FIFTY-FIRST

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1964

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS IN 1964

Period	Action	Purpose
January–mid-August	Increased the System's holdings of U.S. Government securities, after having reduced them seasonally early in the year. On balance, total holdings rose about $1.1 billion, $300 million of which represented net purchases of securities with maturities of over 1 year. Member bank borrowings averaged about $275 million.	To provide for moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy while fostering improvement in the capital account of U.S. international payments, after offsetting seasonal downward pressures on short-term interest rates early in the period.
Mid-August–late November	Increased the System's holdings of U.S. Government securities by about $1.5 billion, of which $600 million represented net purchases of securities with maturities of more than 1 year. Member bank borrowings averaged about $350 million.	To maintain slightly firmer conditions in the money market with a view to minimizing the outflow of funds attracted by higher short-term interest rates abroad while offsetting reserve drains and providing for growth needs of the domestic economy.
Late November	Raised discount rates from 3½ to 4 per cent. Raised maximum interest rates payable on savings deposits held for less than 1 year from 3½ to 4 per cent and those on other time deposits from 4 to 4½ per cent for maturities of 90 days or more and from 1 to 4 per cent for maturities of 30-89 days.	To counter possible capital outflows that might be prompted by any widening spread between money market rates in this country and the higher rates abroad, following a rise in official and market rates in London, while at the same time ensuring that the flow of savings to commercial banks remains ample for the financing of domestic investment.
Late November–December	Increased the System's holdings of U.S. Government securities by about $765 million, part of which represented securities acquired under repurchase agreements. Member bank borrowings averaged about $275 million.	To offset seasonal reserve drains and to accommodate further moderate expansion in aggregate bank reserves while ensuring that the rise in money market rates following the discount rate actions did not restrict the availability of domestic credit.

directive on foreign currency operations, in the form in which all three were outstanding at the beginning of the year 1964, as set forth in the preface to this record of policy actions.

Votes for these actions: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against these actions: None.

March 24, 1964

Authority to effect transactions in System Account.

Reports at this meeting indicated that the economy continued to show moderate upward momentum. The industrial production index rose by about one-half of a percentage point in February to a level 6 per cent above a year earlier. Both total employment and the labor force increased, and the unemployment rate declined slightly to 5.4 per cent from 5.6 per cent in January. Retail sales reached a new high in February, 4 per cent above a year earlier. Sales in the first 2 weeks of March maintained the same moderate gain over the year-earlier level and did not show any significant immediate response to the reduction in the withholding tax rate, effective March 5.

The Commerce–SEC survey of business plant and equipment expenditure plans for 1964, taken in February, confirmed earlier indications by a private survey of a larger increase in outlays this year than expected earlier. The Government survey indicated that these outlays would be 10 per cent above their 1963 level, a gain of about twice that of the previous year. However, businesses were continuing to follow conservative inventory policies; inventories declined in January from levels that were already unusually low relative to sales.

Indexes of wholesale prices continued stable despite increases for a number of commodities, particularly nonferrous metals. The average for industrial commodities in February and early

March was about 0.5 per cent higher than a year earlier and little changed from 2 years or 3 years earlier. The consumer price index in January was up 1.6 per cent from January 1963. Stock market prices continued to rise in early March.

Commercial bank credit expanded considerably more than seasonally in the first 3 weeks of March, according to data for city banks. The largest gains were in short-term Government security holdings and in loans to security dealers and finance companies; business loans apparently rose less than usual. The seasonally adjusted money supply increased in the first half of March, bringing the annual rate of growth so far this year to 3.4 per cent compared with 3.8 per cent in 1963 as a whole. Time and savings deposits rose moderately in the same period.

Short-term financial markets took the March tax-date pressures in stride. The yield on 3-month Treasury bills edged lower in the first week of the month and remained relatively stable over the following 2 weeks in the range of 3.53-3.56 per cent, as the market gained confidence that the increase in the Bank of England discount rate would not be followed immediately by a trend toward tighter monetary conditions in this country. In longer-term markets, prices of Treasury, State and local government, and corporate bonds tended lower in recent weeks. Yields on intermediate- and long-term Governments moved to their highest levels since early 1960, partly as a result of market expectations that rates probably would be moving upward in coming months. It was reported that the Treasury was considering an offering of securities for cash, with payment scheduled toward the end of the first week in April.

The latest balance of payments figures suggested that the United States was making unexpectedly rapid progress in reducing its international deficit. Tentative figures for the first 3 weeks of March showed a substantial surplus and raised the possibility that payments for the first quarter as a whole might approach balance for the first time since 1957.

The Committee agreed that neither domestic nor international considerations called for a change in monetary and credit policy at this time, and that in any case it was desirable to maintain an "even keel" in the money markets in view of the probable Treasury financing. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, money supply, and the reserve base, 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 that it is likely to receive additional stimulus from the recently enacted reduction in Federal income tax rates. This policy also takes into account the facts that the balance of payments position, while improved, may still be adverse, and that the effects of increases in money rates in important countries abroad are as yet uncertain. In addition, it recognizes the imminence of new cash borrowing by the Treasury.

To implement this policy, System open market operations shall be conducted with a view 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, Daane, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Mills.

Mr. Mills dissented from this action because the directive instructed the Account Management to maintain about the same conditions in the money market as had prevailed in recent weeks, and in his judgment these conditions had moved toward restriction rather than expansion, as evidenced by the increases in longer-term interest rates. He thought higher interest rates were unwarranted and would lead observers to conclude that the System was already moving to counteract price and credit excesses which it foresaw. Such interpretations, he felt, should be promptly corrected by increasing the supply of reserves to a level that would give reasonable encouragement to credit expansion.

April 14, 1964

Authority to effect transactions in System Account.

The data available to the Committee at this meeting did not suggest a quick response by consumers to the early March reduction in income tax withholding rates. Retail sales in that month were below the record February level as sales of durable goods, including new autos, declined and sales of nondurable goods were unchanged.

Other information for March suggested little change from the recent pattern of moderate business expansion. The unemployment rate remained at 5.4 per cent, wholesale commodity price averages continued stable, and the industrial production index again rose by one-half of a percentage point. Revised business inventory figures for January showed a rise rather than the decline previously reported, but preliminary figures for February indicated no further increase, and stock–sales ratios were below their relatively low fourth-quarter average.

Bank credit expanded substantially in March; in the first quarter as a whole it rose at an annual rate of about 11 per cent, compared with 8 per cent in the full year 1963. However, first-quarter growth rates in the privately-held money supply and in commercial bank time and savings deposits were somewhat below those recorded during 1963. These differential movements reflected mainly a recent sizable increase in Government deposits. Among the components of bank credit, first-quarter rates of increase in business loans and in holdings of municipal and Federal agency issues were considerably below those of 1963. On the other hand, the rate of increase in loans other than business loans stepped up in the first quarter, and banks acquired a substantial volume of Government securities after reducing their holdings during 1963.

Free reserves of member banks averaged about $100 million in March, little changed from February, but they were higher in the latter part of the month and in early April.