FORTY-NINTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1962

Period	*Action*	*Purpose of action*
January-February	Reduced System holdings of U. S. Government securities by about $500 million through net sales and redemptions. Member bank borrowings from the Reserve Banks averaged less than $100 million.	To permit further bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds, mainly from post-holiday return of currency from circulation, while minimizing downward pressures on short-term interest rates.
February	Authorized open market transactions in foreign currencies.	To moderate and offset short-term pressures on the dollar in the foreign exchange market.
March-mid-June	Increased System holdings of U. S. Government securities by about $1.3 billion, of which half represented purchases of securities with maturities of more than 1 year. Member bank borrowings from Reserve Banks continued to average less than $100 million.	To promote further bank credit and monetary expansion while avoiding sustained downward pressures on short-term interest rates.
Mid-June-late October	Increased System holdings of U. S. Government securities by about $200 million with net sales and redemptions of Treasury bills of about $700 million being more than offset by purchases of coupon issues, of which two-thirds were issues maturing in more than 1 year. Member bank borrowings from Reserve Banks averaged less than $100 million.	To permit moderate increase in bank credit and money supply while avoiding redundant bank reserves that would encourage capital outflows, taking into account gradual improvement in domestic economy and possibilities for further advance, while recognizing the bank credit growth of past year and continuing adverse balance of payments.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To take into account the recent sharp reduction in stock market credit and the abatement in speculative psychology in the stock market.
October	Reduced reserve requirements against time deposits from 5 to 4 per cent, effective October 25 for reserve city banks and November 1 for other member banks, thereby releasing about $780 million of reserves.	To help meet seasonal needs for reserves, while minimizing downward pressures on short-term interest rates, and to provide for the longer-term growth in bank deposits needed to facilitate the expansion in economic activity and trade.
Late October-December	Increased System holdings of U. S. Government securities by about $1.0 billion, with more than half of the net increase in issues maturing in more than 1 year. Member bank borrowing from the Reserve Banks rose gradually over period, but only to an average of about $200 million.	To help further in meeting seasonal needs for reserve funds while encouraging moderate further increase in bank credit and the money supply and avoiding money market conditions unduly favorable to capital outflows internationally. In mid-December open market operations were modified to provide a somewhat firmer tone in money markets and to offset the anticipated seasonal easing in Treasury bill rates.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $500 million.

January 23, 1962

1. Authority to effect transactions in System Account.

Available evidence indicated little change in the basic economic situation in the 2-week period since the previous meeting of the Committee. While the demand for bank loans appeared to have moderated somewhat following the large increase in December, an expansion in domestic activity evidently was continuing, with prices generally stable. There appeared to be enough unused capacity to accommodate a further increase in production without creating strong pressures on resources or prices.

In the period since the previous meeting, and particularly in the past week, there had inadvertently been a somewhat greater degree of monetary ease than was contemplated by the Committee, as indicated by some downward drift in Treasury bill rates from the levels reached early in the month, lower Federal funds rates, and a relatively large volume of free reserves. This situation had resulted mainly from unexpectedly high levels of Federal Reserve float and a greater than seasonal decline in required reserves.

An announcement was expected on February 1 of the terms of a Treasury financing to be carried out later in the month, and the Committee considered it desirable to maintain steady money market conditions during the financing. There was some sentiment at the meeting for moving toward a moderately less easy monetary policy in the period before the financing, in view of the continued expansion of the domestic economy and the persisting deficit in the U.S. balance of international payments. An opposing view was also expressed, however, reflecting a judgment that current domestic developments made any firming actions less appropriate than they might have appeared earlier. On balance, the Committee favored no change in the basic monetary policy that had been in effect for the past several weeks, and the following current economic policy directive was issued to the Federal Reserve Bank of New York:

It continues to be the current policy of the Committee to permit further bank credit and monetary expansion so as to promote fuller utilization of the economy's resources, together with monetary conditions consistent with the needs of an expanding domestic economy, taking into account this country's adverse balance of payments as well as the Treasury financing calendar.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit expansion, while minimizing downward pressures on short-term interest rates. In view of the imminence of Treasury financing, emphasis shall be placed on maintaining a steady money market.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, and Fulton. Votes against this action: None.

2. Authority for program of System foreign currency operations.

At this meeting the Federal Open Market Committee approved a motion that the Committee go on record as favoring in principle the initiation on an experimental basis of a program of System foreign currency operations; that representatives of the Committee be authorized to explore with the U.S. Treasury, on behalf of the Committee, needed guidelines for actual operations, drawing on the experience of the Treasury Stabilization Fund, and to develop plans for effective working relations in the foreign exchange field between the Federal Reserve and the

Treasury; and that Chairman Martin be authorized to refer to this development in his testimony before the Joint Economic Committee scheduled for January 30, 1962.

Votes for this motion: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, Wayne, and Fulton. Votes against this motion: Messrs. Mitchell and Robertson.

(Note: See Record of Policy Actions taken by the Committee on February 13, 1962, for entry covering the action of the Committee instituting the program of foreign currency operations through the approval of certain authorizations, guidelines, and directives.)

February 13, 1962

1. Authority to effect transactions in System Account.

Reports at this meeting suggested that, while the prospects for continued economic expansion remained good, there had been some recent hesitation in the forward movement of the economy. Retail trade figures showed slight declines from the advanced November level in both December and January after adjustment for usual seasonal changes, and preliminary indications were that the industrial production index for January would be not above—possibly below—the December figure. In surveys of consumer buying intentions the demand for automobiles appeared stronger than a year earlier, but this was counterbalanced by apparent weakness in demand for household durable goods. A slight further reduction in the unemployment rate was attributed to lack of growth in the labor force rather than to strength in employment. Prices continued stable.

Total loans and investments of commercial banks had declined about the usual seasonal amounts in recent weeks, after the large December increase. On balance, during the past 2 or 3 months bank credit continued to show a moderate expansion, when allowance was made for the wide seasonal movements occurring around the turn of the year. The most striking develop-

ment in banking since the year-end was a sharp increase in time deposits, accompanied by a smaller but substantial decline in demand deposits, after seasonal adjustment. In the last half of January the conventionally defined money supply was about $1 billion less than in the second half of December on a seasonally adjusted daily average basis, and about 2.5 per cent larger than in the comparable period of the preceding year. The total of the money supply and time deposits at commercial banks, however, was about 7 per cent above a year earlier.

Interest rates for the most part remained firm. Treasury bill rates declined less than seasonally after rising more than seasonally in December, yields on medium- and long-term U. S. Government securities generally maintained the higher levels reached in December or early January, and high-grade corporate bond yields continued to show little change. Yields on State and local government bonds declined sharply, however, apparently partly as a result of heightened bank interest in longer-term tax-exempt issues as a medium for investment of their growing time deposits. Yields on long-term U.S. Government bonds exceeded those on high-grade municipals by the largest margin in many years.

In the money market, Federal Reserve float declined from the high levels that had been partly responsible for an unanticipated degree of market ease prior to the January 23 meeting of the Committee. Open market operations since then had been directed mainly at maintaining steady conditions while the Treasury completed its scheduled refunding. There were reports at this meeting that the Treasury might engage in an advance refunding operation shortly.

With respect to the international accounts, incomplete data indicated that net transfers of gold and dollars to foreigners declined sharply in January and early February from the average fourth-quarter rate. The accounts still showed an adverse balance, however, and remained a source of serious concern. Net gold sales to foreigners evidently were continuing to run in the neighborhood of $100 million per month.

After considering these domestic and international develop-