FIFTY-FIRST

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR
1964

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS IN 1964

Period	Action	Purpose
January–mid-August	Increased the System's holdings of U.S. Government securities, after having reduced them seasonally early in the year. On balance, total holdings rose about $1.1 billion, $300 million of which represented net purchases of securities with maturities of over 1 year. Member bank borrowings averaged about $275 million.	To provide for moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy while fostering improvement in the capital account of U.S. international payments, after offsetting seasonal downward pressures on short-term interest rates early in the period.
Mid-August–late November	Increased the System's holdings of U.S. Government securities by about $1.5 billion, of which $600 million represented net purchases of securities with maturities of more than 1 year. Member bank borrowings averaged about $350 million.	To maintain slightly firmer conditions in the money market with a view to minimizing the outflow of funds attracted by higher short-term interest rates abroad while offsetting reserve drains and providing for growth needs of the domestic economy.
Late November	Raised discount rates from 3½ to 4 per cent. Raised maximum interest rates payable on savings deposits held for less than 1 year from 3½ to 4 per cent and those on other time deposits from 4 to 4½ per cent for maturities of 90 days or more and from 1 to 4 per cent for maturities of 30-89 days.	To counter possible capital outflows that might be prompted by any widening spread between money market rates in this country and the higher rates abroad, following a rise in official and market rates in London, while at the same time ensuring that the flow of savings to commercial banks remains ample for the financing of domestic investment.
Late November–December	Increased the System's holdings of U.S. Government securities by about $765 million, part of which represented securities acquired under repurchase agreements. Member bank borrowings averaged about $275 million.	To offset seasonal reserve drains and to accommodate further moderate expansion in aggregate bank reserves while ensuring that the rise in money market rates following the discount rate actions did not restrict the availability of domestic credit.

noted that normal seasonal influences tend to be favorable to the payments balance in May.

In the Committee's judgment, the current domestic economic situation was strong and well balanced and the expansion was orderly. The restraint characterizing recent business pricing and inventory policies was noted. In view of these considerations, the continued high rate of unemployment, and the improved international payments position of the United States so far this year, it was agreed to continue the Committee's policy unchanged. Some members indicated that the Committee would need to keep the balance of payments problem in the forefront of its considerations over the coming months because part of the recent improvement may have been due to transitory factors, and because the prospective deficit for the year as a whole remained too large.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. With the recent Federal income tax reduction, continued strength reported in consumer buying plans, and anticipated increases in business capital expenditures as immediate background, this policy takes into account the indications in most recent data on production, business orders, and employment of some apparent quickening in the pace of domestic expansion. It also gives consideration to the continued relative stability in average commodity prices; the persistent underutilization of manpower and other resources; the country's improved, though still adverse, international payments position this year; and the interest rate advances over past months in important markets abroad.

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. Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

June 17, 1964

Authority to effect transactions in System Account.

There was additional evidence that the business advance had accelerated, but the expansion remained orderly and largely free of inflationary tendencies and speculative overtones. Nonfarm employment rose only slightly in May, but the labor force was unchanged and the unemployment rate dropped sharply to 5.1 per cent, the lowest level in several years. Industrial production increased about three-fourths of a percentage point in May, and retail sales exceeded the previous record level set in February. The April figures for both production and retail sales had been revised upward.

Business spending also had increased somewhat in recent weeks, but policies with respect to inventories continued cautious. Although stocks were increased in April at a substantially higher rate than during the first quarter, the additions were about in line with increases in sales. Stock–sales ratios remained unusually low, and manufacturers reported in a Commerce Department survey that they planned to expand stocks in coming months at a lower rate than they expected sales to increase.

A Commerce–SEC survey taken in May revealed that actual first-quarter outlays on plant and equipment were larger than had been planned in February, and it tended to confirm the earlier indication that capital outlays would increase throughout the year. According to the survey returns, such outlays in 1964 would be 12 per cent above the 1963 level, rather than 10 per cent higher as indicated in February.

The wholesale price index edged lower in May to 100.1 per cent of the 1957-59 average. Industrial prices remained stable and those of foodstuffs declined. Stock market prices declined a little from the record level reached in mid-May, and trading volume slackened.

Bank credit expanded substantially in May following a small reduction in April. Loans grew more rapidly than earlier in the year, and holdings of U.S. Government securities were reduced further. Through May 1964, bank credit had expanded at an annual rate of 6.6 per cent, compared with 8 per cent in the full year 1963. Both the money supply, which averaged moderately lower in May, and commercial bank time and savings deposits, which rose further, also showed smaller rates of increase in the first 5 months of 1964 than in 1963 as a whole. Data for early June, however, suggested that a sizable increase in the money supply was occurring in that month. Free reserves declined in May to about $100 million and fell somewhat further in early June as member bank borrowings rose from their relatively low April level.

