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Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1963

Period	*Description*	*Purpose*
January-mid-May	Reduced System holdings of U.S. Government securities and then increased them in line with seasonal and moderate growth needs of the economy. Total holdings rose about $470 million on balance, owing mainly to net purchases of issues maturing in more than 1 year. Member bank borrowing rose slightly to a level of about $150 million in the first half of May.	To offset seasonal downward pressures on short-term interest rates early in the period and to provide for growth in bank credit and the money supply at a rate consistent with minimizing capital outflows in accordance with the policy of slightly reduced reserve availability adopted at the December 18, 1962, meeting of the Federal Open Market Committee.
Mid-May-late-July	Reduced the degree of reserve availability slightly further. System holdings of U.S. Government securities increased nearly $1.2 billion, about one-fifth representing net purchases of issues maturing in more than 1 year. Member bank borrowing increased further, averaging $275 million over the period.	To achieve a slightly greater degree of firmness in the money market in order to minimize the outflow of capital while continuing to provide reserves for moderate monetary and credit growth.
Mid-July	Raised the discount rate from 3 to 3½ per cent. Raised maximum interest rates payable by member banks on time deposits (other than savings) and certificates of deposit with maturities of 90 days to 6 months from 2½ to 4 per cent and with maturities of 6 months to 1 year from 3½ to 4 per cent.	To help reduce short-term capital outflows by firming U.S. short-term money market rates and permitting member banks to compete more effectively for foreign and domestic funds.
Late-July-December	Reduced a little further the degree of reserve availability. System holdings of U.S. Government securities increased about $1.1 billion, of which more than one-half represented purchases of securities with maturities of more than 1 year. Member bank borrowing averaged about $325 million over the period.	To attain slightly more firmness in the money market, in the context of a higher discount rate, with a view to minimizing the outflow of funds abroad while offsetting seasonal reserve drains and providing for growth needs of the domestic economy.
November	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities. Also increased retention requirements on proceeds of sales from undermargined accounts from 50 to 70 per cent.	To help prevent excessive use of stock market credit, which had increased sharply since July 1962, when margin requirements were lowered from 70 to 50 per cent.

time. As amended, the continuing authority directive read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962, and amended November 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings

Total foreign currencies held at any one time shall not exceed $1.3 billion.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Robertson, Shepardson, and Treiber. Votes against this action: None.

At this date reciprocal currency (swap) agreements totaling $900 million were outstanding on a standby basis with 9 foreign central banks and the Bank for International Settlements, as follows:

	(In millions of dollars)
Austrian National Bank	50
National Bank of Belgium	50
Bank of Canada	250
Bank of England	50
Bank of France	50
German Federal Bank	50
Bank of Italy	150
Netherlands Bank	50
Swiss National Bank	100
Bank for International Settlements	100

There were in prospect the execution of a similar agreement with the Bank of Sweden and an enlargement of certain of the existing swap facilities. In addition, the Federal Reserve held a modest quantity of certain foreign currencies that had been acquired from the U.S. Treasury Stabilization Fund at the outset of the Federal Reserve program of foreign currency operations in February 1962. In the circumstances it was considered appropriate to increase the maximum amount of foreign currencies authorized to be held at any one time.

January 29, 1963

1. Authority to effect transactions in System Account.

Statistics available indicated virtually no change in general domestic business conditions from 3 weeks and 6 weeks earlier. Through December industrial activity, nonagricultural employment, and wholesale prices continued at the levels of other recent months. Personal income and retail sales rose further to record levels in December; consumer prices edged down after having leveled off in the autumn. The number of housing units started and the volume of new orders received by producers of machinery and other durable goods declined in December from advanced levels. Partial data suggested that retail sales continued high in January, while the unemployment rate remained in the relatively high range where it had been for many months.

Most business and other projections, including those prepared by the Council of Economic Advisers, reflected caution in appraising economic prospects and suggested little likelihood of an upsurge in activity in 1963 sufficiently strong to bring about a significant reduction in the rate of unemployment.

In contrast to business activity, key financial indicators and projections showed a degree of strength that on occasion in the past had foreshadowed a pick-up in underlying economic activity. There was a further sharp rise in the seasonally adjusted money supply in the first half of January, although indications for the second half of the month were for some decline. Time deposits also rose substantially further in the first half of the month. Required reserves of member banks against private deposits were averaging somewhat higher during January than in December. Free reserves also were averaging somewhat higher, but the money market retained a moderately firm tone, with the 3-month bill rate holding slightly above the 2.90 per cent level.

Three major administration messages—economic, budget, and tax—that had been presented to the Congress since the January 8 meeting, emphasized fiscal and other efforts to stimulate economic growth, and this emphasis contributed a note of caution to bond markets and strength to the stock market. Yields on U.S. Government and some other fixed-interest-return securities rose a little, on balance, from their levels in early January. Common stock prices continued the rise of recent months on sizable trading volume, and at the time of this meeting had recovered two-thirds of their decline from December 1961 to June 1962. Corporate security financing in January was indicated to be smaller than in December, while municipal financing was estimated to be larger.

