FIFTIETH

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.

May 7, 1963

Authority to effect transactions in System Account.

The widespread improvement noted in the domestic economy in March continued in April. Employment rose further, and preliminary indications were that there had been a substantial advance in industrial production. The rise in industrial production reflected increased steel output, both for building inventories as a hedge against a possible strike and higher prices and for meeting the increased needs arising from higher current levels of durable goods output. Automobile production and sales, for example, had continued at exceptionally high levels. Some recent information, however, was less favorable. The unemployment rate rose slightly in April from the improved March level. Retail sales, seasonally adjusted, were indicated to have declined in April, and increases previously reported for March and February had been revised downward.

One indication of underlying strength came from a recent survey of business plans for new plant and equipment outlays for 1963 and later years. This survey reported a higher level of prospective business outlays for this year than reported by an earlier survey made last autumn, and confirmed the increase in prospective spending reported several weeks earlier by another survey.

Commodity price averages continued little changed; some items—such as selected steel and aluminum products and sugar—rose, but most others remained stable. The consumer price index advanced $\frac{1}{10}$ of 1 per cent further in March.

Largely in reflection of the gains in business activity, the markets for Government, corporate, and municipal bonds were under some pressure in April. Another complicating factor in the market was the slow redistribution of auctioned U.S. Government bonds that had been acquired by an underwriting syndicate. More recently, however, the market tone had improved somewhat. Since mid-April, average yields on outstanding U.S. Government long-term bonds had remained just under 4 per cent; intermediate-term security yields had declined somewhat, while 3-month bill yields had fluctuated narrowly around the 2.90 per cent level.

Seasonally adjusted commercial bank credit declined in April following a sharp rise in March, when tax borrowing and Treasury financing operations contributed to bank credit expansion. The seasonally adjusted money supply rose by $500 million further in April to a level 2.25 per cent above a year earlier; time and savings deposits also rose further but much less rapidly than in other recent months. Free reserves averaged higher in April, while member bank borrowings from Federal Reserve Banks averaged lower.

The balance of payments deficit, according to preliminary data, increased sharply in April and was above the monthly average for the first quarter of the year. The rise in the deficit may have reflected a reaction in the U.S. trade surplus from the bulge in February and March following settlement of the dock strike, cessation of capital inflows attributable to the March pressure on sterling, and increased outflows to Canada as market confidence in the new Canadian Government strengthened. The London gold market continued quiet. In foreign exchange markets, sterling weakened while most continental European currencies, as well as the Canadian dollar, strengthened.

The Committee noted that although the business atmosphere and outlook had improved significantly in recent weeks, unemployment had continued excessively high and the balance of payments deficit disturbingly large. Committee members placed varying interpretations on the relative importance of such factors for current open market policy, but there was rather general agreement that any change in policy that might be made at this time should be of a relatively modest nature. It developed from the discussion that while several members felt that it would be unwise to risk dampening the budding expansion in domestic activity at this juncture by even a slight reduction in the degree of monetary ease, a somewhat larger number concluded that the domestic economy had already strengthened sufficiently to permit a move to slightly less ease in order to place greater emphasis on this country's balance of payments problem.

The majority decision, therefore, was to move toward a position of slightly less ease beginning about the middle of May, when current Treasury financing operations would be out of the way; and the Committee's directive was modified to reflect this change in policy and to be more descriptive of the current situation. Accordingly, the following 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 putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the improved domestic business outlook, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations following the conclusion of the Treasury refunding operation shall be conducted with a view to achieving a slightly greater degree of firmness in the money market than has prevailed in recent weeks, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, and Shepardson. Votes against this action: Messrs. Bopp, Clay, Mitchell, Robertson, and Scanlon.

May 28, 1963

1. Authority to effect transactions in System Account.

Domestic economic activity in April had generally advanced further, with advances widespread among principal industrial sectors. While information for May was quite incomplete, avail-

able data indicated that expansion in activity had continued. Although higher prices were posted for certain products, prices remained little changed on the average.

Industrial production in April rose by almost 2 percentage points to a new high, with about one-third of the total rise accounted for by higher steel production. The April index, at 122, was 4 per cent above a year earlier. Housing starts also advanced in April. Nonfarm employment continued to rise, with manufacturing accounting for much of the increase. Rapid growth in the labor force, however, left the unemployment rate about unchanged despite the gain in employment.

Retail sales in April and early May appeared to have changed little. Sales by automobile dealers maintained a high level, and recent surveys of consumer buying intentions for autos, other durable goods, and houses suggested that spending plans were continuing to show strength. New orders, sales, and unfilled orders received by producers of durable goods rose appreciably in April. Although much of the rise reflected heavy buying of steel, new orders rose moderately in nearly all industries, including machinery.

New security financing by corporations and State and local governments in the preceding weeks had been moderate, and the calendar through June indicated that offerings would be fairly light in the corporate area, although more substantial for State and local issues. Retail distributions of new issues were reported as slow, however, and dealers' inventories quite large. Bond yields declined somewhat through mid-May but moved up thereafter, while downward pressure on mortgage rates continued. Common stock prices held at a level a little below the late 1961 peak, and the volume of stock market credit reached a new high.

Treasury bill rates were steady in early May but moved higher after midmonth, partly in response to a somewhat lower margin of free reserves available to member banks; the 3-month rate advanced from about 2.90 per cent to 2.97 per cent. Treasury bond yields fluctuated in a narrow range after early May, with