MONTHLY

Review

FEDERAL RESERVE BANK
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FINANCIAL HIGHLIGHTS OF 1960

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Financial Highlights of 1960

BUSINESS ACTIVITY was at a high level during most of 1960, although it was declining in the latter half of the year. Production, employment, and incomes set new records, and average prices showed only modest net changes. Nevertheless, economic problems arose, and it is generally believed that the performance of the economy fell short of its capabilities.

Introduction

At the beginning of the year there was widespread optimism. Total output of goods and services was rising rapidly, and many industries were approaching capacity. Since the prolonged steel strike had ended only a few weeks before the year commenced, it was thought by many economic analysts that there was a huge reservoir of unsatisfied demands for the output of factories. The major economic problem seemed to be how to contain the boom and to avoid general price rises. Reflecting the pace of economic activity and the great expectations, demands for funds bid up interest rates to postwar peaks. The money supply was contracting, but money substitutes and the velocity of money were rising.

The boom, however, never materialized. After the spurt in activity from November 1959 through January 1960, total output of goods and services rose only modestly during the spring and early summer. Industrial production remained virtually unchanged at a level about 2 per cent below the high attained in January. The general economic plateau was a resultant of a contraction in the output of durable goods offset by rises in other sectors. Bank reserves changed only slightly, bank credit expanded, but the money supply continued to contract. Interest rates declined markedly as the demand for credit decreased.

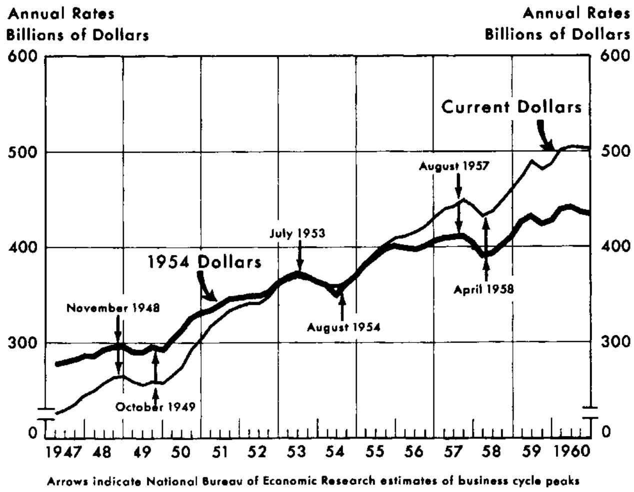
Around midyear total business activity began to contract. Purchases of goods and services declined slightly, inventories became burdensome, production schedules were cut back, and unemployment rose. The fourth postwar recession had begun, although the contraction through early January 1961 was still milder, according to most measures, than in any of the other postwar recessions.

Monetary actions were taken to stimulate domestic economic activity. Bank reserves were increased, commercial bank credit rose, and the earlier decline in the money supply was reversed. Interest rates in the last half of 1960 remained at their midyear level.

A complicating problem was that during the last half of 1960 the country was faced with a persistent and substantial gold outflow. A major cause of the large movement of gold out of the country, it was thought by many, was the relatively low short-term interest rates in this country compared with those in other nations. Actions designed to stimulate domestic economic activity might have a depressing effect on short-term interest rates and thus stimulate the net outflow of capital.

This article, reviewing financial highlights of 1960, is divided, chronologically, into three principal parts. The first section deals with the short period early in the year when economic activity was high and rising. The second section covers the period of hesitation during the spring and early summer. Finally, the third section focuses on the economic contraction marking the last two quarters of 1960.

Gross National Product



Arrows indicate National Bureau of Economic Research estimates of business cycle peaks and troughs.

Latest data plotted: 4th Qtr. 1960 estimated

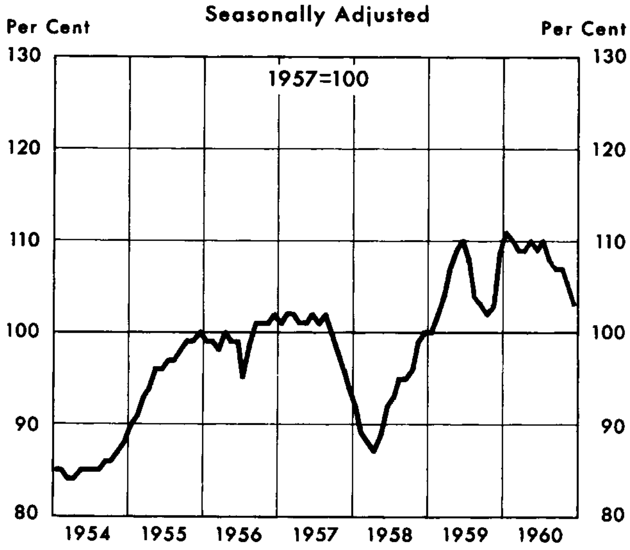
Early 1960

Economic activity was vigorous and improving as the year 1960 began. From as far back as the second quarter of 1958, when the last recession had bottomed out, there had been a strong underlying upward push to business activity. From April 1958 to July 1959, industrial production rose at an annual rate of 19 per cent. Total output of goods and services rose 11½ per cent from the second quarter of 1958 to the second quarter of 1959. However, before the recovery was complete, the nation suffered one of its severest work stoppages in history, the steel strike, lasting from July to November of 1959.

During the strike economic activity naturally contracted; industrial production decreased 5.6 per cent from July to October. However, optimism about future activity remained high during the strike. Not only was economic recovery from the 1957-58 recession incomplete, but because certain commodities were unavailable during the work interruption, there developed an increasing backlog of unsatisfied demands for many industrial products.

