

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 2½ 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.	
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.

industrial countries with, however, activity still fairly high in most such areas.

Bank credit expansion in recent weeks had been larger than in the corresponding period of 1957 but less than in some other years. In capital markets, a shift from fixed return assets to equities seemed to be continuing. Margin requirements on listed securities had been increased effective October 16, 1958. Slackened monetary expansion along with Treasury deficit financing and general economic recovery had been possible because of previously accumulated liquidity. Further monetary expansion other than seasonal had not been needed to finance economic recovery. However, the total of economic events and the prospective borrowing needs of the Federal Government indicated a likelihood of growing credit demands in the near future. In addition, an outflow of gold was persisting. It was estimated on the basis of customary seasonal currency and deposit growth, and with some allowance for a further gold outflow, that from the time of this meeting to the end of 1958 there would be a need for additional bank reserves totaling about \$1.3 billion, a need that could be met mainly through open market operations without varying the degree of restraint on credit expansion.

At this meeting, the Committee reviewed in detail the level and structure of interest rates and considered the credit actions that would help keep investment and saving in balance. The discount rates of the Federal Reserve Banks currently were out of line with market rates, and the suggestion was made that an increase in discount rates would be desirable in order to remove the incentive for member banks to obtain reserves by borrowing at the Reserve Banks instead of by selling securities in the market.

The conclusion of the Committee was that in present circumstances it would be undesirable to aim toward a greater degree of restraint on reserve availability through open market operations, especially if an increase in discount rates at the Federal Reserve Banks were to be made at the same time. The directive was, accordingly, again renewed with its provision for open market operations that would foster conditions in the money market conducive to balanced economic recovery.

November 10, 1958

Authority to effect transactions in System Account.

The Committee again reaffirmed its policy of fostering conditions in the money market conducive to balanced economic recovery.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shephardson, and Szymczak. Votes against this action: none.

During the three weeks preceding this meeting, in which seasonal demands for credit were present, the System Open Market Account had been fairly active in supplying reserve funds to the market with a view to achieving the objectives agreed upon by the Committee at the meeting on October 21, namely, the maintenance of about the same degree of restrictive pressure in the market that had existed at the time of that meeting. Free reserves had averaged somewhat less than \$100 million, and the money market atmosphere had been generally firm. During this period, the discount rates of all Federal Reserve Banks had been increased from the 2 per cent level to 2½ per cent—a rise that conformed to the prevailing money market rate structure and appeared to have caused no further adjustment in the market.

Economic indicators at the time of this meeting were still rising, although there was more diversity than had been shown in late summer and early autumn and the over-all rate of rise seemed to have slowed somewhat. The October industrial production index was estimated to have risen one index point, a smaller rise than had been projected earlier. On the other hand, construction activity had gone up in October to an all-time high, with advances shown in all major categories of private construction as well as public construction. Data for United States exports during September had shown a sharp fall, but imports had risen. Stability to modest recession in activity in Europe was reported, along with a leveling out in Canadian recovery. The unevenness shown by economic indicators in recent weeks was occasioning in various quarters re-appraisals of the outlook, with some toning down of optimistic projections because of inability to foresee forces that would convert recovery into a period of expansionary boom. However, the more moderate rate of rise was believed by

some to provide a better basis for expansion than if the rapid autumn rise had continued.

Sharp increases that had occurred in productivity during the past three months were being reflected in corporate profits and not in lowered industrial prices, and they thus provided support to demands for wage increases. There appeared to be little prospect for abatement of the persistent upward pressures on industrial prices notwithstanding the existence of unused resources, including considerable plant capacity not being utilized and substantial numbers of unemployed persons. Under these circumstances, a monetary policy on the side of restraint appeared to be appropriate and it did not appear that such restraint would retard sound recovery and growth in the economy.

The conclusion of the Committee was that the System Account should seek during the period immediately ahead to maintain conditions in the market about as they were at present, believing that the moderate degree of restraint that had existed for the past several weeks was appropriate under the circumstances and that it could be applied within the terms of the directive to the Federal Reserve Bank of New York that had been in effect since August 19.

December 2, 1958

Authority to effect transactions in System Account.

The Committee made no change at this meeting in the directive that had been in effect since August 19, 1958, which contemplated a policy directed toward fostering conditions in the money market conducive to balanced economic recovery.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

During the three weeks preceding this meeting, the System Account had provided additional reserves to the market and member bank borrowing from the Federal Reserve Banks had risen on some days in the past week to more than \$1 billion. These supplies of reserve funds had been sufficient to meet seasonal growth in currency and an increase in required reserves, although free reserves had declined to a nominal level.

Recovery in domestic economic activity was continuing on a broad basis although, as indicated at the November 10 meeting, there recently had been indication of a slowing in the rate of expansion. The weight of statistical evidence continued on the side of fairly well sustained momentum upward. More recently, some indication of improvement in the unemployment situation had been evident, and the number of labor market areas classified as substantial surplus areas had been reduced during November. Over all, it was apparent that the domestic recovery that had shown up during the summer months had now gone far enough to be on the verge of a new expansion period, with the possibility that the rise in activity would carry major indexes of activity into new high ground.

Developments in the financial area had shown no particularly striking features during the past month, although gyrations in the stock market had continued. Bond yields had declined somewhat in November, while short-term money rates had continued to rise. Although expansionary forces in the credit area had not been vigorous during recent weeks, the basis for renewed expansion continued to exist in the broadening economic recovery and the continuing Government deficit.

The policy discussion by the Committee pointed to some increase in the degree of restraint that should be exerted, with the proviso that due consideration must be given to the financing problems of the Treasury. It was suggested that there was enough flexibility within the Committee's general policy to allow seasonal forces to exert an influence in the direction of some further reduction in reserve availability, perhaps moving in the direction of net borrowed reserves. The Committee's conclusion contemplated letting market developments tend to increase restraint within limits consistent with the policy directive which, as renewed at this meeting, continued to provide for open market operations "fostering conditions in the money market conducive to balanced economic recovery."

December 16, 1958

Authority to effect transactions in System Account.

The Federal Open Market Committee changed its policy directive at this meeting by adopting wording for clause (b) of paragraph