A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, November 13, 1956, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Erickson
Mr. Fulton
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman

Messrs. Allen, Leedy, and Williams, Alternate Members of the Federal Open Market Committee

Messrs. Irons and Mangels, Presidents of the Federal Reserve Banks of Dallas and San Francisco, respectively

Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Abbott, Hostetler, Parsons, Roelse, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York

Chairman Martin reported that advices of the election by the Federal Reserve Banks of Cleveland and Chicago of Mr. Fulton as a member and Mr. Allen as an alternate member of the Federal Open Market Committee for the remainder of the period ending February 28, 1957, had been received, and that they had executed and sent to the Secretary the

required oaths of office.

Upon motion duly made and seconded, and by unanimous vote, Mr. L. Merle Hostetler was elected as an associate economist of the Federal Open Market Committee to serve until the election of his successor at the first meeting of the Committee after February 28, 1957, with the understanding that in the event of the discontinuance of his official connection with the Federal Reserve Bank of Cleveland he would cease to have any connection with the Federal Open Market Committee.

Chairman Martin stated that, in accordance with the suggestion at the last meeting of the Committee, and if agreeable to the other members of the Committee, he would appoint Messrs. Robertson, Shepardson, and Hayes as a special committee to study and comment on the report distributed at the previous meeting on open market operations during Operation Alert 1956, with Governor Robertson as Chairman of the special committee.

These appointments were approved by unanimous vote.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 16, 1956, were approved.

Before this meeting there had been distributed to the members of the Committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period October 16, 1956 through November 5, 1956, and at this meeting a supplementary report covering commitments executed November 7 (November 6 was a

holiday) through November 9, 1956, was distributed. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse stated that there were two things in connection with the above reports on which he would like to comment. The first point related to the purchase of special January 16 Treasury bills and, in that connection, he read the following paragraph from page 2 of the supplementary report:

> The market purchases on Friday included $3 1/2 million of the special January 16 Treasury bills, bringing total purchases of this issue since the last meeting of the Committee to $20.5 million. Total dealer offerings were $118 million in the Friday go-around, of which nearly $35 million were January 16 bills and $52 million were February 7 bills. The special bills have regularly been quoted at yields several basis points above nearby regular issues, so that on a strict "best price" basis System account purchases might have been concentrated in this issue. However, the Account Management felt it would have been inconsistent with the present operating instructions of the Federal Open Market Committee to have concentrated our purchases in the January 16 bills in view of the imminent Treasury offering of another special issue. While the securities involved in this case are Treasury bills, the market clearly views the new special bill as a "companion" issue to the January 16 maturity, and large purchases by the System account of this maturity would be regarded as an attempt to clear the market of the issue so as to improve reception of the new bills. Added to this was the possibility that purchases by us would affect the rate on the outstanding special bill and, as a result, make it more difficult for investors to use the January 16 bills as a guide in pricing tenders for the new special issue.

Mr. Rouse noted that at the time of the last meeting, when the subject of System account purchases of this issue had been discussed, the Committee had not known that the Treasury would offer another special Treasury bill similar to the January 16 issue. Therefore, the

problem of giving the appearance of direct support to a Treasury cash offering had not been discussed by the Committee.

Mr. Rouse's second point referred to the difficulties created by the Middle East crisis in the bankers' acceptance market where the foreign demand is the principal component of the market. He said that foreign holders were allowing their acceptances to run off with the result that dealers' portfolios were building up to a point where they were having difficulty in carrying the bills. In that situation they approached the Federal Reserve Bank for repurchase agreements at a 3 per cent rate and these requests were granted to a total of over $8 million. Outright holdings of the New York Bank have been built up somewhat during the last couple of weeks, to about $20 million, as a supplementary method of providing reserves to the market. He then commented on the amount of bills outstanding, pointing out that the proportion of the System's holdings to the total was about 3.4 per cent. As a result of the existing situation, he said he expected that acceptance rates would be increased with the hope that dealers would be able to move acceptances at the higher rates.

Mr. Thurston stated that the ticker reported this morning that acceptance rates had been increased by 1/8 per cent.