Industrial Production

Seasonally Adjusted



Latest data plotted: December

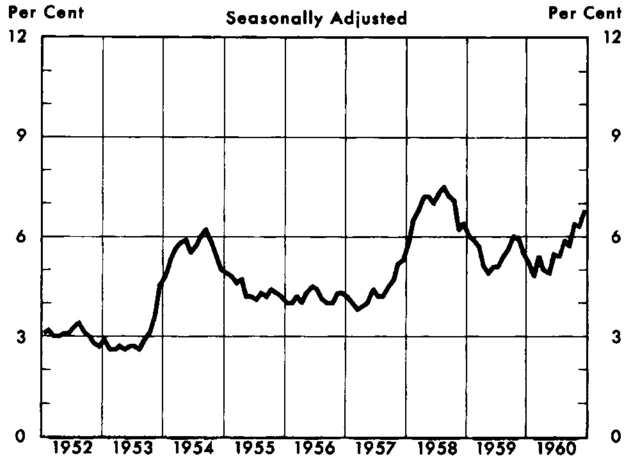
After the strike was settled, business activity rose rapidly. As a result, by January 1960 business activity had reached a new high and was rising. Industrial production in January was 8.8 per cent above October 1959, the low point of the strike. More importantly, production had already surpassed the pre-strike peak and was up at an average annual rate of 15.8 per cent since April 1958.

Reflecting the rise in production, utilization of the labor force was more intensive. In early 1960, roughly 5 per cent of the civilian labor force was unemployed compared with about 6 per cent in the fall of 1959 and roughly 7 per cent in 1958. Also, the average hours worked per week in manufacturing had risen slightly, from about 39 in 1958 and 39.9 in November 1959 to 40.3 in January 1960.

Unemployment

As a per cent of the civilian labor force

Seasonally Adjusted



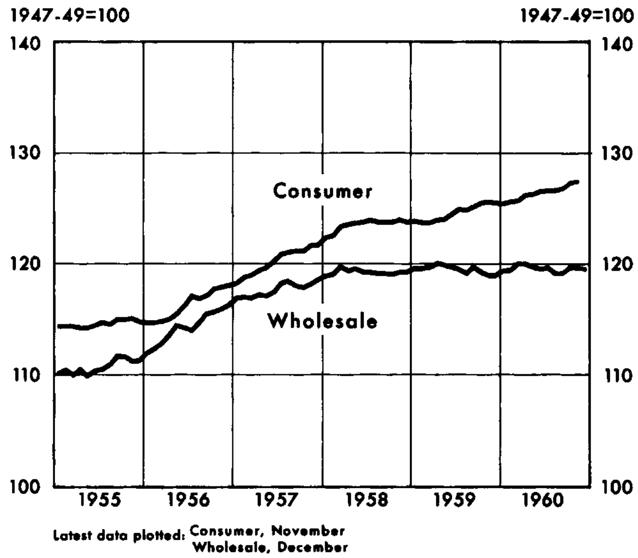
Latest data plotted: December

The 5 per cent level of unemployment in January, although well below the level reached during 1958 and again during the 1959 steel strike, was above any nonrecession year since the end of World War II. This rather high level of unemployment may reflect the fact that the economy did not fully recover from the effects of the 1957-58 recession and the 1959 steel strike. The existence of this untapped reservoir of labor was taken as another sign that business activity could continue to expand.

Reflecting the increase in employment as well as a rise in wage rates and gains in profits, rents, interest and other income, total personal income rose to $396 billion in January 1960. This was a rise at a rate of 6.7 per cent per year from April 1958. With expanded personal incomes, greater business activity, and state and local governments expanding their role, the total demand for goods and services was rising rapidly. In real terms (that is, after adjustment for price changes), gross national product in the first quarter of 1960 was up at an average annual rate of 6.6 per cent from the low point reached during the second quarter of 1958.

Despite the existence of a rather high level of unemployment, prices rose on balance in 1959. During the last six months of 1959 the consumer price index rose at an annual rate of 1.6 per cent. Although the

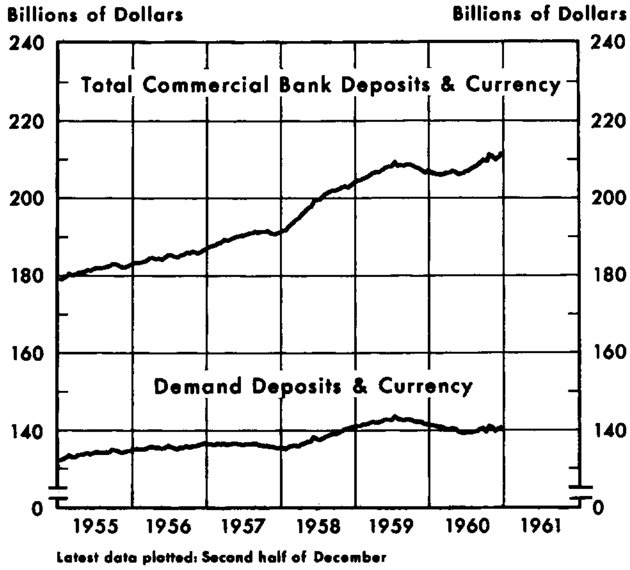
Prices



Money Supply

Semi-Monthly Averages of Daily Figures

Seasonally Adjusted



wholesale price index remained about stable throughout the year, industrial commodities moved upward while farm products and processed foods declined. In early 1960, as more and more firms were approaching capacity and as order backlogs rose, there was a broad consensus that the major economic problem of the nation was how to avoid the evils of inflation.

Bank reserves were maintained at approximately a constant level during 1959 and early 1960 while total economic activity improved substantially in this period. Total reserves of member banks, adjusted for seasonal influences, averaged $18.7 billion during January 1960, virtually the same level that had existed since mid-1958.

