FORTY-FIFTH

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR

THE YEAR

1958

## DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1958

| Period | Action | Purpose of action |
|---|---|---|
| January | Limited net reduction in holdings of U. S. Government securities to $900 million, more than half of which represented securities held under repurchase agreement at end of year. Member bank borrowings declined to an average of $450 million. | To ease reserve positions by absorbing only part of the reserves made available by seasonal factors affecting bank reserve positions. |
| January | Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities. | To recognize that dangers of excessive use of credit for stock market speculation had subsided, since stock prices and the volume of credit in the stock market had declined to levels near or below those prevailing at the time of the previous increase in requirements. |
| January–February | Reduced discount rates from 3 to 2¾ per cent at 11 Reserve Banks. | To reduce further the cost of borrowing from the Reserve Banks and increase further the availability of bank reserves in order to encourage bank credit and monetary expansion conducive to resumed growth in economic activity. |
| February | Reduced reserve requirements on demand deposits from 20 to 19½ per cent at central reserve city banks; from 18 to 17½ per cent at reserve city banks; and from 12 to 11½ per cent at country banks, thus freeing an estimated $500 million of reserves. | |
| March | Reduced discount rates from 2¾ to 2¼ per cent at 11 Reserve Banks and from 3 to 2¼ per cent at one Reserve Bank. | |
| March | Reduced reserve requirements on demand deposits from 19½ to 19 per cent at central reserve city banks; from 17½ to 17 per cent at reserve city banks; and from 11½ to 11 per cent at country banks, thus freeing an additional $500 million of reserves. | |
| February–Mid-April | Purchased about $450 million of U. S. Government securities. Member bank borrowings declined further to an average of about $180 million. | To supplement reserve requirement actions in further increasing the availability of bank reserves. |
| April | Reduced reserve requirements on demand deposits from 19 to 18 per cent (in two stages) at central reserve city banks and from 17 to 16½ per cent at reserve city banks, thus freeing a total of about $450 million of reserves. | To supplement previous actions to encourage bank credit and monetary expansion and resumed growth in economic activity and to offset current gold outflow. |
| April–May | Reduced discount rates from 2¼ to 1¾ per cent at all Reserve Banks. | |
| Mid-April–June | Purchased outright about $1.7 billion net of U. S. Government securities. Member bank borrowings declined further to an average of $100 million at the end of June. | |



| Period | Action | Purpose of action |
|---|---|---|
| July–early August | Bought a small volume of U. S. Government securities other than short-term issues and a large amount of securities involved in a Treasury refinancing. Promptly thereafter reduced Treasury bill holdings substantially. | To correct disorderly conditions in the Government securities market, to facilitate the Treasury refinancing, and then to recapture the bank reserves created by the earlier securities purchases. |
| August | Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities. | To help prevent an excessive use of credit for purchasing or carrying securities. The volume of credit in the stock market and stock prices were advancing sharply and were at or near the highest levels since World War II. |
| August–early September | Made little change in holdings of U. S. Government securities. Member bank borrowings increased to an average of more than $400 million in early September. | Open market action not taken to offset drains on reserve funds reflecting bank credit and monetary expansion resulting from seasonal factors and the sharp upturn in economic activity. |
| August–September | Raised discount rates from 1¾ to 2 per cent at all Reserve Banks. | To keep discount rates in an appropriate relationship with market rates and to increase the cost of borrowing by individual banks from the Reserve Banks in case of increasing demands for bank credit. |
| October | Raised margin requirements on loans for purchasing or carrying listed securities from 70 to 90 per cent of market value of securities. | To help prevent an excessive use of credit for purchasing or carrying securities. |
| Late October–early November | Raised discount rates from 2 to 2½ per cent at all Reserve Banks. | To bring discount rates into closer alignment with open market rates. |
| Mid-November–December | Increased system holdings of U. S. Government securities about $900 million, including securities held under repurchase agreement. Member bank borrowings rose to average of $560 million in December. | To meet part of reserve needs associated with seasonal factors and a further moderate outflow of gold. |

February 11, 1958

**Authority to effect transactions in System Account.**

The Committee again renewed without change the policy directive that placed emphasis upon operations in the System Account with a view to cushioning adjustments and mitigating recessionary tendencies in the economy.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, and Williams. Votes against this action: none.

Recession in general activity had continued during the month of January and signs of leveling out were not yet at hand. The declines were again general, but they were greatest in durable goods and related industries. The length of the work week had fallen to the lowest level of the postwar period, and by mid-January unemployment had risen close to the postwar peak of 4.7 million that prevailed in February 1950. Manufacturers' new orders for December showed a 2 per cent drop from November and were down 7½ per cent over the year, with new orders for durable goods running a fifth below the previous year. Business inventory liquidation had continued in December, mainly concentrated in durable goods manufacturing, but despite such liquidation the stock-sales ratio rose further to the highest level in a decade. January retail deliveries of new automobiles were some 20 per cent lower than deliveries in the previous month or in January 1957. Preliminary estimates suggested a further decline in gross national product for the first quarter of 1958 of from $4 to $5 billion, annual rate, putting total product back to the level of the first quarter of 1957. Exports in December were down sharply after two months of stability. Favorable factors included total construction activity, which continued at close to record levels in January, and total retail sales including those at department stores.

While business loans at city banks were liquidated in a record-breaking amount during January, the banks had increased their holdings of securities since the end of November. As a result, total loans and investments rose more in December and decreased less after the turn of the year than they did in 1957 or 1956. Time deposits at city banks advanced even more sharply in January 1958 than in the same month of the previous year. New security issues by State and local governments were proceeding in record-breaking volume, with some issues which were deferred in 1957 now being brought to the market. Short-term interest rates had declined to the lowest levels since early 1955, while long-term rates had been somewhat firmer during the past two or three weeks. Reserves to cover credit demands had been abundantly supplied through market factors and System operations. Additions to System holdings of Government securities had been much larger in December than usual, while the January decline was smaller than usual. The result was that the reserve position of member banks had shifted from net borrowed reserves of over $300 million during the last week of November to free reserves of over $200 million in the past two weeks. Projections indicated that free reserves might fluctuate around this level during February and increase sharply, though temporarily, in the first half of March unless offset by System operations.



It was the view of the Committee that the policy that it had been following had resulted in placing the System in a quite appropriate posture. If later on there were clear indications that the recession was spiraling, more drastic action might be required. Accordingly, for the present it was felt that the Committee should continue to follow an "even keel policy tipped on the side of ease." In these circumstances, no change was made in the existing policy directive.

March 4, 1958

**1. Review of continuing authorities or statements of policy.**

This being the first meeting of the Federal Open Market Committee after the new members elected by the Federal Reserve Banks for the year beginning March 1, 1958 had assumed their duties, the Committee reviewed and reaffirmed all continuing statements of policy and authorities for operations. These included the following:

> a. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).