Weekly indicators of U.S. monetary reserves and liquid liabilities suggested an over-all deficit of as much as $500 million in the U.S. balance of payments for the month of January. The prolonged dock strike possibly contributed to the enlarged deficit, but unusually large outflows of capital—particularly long-term—appeared mainly responsible. Purchases of foreign securities, including large purchases of new Canadian issues, were substantial in January. In addition, some U.S. dollar time deposits were placed in Canadian banks. Gold and foreign exchange markets remained generally quiet.

Members of the Committee were in agreement that no change in policy should be undertaken in the 2 weeks intervening before the February 12 meeting. Influential factors included the large imminent Treasury refunding operation, the lack of observable

change in domestic business activity, the large expansion in bank credit and money during recent months, and the deterioration in the U.S. balance of payments. Members of the Committee combined these considerations in varying proportions in their evaluations of policy action. But even for those who otherwise might have preferred to shift policy a little, the desirability of maintaining an "even keel" position during the Treasury financing was controlling.

The economic policy directive was re-worded somewhat to recognize the forthcoming Treasury financing and otherwise to make it represent more precisely the currently available facts and Committee considerations. Accordingly, the current directive was issued to the Federal Reserve Bank of New York in the following form:

It is the Committee's current policy to accommodate growth in bank credit and the money supply more moderate than in recent months, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the recent deterioration in the U.S. balance of payments and the recent substantial increases in bank credit, demand deposits, and the reserve base, but at the same time recognizes the limited progress of the domestic economy in recent months, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, and in view of the forthcoming Treasury financing, System open market operations during the next 2 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting downward pressures on short-term interest rates, while providing for continued moderate reserve expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, Mills, Mitchell, Robertson, and Shepardson. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

The Committee had authorized, on December 4, 1962, the negotiation of a reciprocal currency (swap) agreement between the Federal Reserve and the Bank of Sweden, and the consummation of a $50 million agreement was announced on January 17, 1963. The consummation of the agreement was accompanied by the addition of Swedish kronor to the list of foreign currencies that the Committee's continuing directive on foreign currency operations authorized the Federal Reserve Bank of New York to purchase and sell in accordance with the guidelines on System foreign currency operations originally issued by the Committee on February 13, 1962, and amended on November 13, 1962. The amendment of the continuing authority directive to add Swedish kronor to the list of foreign currencies was ratified at this meeting.

February 12, 1963

Authority to effect transactions in System Account.

The domestic economic situation at the time of this meeting was little changed from other recent months. Exceptionally inclement weather in many areas affected business activity, as did several important labor disputes. Industrial production, nonagricultural employment, and unemployment in January had about equaled their December levels and were approximately the same as in mid-1962. New orders for durable goods declined again in December. Retail sales were estimated to have been fractionally lower in January than in December but well above levels of the past summer. Automobile sales, however, were higher than in December. The length of the work week in manufacturing had declined further in January. Average hourly earnings of factory workers were unchanged in January and were less than 2 per cent above a year earlier, a small increase as compared with other postwar years. Corporate profits apparently rose appreciably in the fourth quarter of 1962.

The seasonally adjusted money supply declined slightly more in the second half of January than it had risen in the first half, but for the month it averaged somewhat higher than in Decem-

ber. The rate of growth of time and savings deposits accelerated somewhat during January. Seasonally adjusted bank credit rose further, with the rise concentrated in security holdings. Total reserves, as well as required reserves against private deposits, had declined over the 3 weeks preceding this meeting. Free reserves also had declined, and member bank borrowings from Federal Reserve Banks had averaged somewhat higher. The money market had firmed a little in the past 2 weeks, with yields on 90-day Treasury bills varying in a range between 2.93 and 2.96 per cent, and the Federal funds rate at or just under the discount rate of Federal Reserve Banks.

Capital market financing for February was indicated to be somewhat above the moderate volume in January owing to a considerably larger volume of municipal financing. The February Treasury refunding was regarded as highly successful, and the market was now awaiting an advance refunding operation which the Treasury had indicated would be forthcoming.

Stock market prices, which had risen further in January on active trading, showed little additional rise in early February. Yields on U.S. Government, municipal, and corporate bonds had risen somewhat during the past few weeks as investor caution increased.

The over-all deficit in the U.S. balance of payments was now estimated for the month of January at about $400 million, a somewhat better showing than indicated by reports at the January 29 meeting. Foreign bond issues and private placements in the U.S. market reached a large volume. Gold and foreign exchange markets were generally quiet, but the pound sterling and the Canadian dollar weakened in late January and early February as a result of political developments.

The Committee was unanimously of the view that no change should be made in monetary policy from that followed in recent weeks. This view reflected a desire to maintain a steady market tone during forthcoming Treasury financing operations. Also, business and financial sentiment was reported as being affected