Mr. Rouse then said that at the September 14, 1955, meeting of the Federal Open Market Committee he suggested that the limit on the authority of the Federal Reserve Bank of New York to purchase bankers'

acceptances for its own account be increased from $25 million to $50 million outstanding at any one time. This suggestion was discussed at the meeting on October 4, 1955, but for reasons presented at that time the increase was not approved. Mr. Rouse expressed the view that it might be appropriate to reconsider the suggestion at this time. Increasing the authorization to $50 million would mean that the New York Bank would be authorized to hold up to 7 or 8 per cent of the present market supply; Mr. Rouse said that in his opinion this would not constitute an unduly large share for the System.

In connection with Mr. Rouse's comment, Mr. Mills stated that there was now before the Board of Governors a memorandum prepared by the Federal Reserve Bank of New York relating to the purchase of bankers' acceptances by the New York Bank for the account of foreign central banks with the Reserve Bank's guarantee of payment and the appropriate limit that might be placed by the Board of Governors on such purchases. The memorandum clearly presents the fact, Mr. Mills said, that the bankers' acceptance market in the United States is almost monopolized by the purchases of foreign central banks so that free acceptances that might be absorbed by domestic purchasers are in relatively small volume. This presents the problem that if dealers have a sure and steady market for bankers' acceptances with foreign central banks, there is less incentive for them to develop a buying

clientele outside of that area, which creates a condition hindering the development of the broad market for bankers' acceptances desired for the United States. Mr. Mills added that if increased purchases of bankers' acceptances were made by the New York Federal Reserve Bank to accommodate foreign central banks the problem of broadening the bankers' acceptance market would be complicated further. Moreover, if due to uncertainties in the international situation, foreign central banks later reduced their holdings of bankers' acceptances, the Federal Reserve System in an effort to stabilize the bankers' acceptance market might end up as the residual buyer of this type of paper.

Mr. Rouse said that if the present situation continues for any length of time it would be necessary for dealers to establish rates that would find a domestic market because the Federal Reserve Bank of New York had not been a residual buyer under the present arrangement as it had been in earlier years when there had been a schedule of posted buying rates. The New York Bank, he said, had maintained a portfolio of from $10 to $20 million of acceptances in recent months but had not been, and had tried to avoid any impression that it was, a residual buyer.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period October 16 through November 12, 1956, were approved, ratified, and confirmed.

Prior to this meeting a staff memorandum on recent economic and

financial developments in the United States and abroad had been distributed to the members of the Committee under date of November 9, 1956. At this time, at Chairman Martin's request, Mr. Young summarized the current economic situation as follows:

> The big question mark with regard to the economic situation is, of course, the Middle East war crisis. While this has been and still is the major uncertainty, response of international markets for goods and securities appears to have been less volatile than in many other crises of comparable gravity. For primary commodity markets, this may symptomize a basic shift occurring in supply-demand relationships in the world economy, for in a few key industrial countries there is some evidence of slackening pressures from capital investment, even though in others inflationary pressures from investment boom are still manifest.
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> Domestically, demand, output, labor market, commodity price, and credit demand developments, as well as business psychology, all index general buoyancy and strength. Reduced growth in the money supply, rising money market yields in response to heavy credit and capital demands, and investor hesitancy in bidding for stocks, are to some extent reflective of cumulative pressure from restrictive monetary and fiscal policies.
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> Upward price drift for industrial prices continues to be the highlight of domestic trends. The average of such prices is now 2 per cent higher than at midyear and 7 per cent higher than at mid-1955. New model automobiles have been marked up about 7 per cent above last year, and late model used car prices are up about 10 per cent. With a heavy backlog demand for steel, steel scrap has moved back to around record levels. On the other hand, copper prices, reflecting cumulative additions to output capacity, have been lowered to mid-1955 levels. Textile prices recently have been raised moderately.
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> Further increases in industrial prices this past month have been offset by lower prices for farm products and foods, so that the general average of wholesale prices has held steady. Farm prices in early November were 5 per cent under the year's high and about 2 per cent above last year's early fall level. Cattle prices were about the same as last year, while hogs were higher. Prices of fruits and vegetables and grain prices were somewhat higher and firmer

than last year at this time, and cotton prices a little lower.

Consumer prices have advanced to a new high, a little over 2 per cent above a year ago. Higher food prices raised consumer prices last spring, but since then the further rise has reflected mostly advancing rental and service costs as well as higher prices for fabricated consumer goods.

Industrial production in October is estimated at one index point above the advanced level of 144 reached in September. Reflecting especially a sharp increase in auto assemblies and further gains in producers' equipment and military output, it is probably registering a further rise this month of another index point or two. Output of nondurables is apparently maintaining the advanced September rate. Industrial productivity, as measured by output per manhour, which showed little gain from early 1955 to mid-1956, has been advancing significantly in recent months.

