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.

May 5, 1964

Authority to effect transactions in System Account.

The latest information continued to indicate that business activity was expanding at a moderate, sustainable pace. GNP in the first quarter, according to preliminary estimates, was at an annual rate of $608.5 billion. It exceeded GNP in the fourth quarter of 1963 by an amount about equal to the average quarter-to-quarter increase during 1963. However, the gain from the fourth quarter of 1963 to the first quarter of 1964 was less than the preceding quarterly increase because of a reduction in the rate of business inventory investment. First-quarter profits of manufacturing corporations, aided by stable unit labor costs, firm prices, and expanding volume, were considerably larger than in the first quarter of 1963.

Business confidence continued high. A private survey taken in March and early April of business plans for new plant and equipment outlays in 1964 showed an increase of better than 12 per cent from 1963, compared with a 9 per cent rise reported in a comparable survey in January. However, the new figure was not believed to have implications significantly different from those of the 10 per cent increase shown by the February Commerce–SEC survey because of differences in methodology and coverage of the two canvasses.

Industrial production, according to early indications, probably rose further in April. On the other hand, retail sales data through the third week in April showed a small further decline from the moderately reduced March level. The broad wholesale price averages continued to change little. Common stock prices edged up to a new peak in mid-April, but then declined about 1 per cent.

Data for city banks suggested that the rate of bank credit expansion moderated in April. U.S. Government deposits were reduced sharply, and the growth rate in time deposits continued to taper off. The privately held money supply grew substantially

in April after showing no net change from January through March.

Most financial markets reflected the lack of ebullience evident in nonfinancial areas. Many investors had expected that interest rates would rise significantly after the tax cut as a result of strong credit demands, but developments thus far had failed to bear out these anticipations. Long-term bond yields changed little in recent weeks, yields on intermediate-term Treasury securities declined further, and the 3-month Treasury bill rate fluctuated in a range of 3.44-3.49 per cent.

On April 29 the Treasury announced an exchange offering for the $10.6 billion of obligations maturing May 15, in which holders of rights would be given the option of an 18-month note or a 10-year, 4¼ per cent bond.

Tentative weekly data on the U.S. balance of payments in April suggested a deficit of about the same order of magnitude as the March surplus. For both months, the figures apparently were influenced by movements of liquid funds from and to Canada. It appeared that the deficit for the first 4 months of the year was at an annual rate of $1 billion to $1.5 billion after rough allowance for seasonal factors, compared with an annual rate of about $2 billion in the second half of 1963.

The Committee agreed that its recent policy should be continued unchanged for the next 3 weeks. Some members indicated that they considered recent monetary conditions somewhat easier than desirable, particularly in view of the renewed deficit in the balance of payments. Because of the Treasury's scheduled refunding operation these members did not urge a change at this time, but they suggested that a somewhat firmer tone in the money market might appear desirable when the refunding had been completed. The majority, however, saw no need for a change in policy even apart from Treasury financing activity.

The following current economic 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 the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering further improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the expected stimulus to domestic activity from the recent Federal income tax reduction, and the increases projected for the year in business capital expenditures. It also gives consideration to the continued relative stability in average commodity prices; the country's improved, though still difficult, international payments position; and the interest rate advances over past months in important markets abroad.

To implement this policy, and taking the current Treasury refunding into account, 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, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

May 26, 1964

Authority to effect transactions in System Account.

The pace of the economic expansion appeared to have quickened somewhat. In April the industrial production index rose a full point, according to preliminary estimates, following smaller gains in preceding months; there was a significant increase in new and unfilled orders received by durable goods producers; and employment rose substantially, although the unemployment rate remained unchanged because of an equivalent increase in the labor force.

Retail sales data for the first 2 weeks in May suggested that sales in the month might be back up close to their February peak. According to a Census Bureau survey conducted in mid-April, the number of families planning to buy new cars within

12 months was higher than a year earlier, and plans to buy most other durable goods were as strong as or stronger than in the previous year.

Wholesale commodity price averages remained generally stable in April and early May. The consumer price index in March was unchanged from January and was 1.4 per cent above March 1963. In the stock market, prices recovered from their late April declines and moved to new record levels in mid-May.

The configuration of recent banking and monetary statistics had been changed somewhat as a result of benchmark adjustments to the data and revisions of seasonal adjustment factors. According to the new data, which were still tentative, in the first 4 months of 1964 the money supply increased at an annual rate of 2.9 per cent, as compared with 3.7 per cent for the full year 1963. In the tentative new figures for bank credit the rate of increase in the first 4 months was somewhat below the rate for the preceding full year. Loans expanded in April at about the same rate as in the first quarter and slightly faster than in 1963 as a whole, but banks made substantial net sales of Government securities. Free reserves of member banks averaged about $140 million in April, somewhat higher than in the two preceding months, but they were reduced again in early May.

Treasury note and bond yields had tended lower in recent weeks, and the rate on 3-month Treasury bills continued to fluctuate below the discount rate. Municipal yields also moved downward from their late March high, partly because of a light May calendar following a heavy volume of offerings in April. The calendar of public offerings of corporate bonds expanded substantially in May, and yields on new issues rose to a peak early in the month, but subsequently they declined somewhat.

The deficit in the U.S. balance of payments in April was somewhat larger than the March surplus, according to preliminary estimates. Tentative figures (seasonally unadjusted) for the first half of May indicated a surplus in that period, but it was