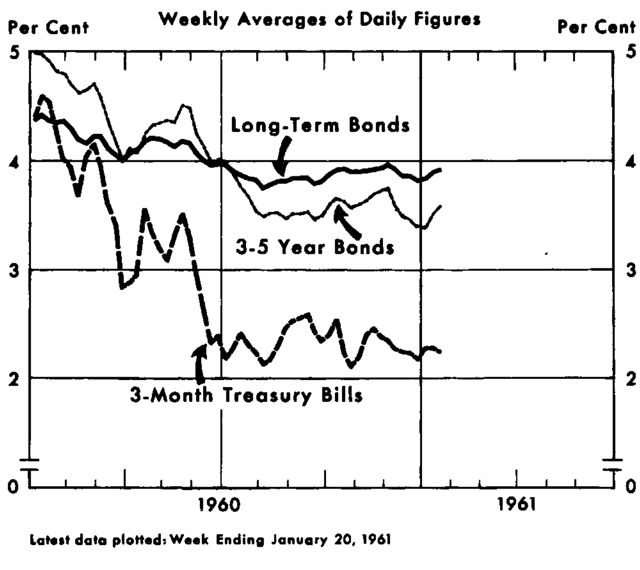
The total volume of commercial bank loans and investments (adjusted for seasonal) was about $187 billion in January 1960. Bank credit (loans and investments) had remained at this level for 8 months. Bank loans had been rising sharply, but since total reserves of banks remained virtually unchanged, banks sold a sizable amount of investments.

The money supply of the country (seasonally adjusted) averaged $141.3 billion during January 1960. This was nearly the same as a year earlier, a rise in the first half of 1959 being matched by a decline in the last six months. From the peak of the previous boom (August 1957) to January 1960, the money supply rose at an annual rate of only 1.4 per cent.

In sharp contrast to the lack of growth in the money supply, there had been a rapid increase in the rate of turnover of money. In the first quarter of 1960, demand deposits (except interbank and U. S. Government) at reporting banks outside the large financial centers turned over at the rate of 25.8 times per year, up 7.9 per cent from a year earlier.

Among the factors encouraging a more rapid use of money were a rise in interest rates and an increase in the volume of near money substitutes. Higher interest rates available to investors made the alternative cost of holding idle cash greater. More money substitutes, such as savings accounts and short-term Government securities, may have reduced the need for holding cash. During 1959 the liquid asset holdings of the public rose markedly, about 7.5 per cent, with a large

Yields on U.S. Government Securities



share of the gain in the form of short-term U. S. Government securities. The Treasury operated at an $8 billion cash deficit, and with the going level of interest rates and the 4¼ per cent maximum on long-term issues, the Treasury expanded the volume of short-term issues substantially.

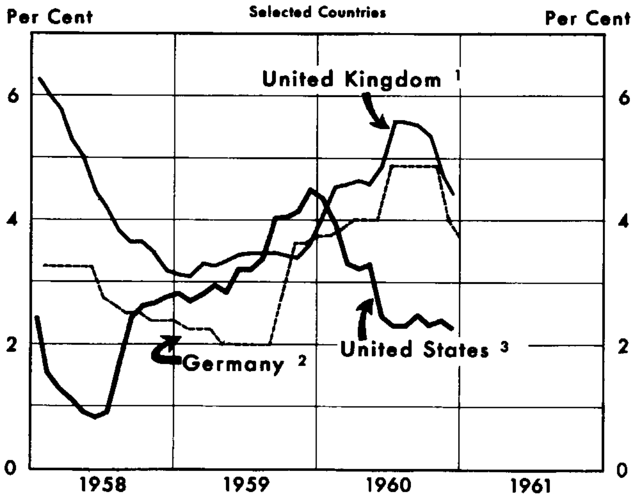
Interest rates after having risen markedly since mid-1958 reached their highest level in several decades during early January 1960. The rise in rates reflected strong demands for funds by businesses and consumers together with a limited rate of saving and credit creation.

Average yields on three-month Treasury bills were 4.35 per cent in January 1960, as against 2.82 per cent a year earlier and about 1 per cent in the spring of 1958. Long-term Government bonds were at a high of 4.37 per cent, compared with 3.90 per cent a year earlier and a previous postwar peak of 3.73 per cent in October 1957. The prime bank rate on business loans had risen to 5 per cent from the recession low of 3½ per cent and from the previous postwar high of 4½ per cent in 1957. The discount rate at the Federal Reserve Banks, which was 1¾ per cent in mid-1958, had been raised in five successive steps to 4 per cent by early 1960.

Interest rates in Western Europe also rose during 1959. However, the rise in these nations did not begin until about mid-1959 (see chart). The varying movements in rates in the United States and in other countries reflects in part the differences in the timing of the business cycle. However, at the beginning of 1960 there was relatively little spread between short-term rates in the United States and in the money market centers of Western Europe.

Yields on 3-Month Treasury Bills

Selected Countries



1 Monthly Averages of Weekly Figures
Latest data plotted: December, preliminary
2 End of Month Figures on 60-90 Day Treasury Bills
Latest data plotted: December, preliminary
3 Monthly Averages of Daily Figures
Latest data plotted: December

Spring and Early Summer

During the first few months of 1960 the bright prospect of the beginning of the year faded away. The economy commenced moving sidewise, and many uncertainties developed. Industrial production remained at a level 9 or 10 per cent above the 1957 average from February to mid-summer, compared with a peak of 11 per cent above in January. Output of durable goods declined; other sectors of the economy registered modest gains.

Total demands for goods and services in real terms crept up slightly (annual rate of 1.2 per cent) from the first quarter to the second. By contrast, the gross national product in constant prices had risen over 4 per cent in the previous year. A smaller rate of inventory accumulation by businessmen was a principal factor in the decreasing rate of growth in demands. Too, the Federal Government shifted from a large ($8 billion) cash deficit in calendar 1959 to a cash surplus ($3 billion annual rate, seasonally adjusted) in the first half of 1960.

The ratio of unemployed in the civilian labor force remained at or about the 5 per cent level through mid-1960. Although this was an improvement from roughly 7 per cent in 1958 and 5½ per cent in 1959, it was considered by most as unsatisfactory and was considerably above the roughly 4 per cent rate prevailing in the 1955-57 period.