With new model introductions partially complete, new car sales picked up in October, but were still a fourth under a year ago. Used car sales held at the low September rate, a fifth under last year's sales. Both new and used car stocks at the beginning of November were about a fifth lower than a year ago. Manufacturers and dealers appear to feel that market reception to new models is quite up to their optimistic expectations. In the third quarter, some 3 out of 4 new car sales were instalment financed. Continuation through the fall of this high a proportion of instalment sales, especially if the proportion of long maturities holds as high as recently, would indicate some underlying weakness in the new car market.

Sales of household durables at retail outlets in September were a tenth higher than a year ago, but in October apparently slipped off some. Instalment financing of household durables has played an important part in maintaining the volume of instalment credit extensions in recent months.

Recently revised figures for the value of new construction show a modest decline from a high of $44.8 billion at midyear to $43.9 in October, mainly reflecting reduced expenditure for residential construction. Private nonresidential and public construction have maintained record levels.

Housing starts for October were at about the annual rate of one million units registered in September, but builders are reported in recent plans to be rather uncertain about the starts volume for 1957. Discounts on

Federally underwritten mortgages have apparently averaged close to 4 per cent recently, with the result that offerings to FNMA have risen to about $50 million a week and standby commitments to around $15 million. This rate of acquisitions and commitments, if maintained, will exhaust available uncommitted FNMA funds by the year-end.

Broad demand strength still features the labor market. Nonfarm employment, seasonally adjusted, reached a new high of 51.5 million for October, 1.2 million higher than in October 1955. Unemployment remained at 1.9 million, 2.8 per cent of the civilian labor force. The average work week has declined a little, but average hourly and weekly earnings have risen further. Wage settlements concluded continue to reflect willingness on the part of larger industrial enterprises to commit themselves for further automatic wage increases in the future.

With employment at peak levels and earnings on the rise, personal income has been showing further substantial increase. At $331 billion in October, personal income was $20 billion or 6.5 per cent up from last year. Sizable payments to farmers under the Soil Bank program were a factor in raising October farm income.

Business inventory holdings, seasonally adjusted, rose again in September. Retail distributor stocks were down, but manufacturers and wholesale inventories were up considerably. While inventory increases over the past year have been related fairly closely to higher production and marketing, growth has now reached a point where inventory volume will need to be watched closely.

Retail sales were down moderately in September, reflecting especially reduced auto sales. Little further over-all change was shown in October. Department store sales were up slightly in September, but down rather sharply in October, the trade attributing the decline mainly to adverse shopping weather.

Developments in the Middle East confront Britain and Western Europe with a possible critical oil shortage, and also higher prices for tin, copper, rubber, wool, sugar, cocoa, fats and oils, and other commodities affected by heightened pressure on world shipping capacity. These developments will greatly complicate the balance-of-payments problem for some countries. At the same time, moderation of demand pressures growing out of heavy capital investment programs is indicated by available data for such countries as Britain and Germany. In other industrial countries, such as Belgium, Netherlands, and Canada, demand conditions are such as to still press against supply, resulting recently in some additional restrictive monetary or fiscal actions.

Following a discussion of the possibility of involuntary inventory accumulation at this time and of demand expectations in automobile and residential loans, Mr. Thomas commented on current financial developments as follows:

> Principal financial developments in recent weeks have been continued pressure on capital markets from large volume of new issues offered and awaiting offering. Bond yields have risen to postwar highs. Corporate profits are showing signs of levelling out or declining. Bank credit has shown a much more moderate rate of growth than in 1955. Expansion in the money supply has been slightly less than seasonal. Member bank borrowed reserves are not as large as in earlier periods, but tightness has continued in New York. Federal Reserve open market operations to meet seasonal and growth needs will be a little less than had been projected. Treasury cash income continues larger than in the same period last year, reflecting the higher levels of employment and income and the step-up in advance payments on corporate income taxes. Corporate tax liability seems to be little if any larger than last year. Treasury expenditures have been little more than last year, although there was a pick-up in the rate of defense spending in October.
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> Net cash borrowing by the Treasury, allowing for redemption of savings bonds and other debt retirement, will amount to less than $3 billion in the current six-month period, compared with $5.3 billion last year. The calendar year will show a net repayment of $7 billion, the first of any significant magnitude since 1948. The Treasury should be in a position to retire $8 to $10 billion of debt in the first half of next year, which would cover about $2 billion for continued redemption of savings bonds and attrition on maturing issues and $3.2 billion of March tax bills and leave $4-$5 billion for retirement of other issues in June. One of the concerns of debt management will be to provide maturities that can be retired at that time.
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> Capital markets continue under pressure, with a substantial volume of new security issues coming on the market and more in prospect. New corporate issues since midyear have been about a fourth larger than last year. While State and local Government issues have been smaller, a large volume of these are on the calendar for

