

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.

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

high level of \$10.2 billion, and it was reported that the Treasury planned to announce a major advance refunding on the day following this meeting.

The U.S. balance of payments deficit for the second quarter was tentatively estimated at a seasonally adjusted annual rate in the neighborhood of \$3 billion, much larger than the first-quarter rate of \$0.7 billion. The high month of the second quarter was April, however, and after that the monthly deficits were significantly smaller, although still above the first-quarter rate. A decline in the trade surplus from the unusually high first-quarter rate probably accounted for about half of the increase in the deficit. In early July both Belgium and Switzerland increased their discount rates by one-half of a percentage point.

The Committee concluded that its policy should be continued unchanged for the next 3 weeks. The expected Treasury financing was an important factor in this decision, but most Committee members felt that recent domestic and international developments did not call for a policy change at present in any case. 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. This policy takes into account the continued orderly expansion in economic activity, accompanied recently by a more rapid expansion in money supply and some decline in interest rates. It also gives consideration to the relative stability in average commodity prices; the underutilization of manpower and other resources; the country's less favorable international payments position in the second quarter; and the further interest rate advances 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, Balderston, Daane, Hickman, Mills, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against action: None.

July 28, 1964

Authority to effect transactions in System Account.

Economic activity was continuing to advance, although in some areas expansive tendencies appeared somewhat less strong than earlier in the year. Pressure on resources remained moderate, and industrial prices continued stable.

GNP in the second quarter was estimated at an annual rate of \$618.5 billion, about \$10 billion above the first quarter. Industrial production rose further in June and was about 4 per cent higher than 6 months earlier. Retail sales in June equaled their record May level and apparently increased moderately further in the first half of July. However, total consumption expenditures increased less in the second quarter as a whole than in the first quarter, despite the tax cut, and personal saving rose sharply. Nonfarm employment rose further in June, but the rate of increase had shown signs of moderating in recent months, and the unemployment rate continued to exceed 5 per cent. Although housing starts rose slightly in June, on balance they had been tending downward since the autumn of 1963. Business inventory policies continued cautious; the rate of inventory accumulation in the second quarter was little larger than the modest first-quarter rate, and inventory-sales ratios remained low.

Both bank credit and the money supply recorded substantial increases in June. Rapid growth in the money supply continued in the first half of July, raising the annual rate of increase for the year to date to over 4 per cent. Time and savings deposits continued to expand at about the average rate of earlier months this year.