Consumer prices continued to inch up somewhat but wholesale prices remained about unchanged. The fear of great upward pressure on prices gradually subsided during the period. At the same time, concern increased over the large numbers of unemployed and the lack of dynamic growth of the economy. There was, to be sure, a substantial measure of prosperity, but an economic problem emerged as to how to stimulate activity to rise from the plateau.

Almost from the beginning of 1960, there was a marked decline in interest rates. Average yields on three-month Treasury bills fell from about 4.50 per cent in December 1959 to 2.30 per cent in July. The decline in yields of other Government securities was large but somewhat less pronounced. Intermediate-term issues decreased from 4.95 per cent in December to about 3.70 in July, and the rate on long-term bonds declined from over 4.25 per cent to about 3.85 per cent.

This was the first time since World War II that interest rates had declined so much and for such an extended period while business activity remained at a fairly high level. In the two previous recessions, 1953-54 and 1957-58, interest rates did decline more sharply. One feature distinguishing the early 1960 decrease in interest rates from those that occurred during the recessions of 1953-54 and 1957-58 was the fact that the yields on corporate and municipal issues and on mortgages declined only slightly.

A major cause of the decline in rates was a change in the Federal Government's position. During 1959 it was a large net borrower to finance the sizable deficit, but in early 1960 as receipts exceeded outlays, the Government retired a substantial volume of debt.

The Federal Reserve System increased its average holdings of Government securities from a seasonally adjusted level of $25.7 billion during January 1960 to about $26.3 billion in June. Nevertheless, total reserves of member banks (seasonally adjusted) declined from an average of $18.7 billion during January to $18.3 billion in June. A sharp contraction from January through mid-April was only partially offset later. The decline in reserves resulted primarily from net repayments of borrowings from Reserve Banks (see chart). At the same time market interest rates fell below the discount rates (see charts). Even after the ½ of 1 percentage point reduction in discount rates in early June, discount rates were relatively high compared with yields on short-term market issues, and borrowings continued to decline.

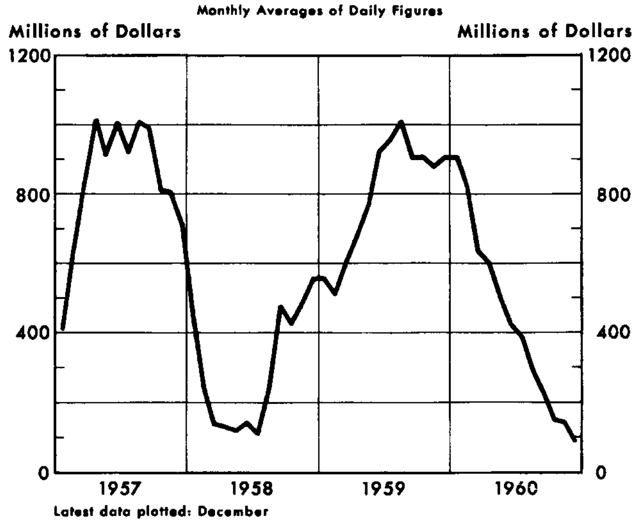
Total commercial bank credit (seasonally adjusted) rose only modestly during the first half of 1960. Loans continued to increase, but with a limited supply of reserves, banks reduced their portfolios of securities. As a result, the loan-to-deposit ratio of commercial banks in May and June 1960 reached 55 per cent, compared with 52½ per cent at the beginning of the year, 47 per cent in mid-1958 and a previous postwar peak of 49½ per cent in September 1957. Hence, many bankers felt less liquid in June than in January, despite a substantial reduction in member bank indebtedness at Reserve Banks over the period.

Despite the modest expansion in total bank credit, the money supply declined from $141.3 billion in January 1960 to $139.4 billion in June. This decline was at an annual rate of 3.2 per cent. The contraction in the money supply in view of a modest growth in bank credit reflected a large increase in time deposits (not included in the money supply as defined).

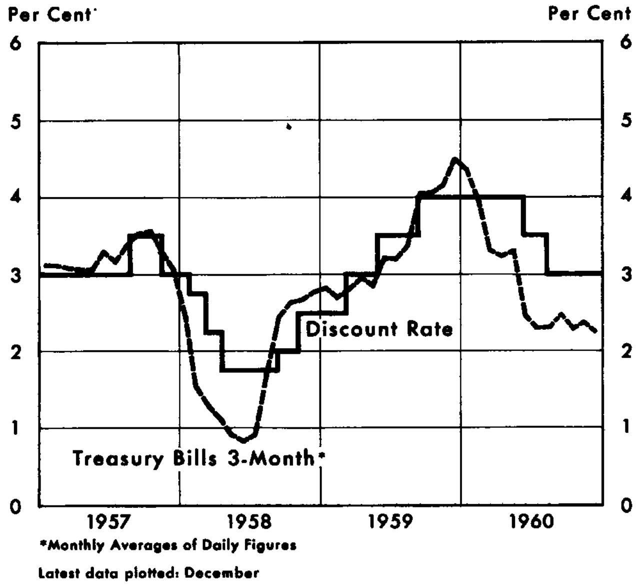
According to bank debits reports, the turnover of money rose rapidly in early 1960 but from March

Member Bank Borrowings from Reserve Banks

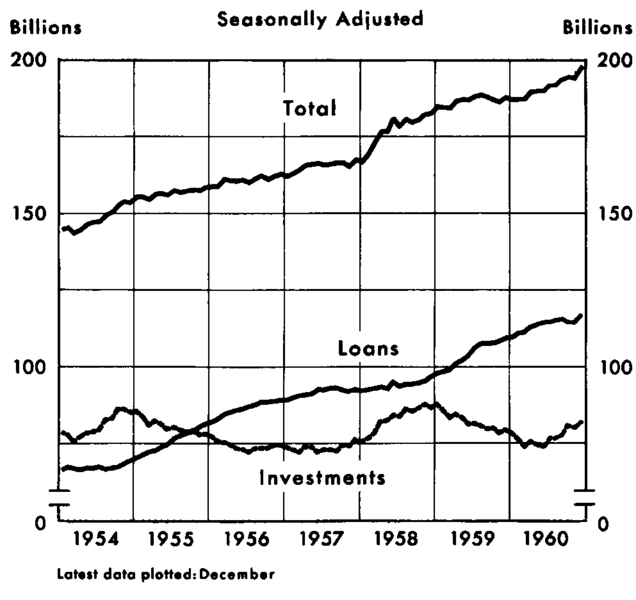
Monthly Averages of Daily Figures



Money Rates



Commercial Bank Credit



through June leveled off at a rate just over 26 times per year. A decline in interest rates and a reduced volume of liquid assets in the hands of the public (especially short-term Government securities as the Treasury retired debt) may have had some influence on the velocity of money.