future offering, and recent voting authorized another $2.3 billion of issues. Market yields on outstanding bonds have risen above 1953 peaks, and yields on new issues continue to show a wide margin above those on seasoned issues.

Corporations need to borrow in capital markets to finance large capital issues. Their funds from internal sources have been smaller than last year because of somewhat lower profits, with larger dividend payments. The increase in bank loans has been less than last year. Corporation purchases of Government securities have been relatively small this year. It appears likely that they have reduced their liquidity positions to such an extent that they will again need to borrow substantially in March and June to cover tax payments.

The levelling out or decline of corporate profits in many industries show the effect of the squeeze of rising costs. To some extent these costs are being covered by rising prices or are offset by increased productivity, but the course of profits in coming months will be most significant. If strong consumer resistance should prevent price rises or lead to declining sales with reduced profits, then businesses may be less inclined to continue to increase capital expenditures. It is through this channel that impact of credit restraints and cost increases may begin to appear.

Bank credit growth has slackened perceptibly. Total loans and investments of city banks showed little change in the five weeks ending October 31. Commercial loans probably increased less than is normal for October, and other types of loans increased less than in other recent years. Bank holdings of Government securities actually declined slightly, notwithstanding the issuance of the $1.6 billion tax bills, which were purchased initially by banks. Since midyear there has also been no net increase in total loans and investments at city banks and a smaller increase at country banks than in other recent years. The loan expansion has been smaller and bank sales of Government securities to obtain funds to lend also have been less than last year. These changes in the situation no doubt reflect in part restraint on lending by banks because of the continued tight reserve positions and the lowered liquidity status of banks. Complaints of inability to obtain credit would indicate that credit demands are still large.

Analysis of business loans by types indicates that the seasonal industries have been obtaining generally as much credit as is usual, with a greater than usual increase for

food processors and commodity dealers.

The heaviest borrowing of a nonseasonal nature has been by companies in the petroleum, chemical, and rubber industries and by public utilities. Repayment of loans by borrowers in the metal industries, which has been substantial since midyear, shows some signs of slackening. Reduction in sales finance company borrowing at banks has been greater than at the same time in other recent years, although their new issues in the capital market have also been smaller.

Finance companies are likely to have substantially increased credit needs in the next few months, as automobile production and sales expand. It appears that slackened credit demands in some lines has been accompanied by increases in others, but it is significant that the aggregate growth has been less.

The money supply appears to have shown less than the customary seasonal increase in October and has shown no seasonally-adjusted growth since midyear. The increase in the past twelve months has been about 1-1/2 per cent. Such growth as has occurred has been principally at banks outside leading cities. Velocity of deposits, on the other hand, in the third quarter of the year was 8 per cent larger than a year ago, and probably higher than at any time in the past 25 years.

The slackened growth in bank deposits has been reflected in bank reserve needs, which have increased less than projections on the basis of the usual seasonal and growth pattern. Hence the increase in Federal Reserve holdings of Treasury bills has been somewhat less than projected. System operations, however, together with the other factors affecting the supply of reserves, have kept member bank net borrowed reserves at a somewhat lower average level than that prevailing a year ago and substantially below that of last spring.

Further tightening in money markets and restraint on bank lending, despite reduced bank borrowing to obtain reserves, reflects in part the lowered liquidity position of banks and particularly the continued pressure on New York City banks. In recent weeks borrowings at the Federal Reserve Banks have declined at both country banks and reserve city banks, while New York banks have continued to borrow heavily both at the Reserve Bank and in the Federal funds market.

