BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

July 1, 1960.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

For your information, there is enclosed a copy of a memorandum dated June 30, 1960, prepared for Mr. Hayes by Mr. Gaines of the Federal Reserve Bank of New York with respect to total reserves and nonborrowed reserves.

Ralph A. Young

Ralph A. Young, Secretary,
Federal Open Market Committee.

Enclosure

Misc. 3a

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE
CONFIDENTIAL

DATE June 30, 1960

TO Mr. Hayes

FROM T. C. Gaines

SUBJECT: Total reserves and nonborrowed reserves

Copies to members of the Informal Credit Policy Group

Table I shows the response of total reserves to the change in Federal Reserve policy over the past few months. Without seasonal adjustment, total reserves reached a low point in March, and in April, May and June (the latter month partly estimated) total reserves have increased. Using the seasonal adjustment factors computed by the Federal Reserve Bank of Atlanta, the low point in total reserves came in April, and total reserves have been increasing during the past two months. The unadjusted data show an increase between March and June at an annual rate of 6 per cent, and the adjusted data increased between April and June at an annual rate in excess of 5 per cent.

Table I

Total Reserves
(Average of daily figures)

	Unadjusted	Adjusted for Seasonal	Change from Year Earlier
January	18,878	18,780	- 20
February	18,213	18,360	-360
March	18,027	18,170	-400
April	18,104	18,120	-560
May	18,242	18,260	-340
June*	18,302	18,280	-150

* Projections used for June 29 and 30.

These results would suggest that the Committee's intentions are being realized. The year-to-year change in total reserves, also shown in the table, indicates the extent to which progress has been made in re-establishing a growth process. Total reserves in April averaged some $560 million below April 1959, while it is estimated that in June total reserves averaged only $150 million less than a year ago.

The conclusions suggested by the data on total reserves are shown even more clearly by the data for "nonborrowed reserves" (total reserves less borrowing from the Reserve Banks). The logic in using this measure is that there is a difference between reserves owned by a bank and reserves borrowed by the bank from a Federal Reserve Bank. That is to say, it may be assumed that wholly-owned reserves in excess of requirements are active reserves, in the sense that banks will make every effort to find employment for them. Reserves which are borrowed from the Reserve Bank are usually to meet an already existing need, are repaid as soon as possible, and do not encourage the borrowing bank to go out seeking new uses for his funds.

Table II

Nonborrowed Reserves*
(Average of daily figures)

	Unadjusted	Adjusted for Seasonal	Change from Year Earlier
January	17,973	17,880	-360
February	17,397	17,540	-670
March	17,392	17,530	-440
April	17,502	17,520	-490
May	17,740	17,760	- 70
June**	17,869	17,850	+325

* Total reserves less borrowing from Federal Reserve Banks.
** Projections used for June 29 and 30.

Table II shows that nonborrowed reserves also declined after December 1959, bottoming out in February and March of this year. The recovery from the low point has been even more rapid than in the case of total reserves, however. Unadjusted nonborrowed reserves increased at an annual rate in excess of 10 per cent between March and June. Using the Atlanta seasonal adjustment factors, the increase in nonborrowed reserves between March and June was an annual rate of 7 per cent. Looking at year-to-year comparisons, nonborrowed reserves in February dropped to a point some $670 million below February 1959, but it is estimated that by June average nonborrowed reserves averaged $325 million above June of last year--a swing in relative position of some $1 billion in the space of four months.

In short, whether one uses total reserves or nonborrowed reserves--unadjusted or using the Atlanta seasonal adjustment--for only the last few months or compared with a year ago--it is obvious that substantial progress has been made toward reversing the decline in total reserves that carried over into this year from the restrictive policy pursued last year. It is more than likely that a similar turn toward growth in the money supply will develop this month or next.