Early Summer to Year-end

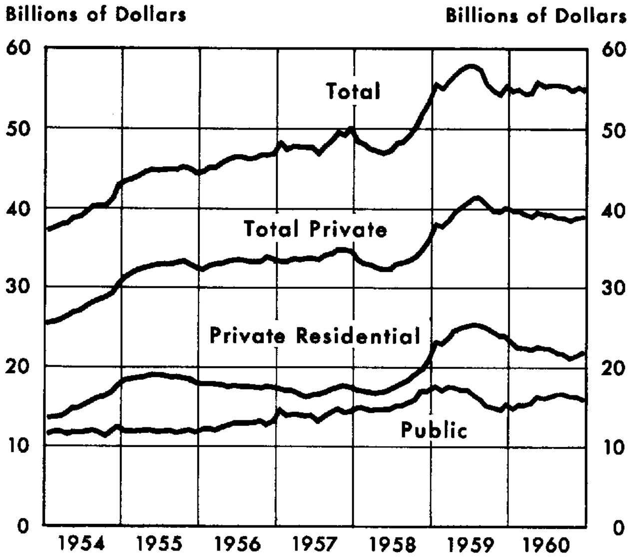
Sometime around early summer, business activity slackened and the economy entered into the fourth postwar recession. Real product of the economy (in 1959 dollars) decreased from over $497 billion in the second quarter to less than $493 billion in the third quarter and probably drifted lower in the fourth quarter. A major factor in the decline was the shift from business inventory accumulation to inventory contraction. Also, consumer purchases of goods declined slightly.

The Federal Government increased its seasonally adjusted cash surplus from an annual rate of $3 billion in the first half to nearly $7 billion in the third quarter. In the fourth quarter the cash surplus declined sharply to an estimated $2 billion annual rate as a result of increased expenditures and declining revenues induced by the so-called automatic stabilizers. Government receipts declined chiefly from lower taxes received on corporate profits, and some outlays, especially unemployment compensation, rose.

Industrial production declined over 6 per cent from July 1960 to December, and there was a further contraction in early January 1961. There were weaknesses in the production of both durable and nondurable goods. Total new construction, however, remained virtually unchanged during 1960. Although private residential construction drifted steadily lower, the decreases were substantially matched by increases in public, commercial, and industrial construction.

Outlays for New Construction

Seasonally Adjusted Annual Rates



Latest data plotted: December

Unemployment as a share of the civilian labor force rose from 5 per cent in late spring of 1960 to 5½ per cent in mid-summer to about 6½ per cent in October, and to nearly 7 per cent at year-end. In addition the average factory work-week for those employed was shortened from about 40 hours in the early summer to 38½ hours in December.

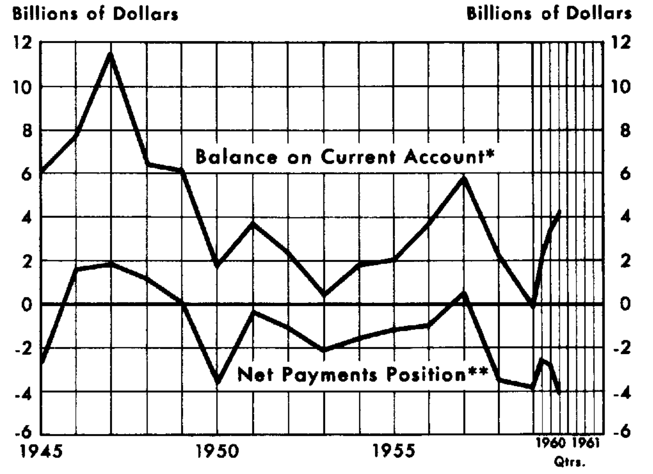
Personal income grew at a modest (2½ per cent) annual rate from June 1960 through October but apparently changed little in the last two months of the year. In terms of dollars of constant purchasing power, personal income may have contracted from June to December. Wage and salary disbursements in current dollars were practically unchanged in the period. However, unemployment compensation and other transfer payments rose markedly.

Despite widespread weakness in expenditures and a large amount of idle productive capacity, prices of some goods and services worked up and prices of other items remained steady. On the average, prices changed moderately; in the consumer area they appeared to work up slightly. The consumer price index increased from June through December, reflecting markups in the prices of some food items and in the cost of services. Commodities other than food rose slightly in price, a reduction in durable goods being more than offset by increases in nondurable goods. However, price indices do not fully reflect hidden price concessions which are normally made during periods of weak demand.

The recession, however, was not the only economic problem faced by the nation during the last half of 1960. For about a decade, the United States has had a deficit in its net balance of payments, reflecting the fact that U. S. surplus receipts on current account have been more than offset by U. S. Government outlays abroad and private capital outflows. While "nontrade" payments (Government grants, loans, and military expenditures related to defense establishments abroad) have been substantial in recent years, it was the shrinkage in the U. S. merchandise trade surplus that boosted the deficit above the $3 billion level in 1958 and 1959. In the late summer of 1960, gold began flowing out of the country in large volume. In the last half year the gold outflow totaled $1.5 billion as against $134 million in the first half.

The net foreign balance of payments deficit became larger beginning last summer when short-term

U. S. Balance of Payments



1960 data by quarters, seasonally adjusted at annual rates.

