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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.

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.
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> 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 activities. Treasury bill rates dropped slightly below mid-February levels. A highlight of the period was the apparently successful Treasury advance refunding operation—not yet completed—involving a potential exchange of about $29 billion of outstanding issues, of which public holdings accounted for about $20 billion.

Capital market financing by corporations and State and local governments was in moderate volume again in February. Stock market prices declined appreciably during the 2 weeks preceding the meeting, after rising vigorously for more than 3 months.

Bank credit rose substantially further in February on a seasonally adjusted basis, reflecting chiefly increases in security loans and loans to finance companies and a much smaller than usual decline in holdings of U.S. Government securities. The seasonally adjusted money supply apparently was maintained close to the January level, while time and savings deposits increased substantially further. Total reserves and required reserves behind private deposits had declined about seasonally over the past 4 weeks. Free reserves averaged somewhat lower, and member bank borrowings higher.

According to tentative preliminary estimates, the balance of payments deficit was much lower in February than in January. However, in view of the influence of the dock strike on the trade figures, the average for the past 2 or 3 months seemed more significant, and this average showed no improvement over 1962. Exchange markets and the London gold market were generally quiet; sterling continued to show counterseasonal weakness.

The Committee was in agreement that monetary policy in the period until its next meeting should continue along the lines followed in recent weeks. As usual, there were shadings of opinion as to the relative importance and usefulness of small changes in monetary policy, in one direction or the other, either for dealing with the domestic economy or for coping with the continuing large deficit in the balance of payments. In terms of the period immediately ahead, however, there was general recognition that

the continuing Treasury financing operations during most of the period argued against any significant change in policy.

Although the decision was for continuation of the same degree of monetary ease as had prevailed in recent weeks, certain minor technical changes in the wording of the directive were adopted. Accordingly, the following current economic policy directive was issued 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 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 in a period following a major 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, Bopp, Clay, Irons, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

Authorization was given to the Federal Reserve Bank of New York to undertake, on an experimental basis, forward purchases up to a combined total of $25 million equivalent of any or all of the foreign currencies authorized for System operations in order to permit greater flexibility in covering commitments under reciprocal currency (swap) agreements.

Accordingly, the continuing directive to the Federal Reserve Bank of New York with respect to foreign currency operations was amended as follows, effective immediately:

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 reaffirmed by the Federal Open Market Committee on March 5, 1963:

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

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of $25 million equivalent.

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

> Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1963, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The action taken with respect to the continuing authority directive on foreign currency operations has been described in the preceding portion of the entry for this date.

The Committee reaffirmed its continuing authority directive to the Federal Reserve Bank of New York with respect to trans-

actions in U.S. Government securities, repurchase agreements, and bankers' acceptances, in the form in which that directive was outstanding at the beginning of the year 1963. The language of the directive is set forth in the preface to this record of Open Market Committee policy actions for 1963.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Scanlon, and Shepardson. Votes against this action: None. Abstaining: Mr. Robertson.

Mr. Robertson, who had voted against the adoption of the continuing authority directive in its present form on March 6, 1962, abstained because he continued to feel that the directive was inadequate and did not provide sufficient guidance and restrictions.

The Committee also reaffirmed its authorization regarding open market transactions in foreign currencies and its guidelines for System foreign currency operations, in the form in which both of these were outstanding at the beginning of the year 1963, as set forth in the preface to this record of policy actions.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

The reaffirmation of the authorization for System foreign currency operations was with the understanding that the program continued to be regarded as experimental in nature.

March 26, 1963

Authority to effect transactions in System Account.

Reports indicated that business and financial sentiment with respect to short-run prospects for domestic activity had strengthened since the preceding meeting of the Committee as favorable economic data predominated. A recent survey indicated that