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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. |

The previous limit of $1.95 billion, which had been established at the meeting of October 22, 1963, was equal to the sum of the amounts authorized for individual swap arrangements at that time. On November 22, 1963, Committee members had approved increases of $50 million each in the swap lines with the Swiss National Bank and the Bank for International Settlements, effective November 25, 1963. This action, which was ratified by the Committee at this meeting, raised the sum of the individual swap lines to $2.05 billion. The purpose of the amendment to the continuing authority directive was to make the limit on aggregate foreign currency holdings under swap arrangements again equal to this sum.

## December 17, 1963

**Authority to effect transactions in System Account.**

At this meeting optimism about the economic outlook was reported to be widespread and to have increased recently as prospects for a tax cut early in 1964 appeared to have brightened. Preliminary estimates of GNP for the fourth quarter suggested growth at about the same rate as earlier in the year.

Some grounds for caution in assessing the outlook were noted, however. Results of the latest survey of business plans for capital outlays showed less strength in this area than had been widely anticipated; they indicated that fourth-quarter outlays were not expected to be quite so large as had been reported earlier and that there probably would be little change from the fourth quarter to the first quarter of 1964. Also, in November some key measures, such as industrial production and retail sales, showed little or no improvement from October or from levels that had been reached in July. The unemployment rate rose to 5.9 per cent in November from 5.5 per cent in October.

The wholesale price index for industrial commodities was unchanged from October to November, and less complete weekly indexes suggested that stability continued into early December.





The consumer price index rose slightly in October and remained about 1 per cent above a year earlier.

Yields on 3-month Treasury bills continued to fluctuate around the 3½ per cent level, but those on Treasury notes and bonds edged up after late November to new 1963 highs. Corporate bond yields also rose on a large volume of new financing, while yields on municipal securities declined on unusually small volume. Common stock prices rose further to near their October peak.

Bank earning assets continued to expand in late November and early December, but figures for city banks suggested some recent softening of earlier strong private credit demands. A good part of the substantial increment in business loans at city banks in this period represented special financing arrangements and acquisitions of bankers' acceptances. Holdings of U.S. Government securities rose more than usual for this period, as banks were allotted practically all of a $1 billion Treasury bill issue for which 50 per cent payment in the form of tax-and-loan-accounts credit was permitted.

The money supply apparently changed little in the last half of November and the first half of December, and growth in time and savings deposits appeared to have slowed. Free reserves on average were about the same in the 4 weeks ending December 11 as in the preceding 4 weeks. During part of the early December period, however, the money market was unexpectedly easy, with Federal funds trading in substantial volume below the 3½ per cent discount rate on several days. Banks met the demands for funds associated with December tax and dividend dates with little or none of the strains they often experience at this season.

Estimates of the U.S. balance of payments for the fourth quarter, based in part on preliminary figures for the first 2 weeks of December, suggested that the deficit would be above the reduced third-quarter rate but below the rate of the first half.

It was the judgment of the Committee that no change should be made in monetary and credit policy at this time. Factors seen as militating against a shift toward less ease included the moderate pace of business expansion in November, the absence of evidence of general inflationary pressures, and the continued high level of unemployment. Some members expressed the view that the widespread optimism about business prospects was disproportionate to actual recent gains in activity; they felt that more evidence on the continuing vigor of the expansion was necessary before a policy shift would be appropriate. Difficulties of gauging the outlook during the present holiday season were noted. The prospect of considerable churning in the money market over coming weeks, as seasonal demands for credit decline and the customary return flow of currency to commercial banks occur, was advanced as an argument against modifying policy in either direction at the present time.

The Committee concluded that it was no longer necessary to retain the clause relating to unsettlement in money markets stemming from the death of President Kennedy that had been included in the second paragraph of the current economic policy directives adopted at the two preceding meetings. With this clause deleted, the directive issued to the Federal Reserve Bank of New York read as follows:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

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





Mr. Hayes dissented from this action because he favored a modest shift in policy toward less ease. He thought such a shift appropriate not only because of the continuing adverse balance of payments but also because he considered recent growth rates of bank credit and nonbank liquidity to be excessive from a domestic viewpoint, and to have potentially undesirable consequences for credit standards. He observed that if the Committee did not modify policy at this meeting, successive Treasury financings tentatively scheduled for early 1964 might militate against such action being taken in the near future.

Mr. Mills, who continued to favor a policy of greater ease, noted that the actual level of reserve availability in the period since the preceding meeting was consistent with his view of a viable and constructive credit policy. He dissented from the action on the directive, however, because he did not believe that a continuation of recent monetary conditions was compatible with the language of the directive.