FORTY-SEVENTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1960

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1960

Period	Action	Purpose of action
January-March	Reduced System holdings of U.S. Government securities by about $1.6 billion. Member bank borrowings at the Federal Reserve Banks dropped from an average of $900 million in December to $635 million in March.	To offset the seasonal inflow of reserve funds, mainly from the post-holiday return of currency from circulation, while permitting some reduction in borrowed reserves.
Late March-July	Increased System holdings of Government securities by nearly $1.4 billion. Member bank borrowings at Reserve Banks declined to an average of less than $400 million in July.	To promote further reduction in the net borrowed reserve positions of member banks and, beginning in May, to provide reserves needed for moderate bank credit and monetary expansion.
June	Reduced discount rates from 4 to 3½ per cent at all Reserve Banks.	To reduce the cost of borrowed reserves for member banks and to bring the discount rate closer to market interest rates.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 90 to 70 per cent of market value of securities.	To lower margin requirements from the high level in effect since October 1958 in recognition of decline in volume of stock market credit outstanding and lessened danger of excessive speculative activity in the market.
August	Authorized member banks to count about $500 million of their vault cash as required reserves, effective for country banks August 25 and for central reserve and reserve city banks September 1. Reduced reserve requirements against net demand deposits at central reserve city banks from 18 to 17½ per cent, effective September 1, thereby releasing about $125 million of reserves.	To provide mainly for seasonal needs for reserve funds, and to implement 1959 legislation directed in part toward equalization of reserve requirements of central reserve and reserve city banks.

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1960—Cont.

Period	Action	Purpose of action
August-September	Reduced discount rates from 3½ to 3 per cent at all Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and reduce the differential between the discount rate and market rates of interest.
August-November	Bought or sold at different times varying amounts of Government securities with a net increase in System holdings of about $1 billion, including securities held under repurchase agreement and issues with short maturities other than Treasury bills. Member bank borrowing declined further to average below $150 million in October and November.	To encourage bank credit and monetary expansion by meeting changing reserve needs and offsetting the impact of a large gold outflow without exerting undue downward pressure on short-term Treasury bill rates that might stimulate further outflow of funds.
Late November-December	Authorized member banks to count all their vault cash in meeting their reserve requirements and increased reserve requirements against net demand deposits for country banks from 11 to 12 per cent. The net effect of these two actions, effective November 24, was to make available about $1,050 million of reserves. Reduced reserve requirements against net demand deposits at central reserve city banks from 17½ to 16½ per cent, effective December 1, thereby releasing about $250 million of reserves. Sold U.S. Government securities except for seasonal purchases in last week of December. Member bank borrowings at the Reserve Banks averaged less than $90 million in December.	To provide, on a liberal basis, for seasonal reserve needs, to complete implementation of legislation directed in part toward equalization of reserve requirements of central reserve and reserve city banks, and to offset the effect of continued gold outflow, while avoiding direct impact on short-term rates that might stimulate further outflow of funds.

duction of profit margins. Moreover, there now appeared to be some signs that the strength of consumer demand might be faltering.

On the financial side, the August statistics on bank credit and the money supply were disappointing, the increases in both figures having been rather small and less than in July. The rate of growth in consumer credit had slowed down in July. In addition, the pace of new security financing had moderated in recent weeks, and at the date of this meeting common stock prices were back to the lows of the summer. A continued slack demand for commercial bank loans, particularly on the part of business concerns, indicated that the upturn in credit demand normally associated with the fall season had been slow in developing. Despite a statistical appearance of greater ease, reserve positions of city banks had been under somewhat more pressure in recent weeks and money market rates had risen; reasons included the large demands for cash that normally occur in September and the slowness with which reserves made available to country banks in late August through the release of vault cash had permeated the banking system. The Treasury had announced a program of advance refunding of certain intermediate-term bond issues, with the books to remain open for a period of several days beyond the date of this meeting.

Balance-of-payments data reflected continuation of the improvement in the trade balance. However, in view of large capital movements, the outflow of gold continued and foreigners added further to their accumulation of dollar balances.

