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.

modate 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 noted that normal seasonal influences tend to be favorable to the payments balance in May.

In the Committee's judgment, the current domestic economic situation was strong and well balanced and the expansion was orderly. The restraint characterizing recent business pricing and inventory policies was noted. In view of these considerations, the continued high rate of unemployment, and the improved international payments position of the United States so far this year, it was agreed to continue the Committee's policy unchanged. Some members indicated that the Committee would need to keep the balance of payments problem in the forefront of its considerations over the coming months because part of the recent improvement may have been due to transitory factors, and because the prospective deficit for the year as a whole remained too large.

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 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, and seeking to avoid the emergence of inflationary pressures. With the recent Federal income tax reduction, continued strength reported in consumer buying plans, and anticipated increases in business capital expenditures as immediate background, this policy takes into account the indications in most recent data on production, business orders, and employment of some apparent quickening in the pace of domestic expansion. It also gives consideration to the continued relative stability in average commodity prices; the persistent underutilization of manpower and other resources; the country's improved, though still adverse, international payments position this year; and the interest rate advances over past months in important markets abroad.

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. Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

June 17, 1964

Authority to effect transactions in System Account.

There was additional evidence that the business advance had accelerated, but the expansion remained orderly and largely free of inflationary tendencies and speculative overtones. Nonfarm employment rose only slightly in May, but the labor force was unchanged and the unemployment rate dropped sharply to 5.1 per cent, the lowest level in several years. Industrial production increased about three-fourths of a percentage point in May, and retail sales exceeded the previous record level set in February. The April figures for both production and retail sales had been revised upward.

Business spending also had increased somewhat in recent weeks, but policies with respect to inventories continued cautious. Although stocks were increased in April at a substantially higher rate than during the first quarter, the additions were about in line with increases in sales. Stock–sales ratios remained unusually low, and manufacturers reported in a Commerce Department survey that they planned to expand stocks in coming months at a lower rate than they expected sales to increase.

A Commerce–SEC survey taken in May revealed that actual first-quarter outlays on plant and equipment were larger than had been planned in February, and it tended to confirm the earlier indication that capital outlays would increase throughout the year. According to the survey returns, such outlays in 1964 would be 12 per cent above the 1963 level, rather than 10 per cent higher as indicated in February.

The wholesale price index edged lower in May to 100.1 per