higher prices of foods and services mainly responsible. Wholesale commodity prices continued to show little change from the preceding month or from a year earlier.

Yields on corporate bonds showed little change in the weeks immediately preceding the meeting, while municipal bond yields increased moderately in response to continuing heavy dealer inventories. Yields on Treasury intermediate- and long-term issues also rose somewhat, partly reflecting Treasury refunding