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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.

Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of $25 million equivalent.

The Federal Reserve Bank of New York is further authorized and directed to purchase and sell, in accordance with the Guidelines and for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies, any or all of the foregoing currencies through forward as well as spot transactions, up to a combined total of $50 million equivalent.

Total foreign currencies held at any one time shall not exceed $1.75 billion.

> Votes for these actions: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Scanlon, and Shepardson. Votes against these actions: None.

June 18, 1963

1. Authority to effect transactions in System Account.

Expansion in domestic activity was reported to have continued in May and early June. The industrial production index advanced again in May, with gains widespread among industries and products. Employment also increased and hours of work at factories lengthened, but the unemployment rate rose as teenagers entered the labor market. Retail sales were unchanged from the level of the preceding 3 months, and commodity prices continued to show only small mixed changes. Stock market prices showed little change on balance.

Business confidence remained strong; a recent survey found the planned rise in outlays for new plant and equipment in 1963 to be practically the same as reported earlier, but with relatively more of the increase anticipated in the second half of the year.

Expectations of higher sales and inventories than had been indicated earlier were also reported. Stockpiling against a possible steel strike appeared about at an end, however, and the steel industry was expected soon to become a contractive influence on the economy, at least temporarily, as production was brought into closer balance with consumption.

In the financial area, market adjustments to the mid-May shift in System policy toward slightly less monetary ease continued moderate. Yields on Treasury securities had risen somewhat, but a Treasury offering of a 4 per cent intermediate-term bond met with an exceptionally strong market reception. Corporate yields on new issues changed little, while yields on municipal securities increased.

In May, seasonally adjusted bank credit rose substantially, offsetting a comparable decline in April. Real estate and consumer loans continued to expand rapidly; the rise in business loans was less sharp. The seasonally adjusted money supply was unchanged in May, in part because of an unusually large increase in Treasury deposits. Time and savings deposits rose more rapidly than in April, but more slowly than earlier in the year. Free reserves of member banks averaged somewhat lower after mid-May than earlier.

The U.S. balance of payments deficit in April and May continued at about the advanced level of the first quarter, with capital outflows remaining a major factor. Gold and foreign exchange markets were generally quiet, although the dollar was relatively weak against most major foreign currencies.

At this meeting of the Committee, attention was focused on the failure of the balance of payments deficit to show improvement; on the role of capital outflows in the continuing large deficits; and on the contribution that monetary policy might make, either alone or in conjunction with other Governmental actions, toward a solution of the problem. The majority view was that market adjustments to the mid-May shift in policy were still in process and that no further change in open market policy was appropriate at this time. One minority position was that monetary policy should move a little further toward firmness; this position was based on the view that while the domestic economy continued to strengthen, the balance of payments drain remained serious and could be alleviated somewhat through a higher structure of domestic interest rates, particularly short-term rates. Another minority view, which favored returning to the degree of monetary ease existing before the May decision, was based largely on the feeling that an easier credit posture would encourage the domestic economy to expand more rapidly and that this in turn would help the balance of payments situation.

Although no expectations of a boom in domestic conditions were expressed, neither were there reports from Federal Reserve districts of any significant weakening of business and financial expectations for maintenance of activity at current advanced levels. A majority agreed that, with unemployment persisting at high rates, domestic conditions did not require a further lessening of monetary ease at this time. Further monetary action—possibly dramatic action—might be required soon, however, if the international financial situation did not show signs of betterment.

By majority vote, the current economic policy directive to the New York Reserve Bank was reissued in the same form as approved at the preceding meeting of the Committee.

> Votes for this action: Messrs. Martin, Bopp, Clay, Irons, Mills, Scanlon, and Shepardson. Votes against this action: Messrs. Hayes, Balderston, and Mitchell.

Messrs. Hayes and Balderston dissented because they felt that the Committee should move further in the direction of slightly less ease, while Mr. Mitchell dissented because he favored a return to the greater degree of ease that had existed prior to the policy shift of mid-May.

2. Amendment of continuing authority directive.

In accordance with the recommendation of the Account Manager, Section 1(a) of the continuing authority directive to

the Federal Reserve Bank of New York was amended to raise from $1 billion to $1.5 billion the limit on changes in holdings of securities in the System Open Market Account between meetings of the Committee. With this amendment, Section 1(a) read as follows:

> (a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments, but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1.5 billion during any period between meetings of the Committee.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mills, Mitchell, Scanlon, and Shepardson. Votes against this action: None.

July 9, 1963

Authority to effect transactions in System Account.

Economic activity had continued to expand moderately through June, but business sentiment appeared to have become a little less buoyant than earlier, probably reflecting some uncertainty over the timing and magnitude of inventory curtailments following the steel labor settlement. A threatened rail strike also may have been a factor.

GNP was indicated to have increased substantially again in the second quarter. Retail sales in June, however, showed little change at the level prevailing since February. The industrial production index apparently was at least as high in June as in May, as reductions in steel output were offset by gains elsewhere. The construction and housing situation appeared strong.