The consensus as to open market operations called for supplying needed reserves readily, avoiding the development of seasonal strain in bank reserve positions, and resolving doubts on the side of ease, with the understanding, as at the previous meeting, that such operations would be conducted more on the basis of the tone of the market than on the basis of statistical yardsticks. This being the consensus, the directive to the New York Bank providing for open market operations with a view to encouraging

monetary expansion for the purpose of fostering sustainable growth in economic activity and employment was renewed without change.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Szymczak. *Votes against this action:* none.

October 4, 1960

Authority to effect transactions in System Account.

Although some of the most recent economic data reflected further downward drift, many indicators were showing a continued sideways movement, and some data suggesting a possible strengthening of economic forces had appeared. The general situation in regard to economic activity thus appeared to be mixed, with the direction of further movement highly uncertain.

The employment and unemployment situation continued to be a matter of primary concern; after allowance for seasonal influences, initial and continuing claims for unemployment compensation rose in September and both series stood at unusually high levels for this time of the year. In spite of increased automobile assemblies associated with introduction of the new models, steel operations continued at only a little more than 50 per cent of capacity. Both the number of business failures and the total liabilities of failing firms were running at levels close to postwar peaks. Retail sales, seasonally adjusted, appeared to have been off slightly from August to September, although the second half of September seemed to have been somewhat stronger than the first. There were persistent reports of price concessions, especially for durable goods, with some indications that such concessions might be generating consumer response. In the two weeks prior to this meeting, stock market prices declined sharply to the lowest average level since 1958, evidently reflecting a growing realization that corporate profits were not likely to be as large as had been anticipated.

Following moderate credit expansion in July and August, total bank credit expansion in September, according to preliminary data, was larger than in the corresponding month of other recent years. Business loans at city banks increased fully as much as is usual in September, loans on securities rose much more than seasonally, and bank holdings of securities increased substantially in contrast to the usual decline. These developments appeared to have been associated primarily with heavy tax payments in September. Their liquidity having declined since early in the year, corporations were compelled to sell securities, as well as borrow, in order to meet tax payments. As a result of the pressures on banks and securities markets engendered by the heavy demands for liquidity, there had been some rise in interest rates from the low levels reached in August, notwithstanding actions on the part of the Federal Reserve System to make reserves readily available. The money supply increased slightly more than seasonally in August, and it appeared that there may have been some further increase in September. The Treasury was expected to announce within a few days the terms of refunding of the 1-year Treasury bills maturing in mid-October, along with the terms of an offering to raise new cash.

The latest available information indicated no deterioration in the trade sector of the U.S. balance of payments, but the short-term capital outflow had intensified, apparently due in part to the spread between short-term rates of interest in the United States and the higher rates elsewhere. Net gold purchases by foreigners in September were equal to total purchases for the two preceding months.

In the prevailing circumstances, it was agreed that open market operations should continue to supply needed reserves readily in order to avoid seasonal strain on bank reserve positions, and that doubts should be resolved on the side of ease. The feel and tone of the market were to be emphasized more than statistical guidelines, since the free reserve figure, for example, was still distorted by the inclusion of a widely scattered volume of newly

created reserves that were slow in becoming a factor in the market. To the extent practicable, it was hoped that downward influences on short-term rates could be minimized. The policy directive, which called for encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, was again renewed without change.

Votes for this action: Messrs. Martin, Balderston, Bopp, Fulton, King, Leedy, Mills, Robertson, Shepardson, Szymczak, Irons, and Treiber. Votes against this action: none.

October 25, 1960

Authority to effect transactions in System Account.

At this meeting the Committee's policy directive was changed in two respects. Clause (b) of the first paragraph, which since August 16, 1960, had provided for open market operations with a view "to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment" was amended to add the words "while taking into consideration current international developments." In addition, the first paragraph of the directive, as approved at this meeting, specified that the aggregate amount of securities held in the System Open Market Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, was not to be increased or decreased by more than $1.5 billion. The comparable figure contained in the preceding directive was $1 billion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Irons. Votes against this action: none.

Gross national product in the third quarter of the current year was estimated to have declined from the second quarter by a