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.

conducted with a view to maintaining slightly firmer conditions in the money market, while accommodating moderate expansion in aggregate bank reserves.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Hickman, Mills, and Shuford. Votes against this action: Messrs. Daane, Mitchell, Robertson, Swan, and Wayne.

In the opinion of the members dissenting from this action, a firmer policy was not called for at present by domestic conditions. Moreover, they believed that, with the market already somewhat tighter, even a slight policy shift might affect interest rate expectations and trigger market reactions leading to much firmer conditions than intended. This risk was considered particularly great at present because of the relatively low level of liquidity in the banking system. While sharing the concern of the majority with regard to balance of payments developments in July and early August following the deterioration in the second quarter, the dissenting members did not believe that these developments warranted the risk they saw in the action taken. In advancing their reasons for this judgment, individual members of the dissenting group noted the uncertainty as to whether the deficits since midyear constituted a trend, and the lack of information on the role of capital outflows in these deficits. Some expressed doubt that a slight shift in policy of the sort envisaged would have a significant impact on capital outflows, and some indicated that they believed means other than general monetary policy were preferable for coping with the balance of payments problem under prevailing domestic conditions.

September 8, 1964

Authority to effect transactions in System Account.

Available data for August indicated that domestic business activity was continuing to expand in an atmosphere of confidence but not ebullience. From weekly reports it appeared that

retail sales had increased further in August. Industrial production probably was at least maintained and may have risen further. Nonfarm employment remained strong, totaling about 1.6 million higher than a year earlier, although the unemployment rate moved back up to 5.1 per cent from 4.9 per cent in July.

Manufacturers' inventories continued to increase at a slow pace in July, and stock–sales ratios declined appreciably to a new low for the recent period. Wholesale prices of industrial materials remained stable on the average in August, although prices of some nonferrous metals rose further.

Surveys of consumer and business spending plans suggested continued strong demands in the period immediately ahead. In the July Census Bureau survey of consumer buying intentions, plans to buy new cars and household durable goods were reported more frequently than a year earlier, while plans to buy used cars and houses were somewhat less numerous. The August Commerce–SEC survey of business capital spending plans indicated some further upward revision in anticipated outlays for the year. Capital spending in 1964 was now projected at a level 12.7 per cent above 1963, compared with a rise of 12.0 per cent indicated in the May survey and 10.1 per cent in the February survey.

Bank credit rose sharply in August after declining moderately in July. The movements in both months reflected in part changes in bank holdings of Government securities related to Treasury financing operations. The money supply increased at a considerably slower rate than it had in the two preceding months. Free reserves averaged about $110 million in August, and for the most recent statement week, the one ending September 2, they were estimated to have declined to $44 million. Member bank borrowings in August averaged $310 million, the highest level since March.

The interest rate on 3-month Treasury bills in recent weeks continued at around the 3.50 per cent level. However, market rates on bills maturing in December were depressed relative to rates on surrounding maturities because of their special attraction to investors expecting to make tax and dividend payments in that month and having particular liquidity needs in the closing weeks of the year. Bond markets displayed a more hesitant and cautious tone, and yields rose somewhat. Among the contributing factors were heavy inventory positions of dealers in Government securities and municipal issues and the build-up in the September calendar of new corporate and municipal public offerings from the seasonally low level of the summer. The rise in Treasury bond yields was modest partly because substantial Federal Reserve and other official buying had helped to relieve the overhang of supply in the market, but recent new issues of corporate bonds were priced to yield about 10 basis points more than they had a month earlier.

On the basis of preliminary data for August, the deficit in the U.S. balance of payments for July and August combined appeared to be running appreciably above the $3 billion annual rate of the second quarter. However, capital outflows moderated in July; short-term claims on foreigners reported by banks declined, partly offsetting a large rise in June, and outflows on long-term bank loans continued modest.

The Committee concluded that the policy decision taken at the previous meeting should not be altered in the light of the information on domestic and balance of payments developments that had become available in the interim. Accordingly, it was agreed that operations should continue to be directed toward maintaining the slightly firmer conditions in the money market that had prevailed in recent weeks. 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. This policy takes into account the continued orderly expansion in economic activity, some slackening in the rate of money supply

expansion in recent weeks, and relative stability in broad commodity price averages. It also gives consideration to indications that the deficit in the U.S. balance of payments was appreciably larger in July and August than in the preceding quarter.

To implement this policy, System open market operations shall be conducted with a view to maintaining the slightly firmer conditions in the money market that have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

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

September 29, 1964

Authority to effect transactions in System Account.

The industrial production index advanced nearly one point further in August, and early indications were that it would show another rise in September. Nonfarm employment increased only slightly in August as temporary layoffs due to auto model changeovers reduced manufacturing employment. Retail sales in the third quarter were running about 2 per cent above the second-quarter level, and it appeared that the unusually high rate of personal saving of the period immediately following the March income tax cut had slackened. While the increase in business inventories thus far in 1964 was considerably less than had been indicated by prior surveys of business anticipations, more recent surveys suggested a higher rate of inventory accumulation in the months ahead.

Not all recent economic indicators were expansive. Private housing starts had been declining irregularly since late 1963, and in the June-August period they averaged one-eighth below the peak levels of last fall. New orders for manufacturers' durable goods dropped sharply in August, mainly because of a decline in defense orders, although they still were at a high level.