* Net goods and services; Totals from 1946 to date exclude military supplies and services transferred under grants.
** Minus figures indicate balance of payments deficits, settled by net gold sales and increases in foreign-held dollar assets.

interest rates in the United States declined markedly, and rates in other industrialized countries continued to rise. The spread in rates made it profitable for individuals and businesses to move short-term funds from this country to others, increasing this country's net payments deficit, despite the fact that our export surplus was rising. The net payments deficit gave foreign central banks and other official institutions claims to dollar balances. These institutions elected to take less than the usual share of their funds in the form of a buildup in short-term balances in the United States. They chose to take a larger proportion in the form of gold. However, at the end of December, the United States still owned $17.8 billion or 47 per cent of the world's monetary gold reserves (excluding communist bloc nations and the holdings of international institutions).

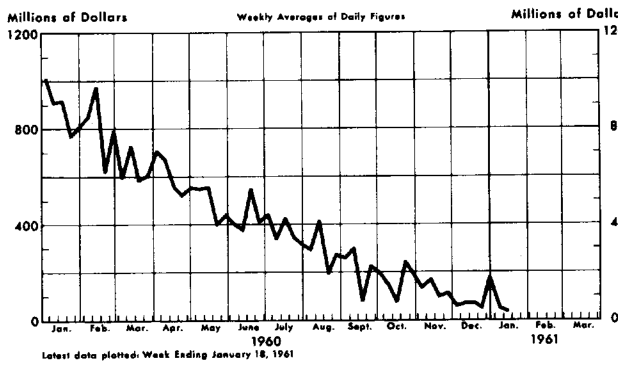
From June 1960 to December daily average effective reserves[1] of member banks expanded by $816 million, or at an annual rate of about 9 per cent. This expansion was due in part to System open market purchases of securities which added on balance about $1.1 billion to member banks or about $200 million more than seasonal.

In addition to open market operations the System in the last six months of 1960 released approximately $1.9 billion of additional reserves by allowing member banks to count cash in vault as part of their reserve requirements. This action was made effective in August-September 1960 and again in the November-December 1960 period.[2] These measures were taken pursuant to a 1959 Act of Congress which was designed in part to reduce the inequities in reserve requirements.

Offsetting in large measure the release of reserves through the actions relating to vault cash and open market operations were the outflow of gold and a continued reduction in member bank borrowing. The movement of gold abroad of roughly $1.5 billion meant a reduction of a like amount in member bank reserves. The impact of the gold movement was concentrated in the last half of the year.

Member bank borrowing continued to decline in the latter half of the year. From a high of $905 million in January, borrowings were $425 million in June and reached the lowest level of the year when they

Member Bank Borrowings from Reserve Banks



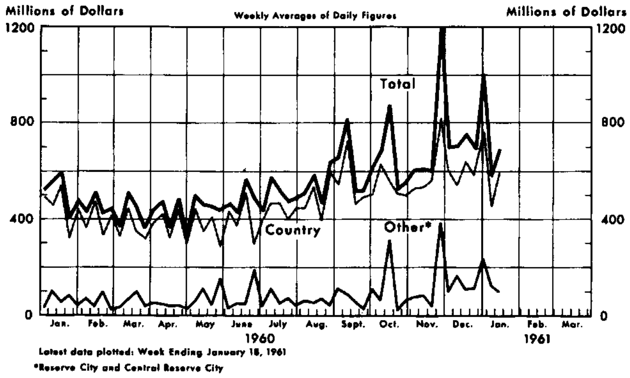
averaged only $87 million in December. In the previous two recessions as well as in the current contraction, the drop in bank borrowing was a major contributing factor to an absolute decline in total reserves which occurred in those periods.

Besides using a part of the reserves supplied by the System to reduce their borrowings, member banks also increased their holdings of excess reserves. Excess reserves, which averaged $466 million in June 1960, rose to $775 million by December 1960. This same set of circumstances accompanied the easing measures employed by the System in the two previous recessions. Before using reserves to expand credit, banks generally seek to improve their liquidity position. At some point when the banks "feel" that they are liquid "enough" the additional reserves are used to expand credit, usually by buying securities.

[1] Effective reserves are total reserves of member banks adjusted for seasonal and for changes in legal reserve requirements.

[2] The System had previously permitted some cash in vault to count as reserves beginning in December 1959.

Excess Reserves of Member Banks



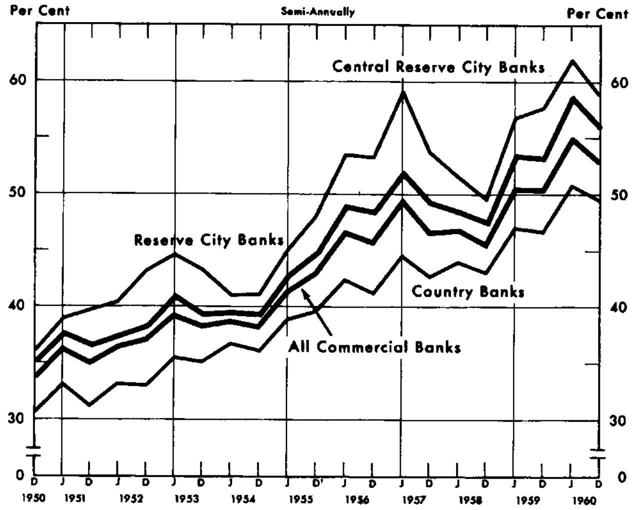
The change in Federal Reserve regulations which allowed banks to count vault cash as reserves may have contributed to the growth in excess reserves during the past year. To the extent that this is explained by the fact that banks had to reorient their thinking as to the relationship between vault cash and their required reserves, the increase may be temporary. However, the reserve accounts of some banks constitute a highly active "working balance" and the permission to count vault cash did not alter the minimum balance needed to avoid overdrafts at the Reserve Banks. To this extent, the general level of excess reserves may have moved to a permanently higher level.