Reserve projections for the remaining weeks of the year, which contain the period of peak demands for reserve funds, are made uncertain by the usual highly uncertain and erratic

element of float. If average net borrowed reserves remain around the recent level of $250 million, between $500 million and $800 million of additional Federal Reserve credit will be needed during the next seven weeks. A corresponding reduction would be needed during January. Because of the high float to be expected next week, System purchases will not be needed until the following week. Needs are likely to be largest in the last week of December.

A portion of the temporary variations in reserve needs can probably be met through the liberal use of repurchase contracts, particularly if the market bill rate continues close to or above 3 per cent. Some outright purchases will be needed in the next few weeks, followed by sales or run-offs of bills in January.

After Mr. Thomas' statement, Chairman Martin said that inasmuch as there were indications that the next few weeks might be a difficult period, he would suggest that another meeting of the Committee be held on November 27. This would not mean, he said, any change in the time set for the meeting on December 10 which is to be followed by a meeting on December 11 with Congressman Patman's subcommittee. All the members of the Committee were agreeable to a meeting on November 27 at 10:00 a.m.

There then ensued a discussion of the current economic and credit outlook and what the credit policy of the Committee should be in the next two weeks. Mr. Hayes made the opening statement as follows:

1. There seems to be no doubt that business conditions in general will make a highly satisfactory showing through the fourth quarter. Among the favorable elements may be mentioned the high and rising gross national product, the prospect of record Christmas sales, the apparently good initial reception of the the new automobile models--although it is still too early to appraise automobile prospects accurately--and above all continued growth in capital expenditures for plant.

2. At the same time, there is some further accumulation of evidence tending to confirm what we suggested at the last meeting, i.e., that the upward momentum of the boom may be losing some of its force. Apart from the possibilities inherent in the highly uncertain international situation, we do not see any major new influences on the horizon which would be likely to cause renewed acceleration of the upward trend in business and prices. Among the items which may point to some slowing down in the upward trend of capital expenditures are the decline in seasonally adjusted September figures for industrial construction, the failure of machinery orders to record any gain in September, and a declining trend in structural steel orders over the last few months. Furthermore, the profit squeeze which has been in evidence now for nearly a year, taken in conjunction with the sharply reduced liquidity of our industrial corporations, at least raises a question as to whether some capital spending programs may be discouraged simply for lack of funds, in addition to the dampening effect of lower earnings themselves.

3. It appears that residential construction, which is currently at a level of one million units per annum, is not likely to increase and may well decline. There have also been a number of signs of weakening in demand for consumers goods. Preliminary estimates of total retail sales in October show no change from September, when sales were lower than in August. Department store sales in October dropped 6 per cent from September and were only 1 per cent above a year ago despite higher retail prices. Price tendencies are still upward in finished goods, both at the wholesale and at the retail level, but a number of industrial raw material prices had been declining until the Middle East situation erupted.

4. In the area of bank credit, the growth of loans on a country-wide basis has been somewhat slower in the last month or so than had been expected, but loans in the New York area have risen substantially for the past two weeks. Looking back over the year, we find total loans and investments of commercial banks up only about $1 billion in the first nine months as against $5 billion in the whole of 1955. The nine months' increase in money supply is less than 1 per cent.

5. Bank liquidity has, of course, been cut sharply and it is probable that, because of this factor, the restraining effects of any given level of net borrowed reserves are more severe than would have been the case a year or so ago.

6. The Treasury's cash offering for payment this week will be followed soon by a major refunding operation, so that it is incumbent on the System to maintain an "even keel" in

the Government securities market. The capital markets are still in a sensitive condition, and this may become accentuated in the area of municipal issues in view of the very sizable new bond authorizations voted on Election Day.

7. The degree of tightness in the banking structure, especially in the money centers, is probably as great as it has been at any time in the last two years. Member banks in New York and Chicago are now short some $800 million, if we include net purchases of Federal funds. While the current Treasury bill offering will give the money center banks a means of easing their liquidity position temporarily, the ultimate effect of the Treasury's borrowing operations will be to put additional pressure on the market.