In security markets the rate on 3-month Treasury bills continued to fluctuate slightly below the discount rate in recent weeks, and yields on other Treasury securities and on private securities showed little change. Many market observers expected the Treasury to auction about $3 billion of March tax anticipation bills early in July. It was reported at this meeting, however, that Federal spending currently was running below earlier estimates and that the Treasury cash balance was likely to build up to higher-than-expected levels by midyear, with the result that the Treasury's needs for new cash in July might be smaller than had been expected. In these circumstances, the Treasury was considering alternative financing operations designed to achieve some lengthening of the average maturity of the debt.

The deficit in the U.S. balance of payments in May, according to preliminary figures, was smaller than in April but larger than the monthly average in the first quarter. It was now estimated that, despite the sharp first-quarter improvement, the payments

deficit for the first 5 months of the year was at a seasonally adjusted annual rate of about $2 billion, somewhat higher than the revised figure for the second half of 1963. However, confidence in the dollar abroad was reported to have strengthened considerably in recent months.

The Committee consensus was that no change should be made in policy at this time. In reaching this conclusion the Committee noted the likelihood that the Treasury soon would be engaged in a financing operation. But entirely apart from that factor most members felt that current policy remained appropriate on both domestic and international grounds. The domestic advance was proceeding in a satisfactory fashion and balance of payments developments, although not as favorable recently as they had been earlier, did not yet appear to call for any policy modification.

Within this consensus, there were several shadings of view. Some concern was expressed about the possibility that inflationary pressures might develop domestically and about the implications for the payments balance of rising interest rates in Europe, as well as recent increases in foreign security issues in this country and declines in the U.S. trade surplus. While no members advocated an overt policy move, some indicated a preference for resolving doubts on the side of less ease, and noted the desirability of slightly higher domestic interest rate levels, such as might be brought about by rising demands for credit. Certain other members thought that if the balance of payments problem persisted it would be better dealt with by means of selective measures rather than by general monetary restraints that might possibly have unfavorable effects on domestic activity. Some members, who were concerned about the reduced rates of growth in bank credit and the money supply thus far in 1964 and about the evidences of lower bank liquidity, favored a somewhat greater monetary expansion.

At the conclusion of the discussion, the Committee issued the following current economic policy directive to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the recent data on production, actual and planned business capital outlays, retail sales, and unemployment, which indicate some quickening in the pace of domestic expansion. It also gives consideration to the continued relative stability in average commodity prices; the continued underutilization of manpower and other resources; the country's less favorable international payments position thus far in the second quarter; and the interest rate advances over past months in important markets abroad.

To implement this policy, and taking into account probable Treasury financing activity, 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, Hayes, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Mills.

Mr. Mills dissented from the Committee's decision for no change in policy and from the action on the directive because he believed that the implementation of policy since the preceding meeting had imposed contractive pressures on the expansion of commercial bank credit, at the expense of throttling down economic activity in the absence of inflationary pressures that might call for such action. He thought that corrective action should be taken promptly to supply the banking system with reserves more freely.

July 7, 1964

Authority to effect transactions in System Account.

Some of the latest data available at the time of this meeting suggested a moderate slowing from the recent rapid pace of

domestic business expansion. However, prospects appeared good for further orderly progress, and consumer and business behavior in general was characterized by optimism.

It was noted that there had been sizable adjustments over the past 12 months within the broad framework of over-all economic expansion. Thus, the dollar rise in private and State and local government spending had more than compensated for a leveling off in Federal outlays; and within the private sector, increasing consumer outlays for goods—initially for durables but later for nondurables—had more than offset a recent modest decline in new housing activity. Throughout the period business fixed capital outlays had continued to expand steadily and by sizable amounts, but the rate of inventory accumulation thus far in 1964 was lower than in the latter part of 1963.

In June the unemployment rate rose to 5.3 per cent from 5.1 per cent in May as employment increased less than seasonally, and on the basis of preliminary data retail sales appeared to have dipped slightly from their May peak. Late in June prices of foodstuffs rose slightly but industrial commodity prices continued stable, and average wholesale prices remained at about the level that had prevailed for 6 years. Prospective supplies of most commodities appeared ample to permit further gains in activity without straining resource availability.

A substantial increase in the money supply in June brought its annual rate of expansion for the first half of the year up to 3.1 per cent, compared with a rate of 2 per cent in the first 5 months and a 3.7 per cent increase for the full year 1963. Free reserves, which had declined in early June, rose in subsequent weeks to levels around $125 million.

In the securities markets, prices of common stocks had recovered their declines of May and early June and moved to new record highs. Yields on new corporate bonds and on all maturities of Treasury securities had drifted downward. The Treasury's cash balance at the end of the fiscal year was estimated at the