With a greater volume of reserves during the second half of 1960, commercial banks not only held more excess reserves but also increased bank credit significantly. Loans, adjusted for seasonal, which had been rising during the first half of the year, expanded at a slower pace during the third quarter. During October and November loans declined but they rose in December. The behavior of loans during the latter half of 1960 shows a strong similarity to the 1953-54 and 1957-58 recessions. The pattern of loan behavior during or preceding a recession is first a decline in the rate of expansion followed by a leveling off or absolute decline. Bank investments which had declined on balance during the first half of the year expanded over $8 billion from the end of June to the end of December.

As a result of the shift in the composition of earning assets of commercial banks, the banking system has become more liquid, as measured by the loan-to-deposit ratio (see chart). The ratio of loans to deposits, which rose almost steadily during 1959 and the first quarter of 1960, leveled off during April-June, and has since been declining. Nevertheless, the

Ratio of Loans to Deposits

All Commercial Banks in U. S.



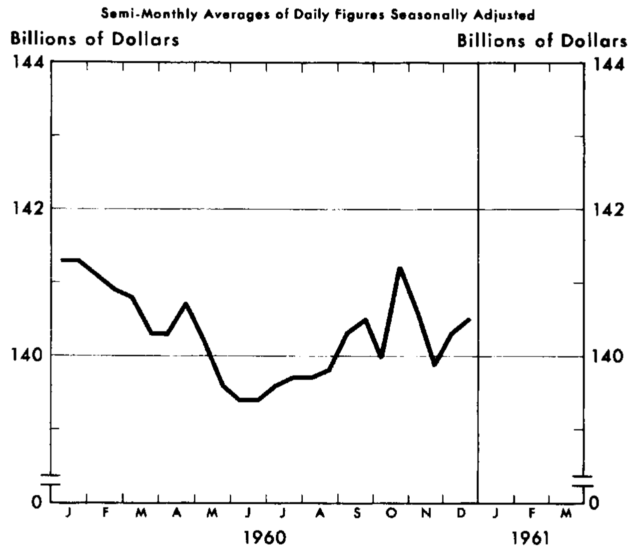
ratio of loans to deposits is presently higher than at any recent period before 1960.

As the liquidity position of the banking system improves, commercial banks become more receptive to new loan demands. The behavior of the banking system in this respect is similar to the actions of individuals. As a person's cash position improves, he tends to be more willing to spend any additional funds rather than to hold more idle cash balances. During periods of recession, particularly in the early stages, banks and individuals attempt to improve their liquidity positions.

Since midyear the seasonally adjusted money supply has worked up slowly to an average level of $140.4 billion in December. This increase recovered less than half of the decline which occurred in the first six months of the year and only one quarter of the decline which had occurred from July 1959 to June 1960.

The net decline in the money supply during 1960 when bank reserves and bank credit were expanding raises some interesting questions. The causes behind this development lie largely in two directions. First, excess reserves, a part of total effective reserves, are reserves which do not directly support the money supply. As was pointed out earlier, excess reserves have expanded significantly in recent months. Secondly, time deposits of commercial banks grew at an unusually rapid rate during 1960. Since time deposits do not constitute part of the money supply as defined, the reserves which support time deposits have no direct relationship to the quantity of money.

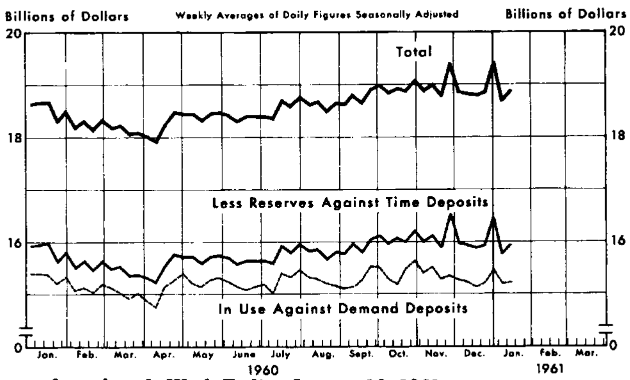
Money Supply*



*Demand Deposits and Currency
Latest data plotted: Last half of December

The accompanying chart attempts to demonstrate the relationship between reserves and the money supply. While effective reserves were working up, effective reserves less excess reserves and reserves behind

Effective Reserves*



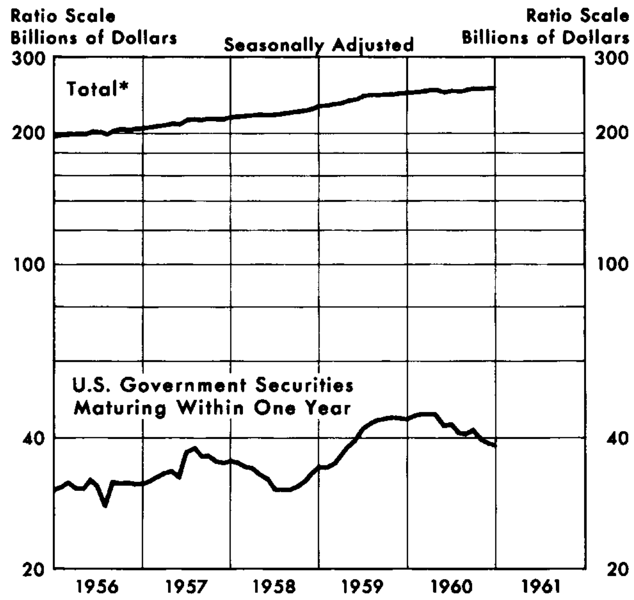
Latest data plotted: Week Ending January 18, 1961

* Effective reserves are total reserves adjusted for seasonal and for changes in legal reserve requirements.

time deposits showed little net change over the year. These two factors accounted for a large part of the slippage between differences in the changes in total member bank reserves and the money supply.[3]

The net decline in the money supply for the year was accompanied by a leveling-off in the rate of growth in the quantity of liquid assets other than money held by individuals and corporations. This was, in large measure, due to the decline in Government securities maturing in one year, which began last spring. The issuing of longer term Government securities and the shift from a large Government deficit in the previous year to a surplus in 1960 were the primary forces behind this trend. Offsetting this decline in the short-term Government securities was the continued rise in time and savings accounts.

