

FORTY-NINTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System



COVERING OPERATIONS FOR THE YEAR

1962

<i>Period</i>	<i>Action</i>	<i>Purpose of action</i>
January-February	Reduced System holdings of U. S. Government securities by about \$500 million through net sales and redemptions. Member bank borrowings from the Reserve Banks averaged less than \$100 million.	To permit further bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds, mainly from post-holiday return of currency from circulation, while minimizing downward pressures on short-term interest rates.
February	Authorized open market transactions in foreign currencies.	To moderate and offset short-term pressures on the dollar in the foreign exchange market.
March-mid-June	Increased System holdings of U. S. Government securities by about \$1.3 billion, of which half represented purchases of securities with maturities of more than 1 year. Member bank borrowings from Reserve Banks continued to average less than \$100 million.	To promote further bank credit and monetary expansion while avoiding sustained downward pressures on short-term interest rates.
Mid-June-late October	Increased System holdings of U. S. Government securities by about \$200 million with net sales and redemptions of Treasury bills of about \$700 million being more than offset by purchases of coupon issues, of which two-thirds were issues maturing in more than 1 year. Member bank borrowings from Reserve Banks averaged less than \$100 million.	To permit moderate increase in bank credit and money supply while avoiding redundant bank reserves that would encourage capital outflows, taking into account gradual improvement in domestic economy and possibilities for further advance, while recognizing the bank credit growth of past year and continuing adverse balance of payments.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To take into account the recent sharp reduction in stock market credit and the abatement in speculative psychology in the stock market.
October	Reduced reserve requirements against time deposits from 5 to 4 per cent, effective October 25 for reserve city banks and November 1 for other member banks, thereby releasing about \$780 million of reserves.	To help meet seasonal needs for reserves, while minimizing downward pressures on short-term interest rates, and to provide for the longer-term growth in bank deposits needed to facilitate the expansion in economic activity and trade.
Late October-December	Increased System holdings of U. S. Government securities by about \$1.0 billion, with more than half of the net increase in issues maturing in more than 1 year. Member bank borrowing from the Reserve Banks rose gradually over period, but only to an average of about \$200 million.	To help further in meeting seasonal needs for reserve funds while encouraging moderate further increase in bank credit and the money supply and avoiding money market conditions unduly favorable to capital outflows internationally. In mid-December open market operations were modified to provide a somewhat firmer tone in money markets and to offset the anticipated seasonal easing in Treasury bill rates.

accord a higher priority to domestic goals. In his judgment, this was the wrong time to shift toward a policy calling for any lesser degree of monetary ease.

June 21, 1962

Authority to purchase and sell foreign currencies.

At this meeting, held by telephone, the continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations, as adopted by the Federal Open Market Committee on February 13, 1962, and amended May 29, 1962, was further amended, effective immediately, to add the Canadian dollar to the list of foreign currencies that the New York Bank was authorized and directed to purchase and sell. This action was taken in view of the imminent prospect of a reciprocal currency (swap) agreement being entered into between the Federal Reserve System and the Bank of Canada as part of a broad package of financial assistance—including assistance from the International Monetary Fund, the Bank of England, and the U.S. Export-Import Bank—designed to reinforce the Canadian Government's efforts to defend the Canadian dollar against a speculative wave that threatened to force the Canadian dollar off its recently established par value. 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:

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

Total foreign currencies held at any one time shall not exceed \$500 million.

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

July 10, 1962

1. Authority to effect transactions in System Account.

Economic activity, as interpreted in reports at this meeting, appeared to be in a period of hesitation. Although advances had continued in May and early June, they tended to be smaller than in earlier months, and adverse trends were reported for some key series. The unemployment rate, for example, was up slightly in June.

Retail sales, which were off slightly in May, appeared on the basis of weekly data to have declined again in June. Business inventory accumulation continued in April and May, but at sharply reduced rates. On the other hand, a survey conducted in late June indicated that business plans for new plant and equipment outlays this year were still largely unchanged, suggesting that they had not been adversely affected by the decline in stock prices. Construction activity continued to rise in June, with gains widely spread among major types of construction.

A principal feature of financial developments since the June 19 meeting was the less easy tone in the money market. The 3-month Treasury bill rate rose to just under the Reserve Bank discount rate (3 per cent), and Federal funds traded at the discount rate most of the time. Yields also had risen on municipal and corporate bonds as well as on U. S. Government bonds. Member bank borrowing at Federal Reserve Banks increased moderately, and free reserves of member banks were somewhat lower than in the preceding 3 weeks.

Bank credit outstanding increased in June, with the increase centered more in loans than investments; the loan increase was widely distributed among types of loans. Loans to brokers and