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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.<br>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. |

this year. The seasonally adjusted money supply rose $900 million in July but increased only slightly further in the first half of August, according to preliminary estimates. Time and savings deposits increased considerably further in July and early August, with the rate of expansion in time deposits accelerating after mid-July when the ceiling on time deposits with maturities of 90 days to 1 year was raised to 4 per cent. Free reserves averaged a little lower in the 4 weeks to mid-August than in the preceding 4-week period.

International transactions in July apparently resulted in a small surplus in the U.S. balance of payments. However, this reflected advance debt repayments by two European countries and reversal of midyear window-dressing operations of some European banks; without these transactions, there would have been a deficit of about $200 million to $250 million. Taking the months of June and July together, and excluding special Government receipts, the deficit was at an annual rate of about $3.5 billion. Fragmentary data for early August indicated no significant change. In the exchange markets the U.S. dollar improved slightly vis-a-vis the Canadian dollar, weakened against the Swiss franc, and was little changed against other major currencies.

The discussion of open market policy for the period immediately ahead related essentially to whether the Committee's directive should continue to call for System Account operations with a view to attaining a slightly greater degree of firmness in the money market or whether operations should be conducted with a view to maintaining the prevailing degree of firmness. Upon consideration of recent economic and financial developments, including the increase in short-term rates during the past several weeks, and in view of prospective large-scale Treasury financing operations, it was the conclusion of the Committee that it would be preferable for the present degree of market firmness to continue unchanged for the time being, pending further evaluation of System policy in the light of de-





velopments affecting the domestic economic situation and the balance of payments. 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 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 high level of domestic business activity, 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 shall be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

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

## September 10, 1963

**1. Authority to effect transactions in System Account.**

Preliminary figures for August suggested no major change in the domestic business situation, with prospects favoring a continuation of an upward movement at a moderate pace. The unemployment rate edged down, although at 5.5 per cent it was not significantly different from a year earlier. It appeared probable from incomplete information that industrial production in August had changed little from the July level, with sharp declines in auto output—associated with the model change-over—and in steel production approximately offset by rises in other lines. Weekly data suggested that retail sales may have risen slightly further. Scattered reports of price increases for some industrial commodities were about balanced by reports of declines for others, and the over-all average of commodity prices remained stable.

With respect to prospective developments, the latest survey of business plans indicated that plant and equipment expenditures would rise substantially over the balance of the year. Stock price averages touched new highs, perhaps influenced by both brighter business prospects and the expectation of a tax cut. The end of the immediate threat of a rail strike at least temporarily removed a potentially serious impediment to business activity.

Credit conditions at commercial banks also showed relatively little change. Banks continued to acquire large amounts of municipal and Government agency securities and to expand their mortgage and consumer loans relatively rapidly. Business loans, however, remained sluggish. The money supply, seasonally adjusted, declined slightly in August, but seemingly began to rise again in early September. Through August. growth in the money supply in 1963 had been at an annual rate of 2.5 per cent, compared with a 1.5 per cent increase in 1962 as a whole.

Conditions in the money and capital markets at the time of this meeting were influenced by a Treasury advance refunding operation that had been announced earlier in September. Prior to the announcement, the rate on 3-month Treasury bills had been fluctuating between 3.38 and 3.40 per cent, and yields on long-term Government, corporate, and municipal securities were all between ⅛ and ¼ of a percentage point above their lows earlier in the year. The refunding operation put some downward pressure on bill rates in the last few days before this meeting and was accompanied by some upward adjustments in yields on longer-term Government and corporate bonds.

According to the tentative weekly figures, the August deficit in the U.S. balance of payments, like the July deficit, was below the rate for the first 2 quarters, after allowance for seasonal variations. The evidence available suggested that the improvement thus far in the third quarter might have been confined to the capital account.





The Committee was unanimous in the view that no change should be made in its credit policy while the Treasury refunding operation was in process. Some members expressed an inclination to seek a slightly greater degree of firmness in money market conditions after the refunding, or at least to resolve any uncertainties on the side of less ease, on the ground that improving domestic business conditions offered an opportunity for monetary policy to make some further contribution to improvement in the balance of payments situation. In the opinion of others, however, present policy was appropriate even apart from the desirability of maintaining stable monetary conditions during the refunding. Some members also favored a continuation of present policy on the grounds that it was preferable to make any desired changes at Committee meetings rather than to project them into a period between meetings. After discussion, a consensus was reached favoring no change for the full 3-week period ahead. The Committee then issued the following current economic policy directive 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 high level of domestic business activity, 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, and taking account of the current Treasury refunding operation, System open market operations shall be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

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

**2. Authority to purchase and sell foreign currencies.**

Upon recommendation of the Special Manager of the System Open Market Account, the Committee amended the continuing authority directive for System foreign currency operations to increase from $25 million to $50 million the authorization for purchases of foreign currencies through forward transactions for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements. With this amendment the directive issued to the Federal Reserve Bank of New York 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 reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended on May 28, 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 $50 million equivalent.

The Federal Reserve Bank of New York is further authorized and directed to purchase and sell, in accordance with the Guidelines and for the purpose of utilizing its holdings of one currency for the settlement of





commitments denominated in other currencies, any or all of the foregoing currencies through forward as well as spot transactions, up to a combined total of $50 million equivalent.

Total foreign currencies held at any one time shall not exceed $1.75 billion.

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

## October 1, 1963

**1. Authority to effect transactions in System Account.**

The Board's index of industrial production fell back 1 percentage point in August to 126, from a July high of 127. The decline reflected decreases in steel and auto production, where special temporary factors were at work. Nonagricultural employment also was reduced a little in August, and total personal income rose less than in most earlier months. In September the seasonally adjusted unemployment rate continued at about 5.5 per cent.

Retail sales were maintained in August at the advanced level of the preceding month, according to the latest data, but preliminary indications suggested that sales had declined in September. New housing starts fell in August, but the June-August average remained considerably higher than a year earlier.

Price advances for industrial goods had become more widespread, but with few exceptions the increases were modest and there continued to be offsetting declines. Through mid-August the monthly index for industrial commodities had changed little, and the subsequent weekly indexes continued stable. The consumer price index, which had risen appreciably in June and July, showed no change in August.

Despite the fact that some key measures had recently leveled off or shown modest declines after earlier rapid advances, GNP in the third quarter was indicated to be substantially above the