Liquid Assets Held by the Non-Bank Public



Latest data plotted: December estimated.

* Time deposits of commercial banks and mutual savings banks, savings and loan shares, U.S. Government savings bonds, and U.S. Government securities maturing within one year.

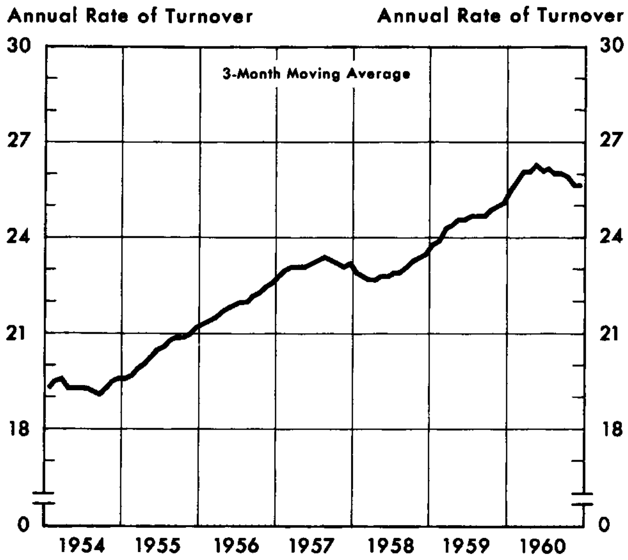
The turnover of money, after rising rapidly during the first three months of 1960 and leveling off in the second quarter, declined during the last half year. This may have been influenced by the lower level of interest rates and the decrease in the quantity of short-term Treasury obligations outstanding. A decrease in the velocity of money generally accompanies a fall in economic activity reflecting attempts by individuals and corporations to improve their liquidity position. Also, since interest rates generally fall during such periods, the alternative cost of holding idle money declines.

Interest rates showed little net change during the latter part of 1960 after having declined earlier in the year. From July through December, yields on Treasury bills fluctuated about the 2.35 per cent level. In early January 1961, rates continued to stay in the

[3] Other slippages include changes in reserves required to support U. S. Treasury deposits and changes in required reserves due to shifts in deposits among banks with different reserve requirements. Also, movements of currency into or out of circulation and changes in demand deposits at nonmember banks may at times represent important slippages.

Turnover of Money

Seasonally Adjusted



Latest data plotted: December 1960, which includes estimated January 1961 data

same range. Other short-term rates, notably rates on commercial paper and bankers acceptances, showed a similar movement. The prime rate, that is, the rate banks charge their preferred business customers, was reduced in August from 5 per cent to 4½ per cent. The discount rates at each of the twelve Federal Reserve Banks were lowered from 4 per cent to 3 per cent in two successive stages during the summer months.

Yields on long-term bonds which also fell during the first half of 1960 averaged 4.00 per cent in June and 3.80 per cent in August. Yields on these securities worked up to the 3.90 per cent range during the fourth quarter. In mid-January 1961 they were yielding 3.92 per cent. Long-term corporate bond rates also have been rising, after declining earlier in the year. Mortgage rates drifted downward after reaching a peak in January, reflecting in large measure the decline in the demand for residential construction. However, mortgage rates are still higher than at any time before late 1959. As was pointed out in the November issue of this *Review*, there was very little decline in interest rates since the recession began, whereas in the two previous recessions rates fell markedly.

Summary

The year of 1960, which began with activity so vigorous and so promising, ended with business declining. The boom that was developing in January quickly disappeared and was replaced by a high-level economic plateau during the spring. In early summer a recession set in and continued through the end of the year and into early 1961.

Interest rates declined in the first half of the year, an unusual development for a period of prosperity. On the other hand, most interest rates changed only slightly in the second half of 1960, whereas in previous recessions interest rates have decreased. Both total member bank reserves and commercial bank credit rose over the year, but the gains were moderate. The money supply of the nation declined net about 1 per cent during the year, and at the end of 1960 money was turning over at about the same rate as at the beginning of the year.

FEDERAL RESERVE SYSTEM ACTIONS DURING 1960

Discount Rates

In effect January 1, 1960	4 %
June 3 through June 14, 1960 lowered to	3½%
August 12 through September 9 lowered to	3 %
In effect January 25, 1961	3 %

Reserve Requirements

	Percentage Required			
	Demand Deposits			Time Deposits
	Central Reserve City Banks	Reserve City Banks	Country Banks	All Member Banks
In effect January 1, 1960	18	16½	11	5
September 1, 1960	17½			
November 24, 1960			12	
December 1, 1960	16½			
In effect January 25, 1961	16½	16½	12	5

Open Market Operations

	Net Purchases (+) or Net Sales (—) Changes in Daily Average Figures (millions of dollars)	
	Unadjusted	Seasonally Adj.
January	$—1102	$— 570
February	— 612	— 50
March	— 12	+ 40
April	+ 178	+ 210
May	+ 330	+ 360
June	+ 306	+ 40
July	+ 495	+ 230
August	+ 364	+ 470
September	— 330	— 354
October	+ 403	+ 215
November	+ 815	+ 754
December	— 624	—1142
Total	+ 211	

Cash in Vault

	Cash in Vault Allowable as Reserves	
	Central Reserve and Reserve City Banks	Country Banks
In effect January 1, 1960	Over 2% of net demand deposits	Over 4% of net demand deposits
August 25, 1960		Over 2½% of net demand deposits
September 1, 1960	Over 1% of net demand deposits	
November 24, 1960	All	All
In effect January 25, 1961	All	All

Margin Requirements

In effect January 1, 1960	90%
July 28, 1960 lowered to	70%
In effect January 25, 1961	70%