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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. |

with the Guidelines and up to a total of $100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

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

## November 26, 1963

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

This meeting was held by telephone on the first business day following the death of President Kennedy. It was called for the purpose of considering whether action by the Committee was required to deal with any actual or potential unsettlement in domestic financial markets or in foreign exchange markets stemming from the President's death.

Reports by the Manager and the Special Manager of the System Open Market Account indicated that there was no evidence of adverse market developments as of late morning. The Account Manager reported that the Government securities market had opened with a confident tone, and that prices at the opening were unchanged or slightly higher on securities of various maturities. The stock market already had made a good recovery in early trading. The Special Manager noted that gold and foreign exchange markets were steady, and that where necessary central banks were acting to maintain foreign exchange rates at their previous levels.

The Committee decided that it was desirable, as a precautionary measure, to revise its current economic policy directive in order to insure that the Federal Reserve Bank of New York would have ample authority to deal with any unsettlement that might develop. The revision was confined to the second paragraph, and the directive was issued in the following form:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to cushioning any unsettlement that might arise in money markets stemming from the death of President Kennedy and to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.





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

Mr. Mills dissented for the same reasons he had dissented from the directive adopted at the meeting of November 12, 1963; he thought the Committee should modify its policy to one of greater ease.

## December 3, 1963

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

Information on economic and financial developments since the death of President Kennedy, while quite incomplete, suggested that the economy had shown little tendency to depart from the path of continued moderate advance in over-all activity and broad stability of commodity prices. Business and consumer confidence appeared to have remained firm and widespread. Unsettlement in sensitive commodity and security markets had been minimal, and corporate stock prices had quickly recovered from the losses suffered on November 22. Speculative switching out of dollars into other currencies or gold had been limited.

More complete data on domestic activity in October confirmed earlier indications of a distinct pick-up in that month, with gains noted in such measures as industrial production, nonfarm employment, personal income, housing starts, and retail sales. New orders for durable goods and capital appropriations by manufacturers also were reported to have risen. Scattered data for November added to the impression of some continued over-all expansion. However, the unemployment rate in October remained at the 5.5 per cent level of other recent months and gave no sign of declining in November.

In financial markets, the yield on 90-day Treasury bills had declined several basis points to a level slightly below the 3½ per cent discount rate during the week preceding this meeting, but more recently it had risen again and had closed at 3.53 per cent on the previous day. Yields on long-term U.S. Government securities were steady. The volume of corporate and municipal financing was moderate in November, but yields on new corporate issues increased to the highest level in more than a year.

Bank credit expansion was large in the first 3 weeks of November, and business loans showed a marked rise. The seasonally adjusted money supply rose sharply again in November, and time and savings deposits also expanded further.

The balance of payments deficit in October and the first 3 weeks of November was somewhat above the third-quarter rate but substantially below the rates for the first 2 quarters.

The Committee concluded that it was appropriate to continue the policy it had been following in recent weeks, in light of these domestic and international developments and in view of the fact that only a short time had elapsed for appraisal of business and financial reactions following the death of President Kennedy. The directive adopted at the meeting of November 26, 1963, was therefore renewed without change.

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





Mr. Mills, who had voted against the directives adopted at the two preceding meetings, dissented from this action also, because he continued to believe that the Committee should adopt a policy of greater ease.

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

The Committee amended the first paragraph of its continuing authority directive for foreign currency operations to increase the limit on the aggregate amount of foreign currencies held under reciprocal currency (swap) arrangements at any one time from $1.95 billion to $2.05 billion. With this amendment, the first paragraph of 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 reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed $2.05 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed $150 million equivalent at any one time:

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

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

The previous limit of $1.95 billion, which had been established at the meeting of October 22, 1963, was equal to the sum of the amounts authorized for individual swap arrangements at that time. On November 22, 1963, Committee members had approved increases of $50 million each in the swap lines with the Swiss National Bank and the Bank for International Settlements, effective November 25, 1963. This action, which was ratified by the Committee at this meeting, raised the sum of the individual swap lines to $2.05 billion. The purpose of the amendment to the continuing authority directive was to make the limit on aggregate foreign currency holdings under swap arrangements again equal to this sum.

## December 17, 1963

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

At this meeting optimism about the economic outlook was reported to be widespread and to have increased recently as prospects for a tax cut early in 1964 appeared to have brightened. Preliminary estimates of GNP for the fourth quarter suggested growth at about the same rate as earlier in the year.

Some grounds for caution in assessing the outlook were noted, however. Results of the latest survey of business plans for capital outlays showed less strength in this area than had been widely anticipated; they indicated that fourth-quarter outlays were not expected to be quite so large as had been reported earlier and that there probably would be little change from the fourth quarter to the first quarter of 1964. Also, in November some key measures, such as industrial production and retail sales, showed little or no improvement from October or from levels that had been reached in July. The unemployment rate rose to 5.9 per cent in November from 5.5 per cent in October.

The wholesale price index for industrial commodities was unchanged from October to November, and less complete weekly indexes suggested that stability continued into early December.





The consumer price index rose slightly in October and remained about 1 per cent above a year earlier.

Yields on 3-month Treasury bills continued to fluctuate around the 3½ per cent level, but those on Treasury notes and bonds edged up after late November to new 1963 highs. Corporate bond yields also rose on a large volume of new financing, while yields on municipal securities declined on unusually small volume. Common stock prices rose further to near their October peak.

Bank earning assets continued to expand in late November and early December, but figures for city banks suggested some recent softening of earlier strong private credit demands. A good part of the substantial increment in business loans at city banks in this period represented special financing arrangements and acquisitions of bankers' acceptances. Holdings of U.S. Government securities rose more than usual for this period, as banks were allotted practically all of a $1 billion Treasury bill issue for which 50 per cent payment in the form of tax-and-loan-accounts credit was permitted.

The money supply apparently changed little in the last half of November and the first half of December, and growth in time and savings deposits appeared to have slowed. Free reserves on average were about the same in the 4 weeks ending December 11 as in the preceding 4 weeks. During part of the early December period, however, the money market was unexpectedly easy, with Federal funds trading in substantial volume below the 3½ per cent discount rate on several days. Banks met the demands for funds associated with December tax and dividend dates with little or none of the strains they often experience at this season.

Estimates of the U.S. balance of payments for the fourth quarter, based in part on preliminary figures for the first 2 weeks of December, suggested that the deficit would be above the reduced third-quarter rate but below the rate of the first half.

It was the judgment of the Committee that no change should be made in monetary and credit policy at this time. Factors seen