

FORTY-THIRD

ANNUAL REPORT

of the

**BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM**



**COVERING OPERATIONS FOR
THE YEAR**

1956

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1956

Period	Action	Purpose of action
January	Reduced System holdings of U. S. Government securities by over \$1.4 billion through sales in the market, redemption of maturing bills, and termination of repurchase agreements. Member bank borrowings increased to weekly averages of \$900 million in late January.	To offset seasonal return flow of currency and reduction in reserve needs and restore degree of restraint prevailing before December action to moderate restraint temporarily.
February and March	Bought small amounts of Government securities at times. Member bank borrowings declined somewhat in February but increased substantially in March as result of sharp increase in required reserves.	To meet changing reserve needs and avoid an increasing degree of credit restraint in view of growing tone of uncertainty as to economic prospects.
April and May	Discount rates raised from 2½ per cent to 2¾ per cent at 10 Reserve Banks and to 3 per cent at 2 Banks around middle of April; System holdings of U. S. Government securities reduced by \$350 million. Member bank borrowings at Reserve Banks rose to over \$1 billion.	To increase restraint on credit expansion, in view of sharp increase in bank credit in March and indications of broad increase in spending, growing demands for credit, and upward pressures on prices and costs.
Late May-early August	Increased System holdings of U. S. Government securities around end of May and end of June and maintained holdings at higher level than in previous period.	To meet currency needs around holidays, to cover added demands for reserves around tax payment and midyear settlement periods, and to avoid increasing the degree of restraint in view of uncertainties in economic situation.
August-November	Discount rates raised late in August to 3 per cent at the 10 Reserve Banks with rates of 2¾ per cent. System holdings of U. S. Government securities increased by nearly \$1 billion; member bank borrowings at Reserve Banks rose to average of \$900 million in August and averaged between \$700 and \$800 million in other months.	Discount rates increased in conformity with rise in market rates resulting from vigorous credit demands. Policies designed to increase and maintain restraint on undue credit expansion while covering seasonal and other temporary variations in reserve needs, including effects of frequent Treasury financing operations.
December	System holdings of U. S. Government securities and bankers' acceptances increased by over \$550 million, including substantial repurchase agreements with dealers. Member bank borrowings declined to weekly averages of around \$600 million, except in last week of year, and at times were less than excess reserves.	To supply reserve funds in recognition of additional pressures in money, credit, and capital markets resulting from seasonal factors and international conditions, at a time when lower liquidity ratios of banks were themselves exerting restraint on bank lending.

RECORD OF POLICY ACTIONS

FEDERAL OPEN MARKET COMMITTEE

At the beginning of the year 1956, the policy directive of the Federal Open Market Committee, issued to the Federal Reserve Bank of New York as Agent selected by the Committee to execute transactions for the System open market account, was the one that had been approved at the meeting on December 13, 1955, reading as follows:

To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System open market account in the open market, or in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary developments in the interest of sustainable economic growth, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than \$1 billion;

To purchase direct 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 in the aggregate \$500 million;

To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate \$500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

The policy actions listed on the following pages were taken by the votes indicated at the nineteen meetings of the Federal Open Market Committee held during 1956.

the light of the evidences that the current year had begun with activity and employment sharply above a year ago and, in many countries, close to capacity. It was recognized that further increases in over-all output in the United States could be achieved only slowly and that in such circumstances relatively small increases in demand might bring heavy upward pressure on prices. At the same time the Committee noted the currently reduced levels of farm prices and uncertainties in the housing and automobile markets; and it gave consideration to the view that the domestic economy after a year and a half of expansion might be nearing a cyclical peak and that a reaction might be in prospect before long. It observed likewise that some seasonal contraction in the volume of credit was then taking place and, although a rise during February and March might be anticipated, some of the rise would be to meet seasonal needs.

The net of the Committee's review was that there had been a slight—perhaps almost imperceptible—change in the state of the economy in recent weeks, which might make some relaxation of restraint appropriate in the near future. It concluded that the situation at the moment did not call for a policy directive which gave sole emphasis to restraining inflationary forces. This did not mean that a reversal of the existing policy was called for, but a shift in emphasis seemed desirable as a means of indicating the intent to make credit available to permit the economy to work, to produce, and to consume at near-capacity levels. Thus, for the purpose of emphasizing flexibility, the Committee added the instruction to take into account any deflationary tendencies in the economy while carrying out operations directed toward restraining inflationary developments.

February 15, 1956

Authority to effect transactions in System account.

The Committee renewed its directive to the Federal Reserve Bank of New York with no change in the wording approved at the meeting on January 24, 1956.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Fulton, Irons, Leach, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Powell. Votes against this action: none.

In its review of the economic situation at this time the Committee observed some continued diversity in tendencies with necessary realignment taking place in a number of important activities. However, industries generally were operating at very advanced levels and, even where this was not the case, evidence was not available to indicate an economic downturn. Some easing in the labor market had appeared, particularly in automobile manufacturing centers where reductions in both employment and working hours had been greater than had been previously expected. Markets for consumer durable goods were showing a mixed picture, but over-all retail trade continued at high levels. The rise in industrial prices persisted.

The leveling off in economic activity noted at this time had been reflected in the credit situation with bank credit and the money supply having shown about the customary seasonal declines, compared with less than the usual seasonal reductions in early 1955. However, this did not indicate a general slackening in the demand for credit. Business plans for capital expenditures were still impressively strong. Member bank borrowing had increased somewhat in late January and member bank reserve positions had been relatively tight. On balance, the Committee concluded that the signs of economic strength continued to outweigh signs of weakness and that a relaxation of pressure on bank reserves was not indicated, although no increase in restraint appeared to be called for at the moment.

March 6, 1956

This was the first meeting of the Federal Open Market Committee after the new members elected by the Federal Reserve Banks for the year beginning March 1, 1956 assumed their duties.

1. Authority to effect transactions in System account.

The Committee again renewed its directive to the Federal Reserve Bank of New York in the same form that had been adopted at the meeting on January 24, 1956 calling for transactions in the System open market account to be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while taking into account any deflationary tendencies in the economy."