8. Under these circumstances it would seem advisable to maintain about the same degree of credit restraint as has prevailed recently, but we would be very reluctant to see that restraint appreciably intensified, especially in view of the uncertainties created by the disturbed international situation, the need for maintaining receptive market conditions for the Treasury's offerings, and the possibility that some of the straws in the wind mentioned above may really point to a leveling off of the current boom. We can see no justification for a change in discount rates at the present time, nor would we favor any change at this time in reserve requirements. Later on, if it should become clearly desirable to reduce the pressure on the banking system, as seems possible, we might wish to explore the desirability of a small reduction in reserve requirements in New York and Chicago as a method of pinpointing our action in those areas where money is tightest and as a step toward an ultimate goal of lower and more uniform requirements. For the time being, open market operations seem to be the only suitable means for implementing our policies, and we would urge that primary attention be given to the "feel" of the market, with consideration also of the relationship between prevailing Treasury bill rates and the discount rate. We would think a bill rate consistently 10 or 15 basis points above the discount rate, for example, would be a sign of inappropriate tightness. While the actual level of System-wide net borrowed reserves would be a secondary consideration, we would lean toward maintaining the statistical position in approximately the range of the past few weeks; but we would see no reason for concern if the float bulge produces statistical free reserves even larger than last month, so long as there is no "sloppiness" in the money market.

Mr. Erickson stated that conditions in the Boston District continued strong. Nonagricultural employment was at a record in September.

Weekly earnings and hours of factory workers were up in most States. New business corporations were at a rate more than 5 per cent over last year. For the first nine months the shoe business was ahead of last year which was a good year. Construction was up 20 per cent in September over a year ago. Deposits in mutual savings banks, on a sample basis, were up 7.1 per cent over a year ago; they were still growing but not at the same momentum as earlier. In March of this year the Bank conducted a survey covering 115 manufacturers which indicated that plant and equipment expenditures would be 21 per cent ahead of 1955. A confirming survey in October indicated a 20 per cent increase over last year and a preliminary estimate of a 12 per cent increase in 1957. Only one of the 115 concerns mentioned lack of ability to obtain funds as a reason for postponement of plans. The most prevalent reasons given for postponement were inability to get steel and to hire engineers, a manpower shortage.

Mr. Erickson would make no change in the Committee's directive to the Federal Reserve Bank of New York, in the discount rate, or in the degree of tightness during the next two weeks. His reasons were the international situation and the Treasury financing. He would not be concerned about a temporary ease in that period due to changes in float.

Mr. Irons commented that general activity in the Dallas District continued at a high level. Nonagricultural employment had reached another new high. Petroleum production was down about 1 per cent but it

was the feeling that conditions in the Middle East might result in some increase during the next two months. The actual increase, he said, would not be very much since the problem was one of distribution facilities rather than production. The construction picture in the Eleventh District was about the same as for the nation as a whole with residential construction off somewhat. Retail trade had shown little change and the increase expected this year had not occurred. Bank loans had increased at a slower rate than a year ago. Bankers with whom Mr. Irons had talked--and their comments were borne out by the figures--indicated that the credit situation was not as tight and the demand as reflected in actual loans was not as strong as they were from four to six months ago. The Dallas District seemed to have hit its peak in demands for credit and pressure on the banks in May and June of this year. Member banks had not been borrowing heavily and the Dallas Bank was not bothered by continuous borrowing. Confidence in the district in the general situation is strong.

Mr. Irons felt there were indications of further strength in the national situation rather than a tapering off of activity. Therefore, he suggested no change in current credit policy. While he agreed that the credit situation should not be made tighter, he would be reluctant to see it eased. He felt the System should maintain a firm position and the bill rate should be kept close to the discount rate. He would make no change in the discount rate at this time.

Mr. Mangels reported that on the West Coast activity continued

on the strong side with employment up from a year ago but with a recent slight reduction in total mining and manufacturing. In September insured unemployment increased slightly but the October employment figures showed a compensating gain which brought them back to the August levels. In retail trade department and furniture stores showed some decline in September and that decline still existed in preliminary figures for October. Automobile registrations were 27 per cent lower in September than August but in October were increased again. In the San Francisco area reports indicated that the new model cars were being received with considerable satisfaction, but in the Oregon-Washington area there were reports that the reception had not been quite as good as anticipated. Residential permits were at the lowest level for 1956 but over-all construction showed a greater increase than for the country as a whole. The decline in residential construction continued to affect the lumber situation in the Northwest and production, unfilled orders and prices were down, while stocks were up. Some of the smaller mills had felt the reduction in prices of plywood and they were considering an increase in prices. How that would affect them was not certain since there were orders for only three weeks production at the mills. Plans for spring housing developments appear to be lacking, and there are no large groups of housing starts being planned in some areas of the district. Some bankers had estimated as low as 800,000 housing starts for the

country for 1957. Other estimates were under one million or a little over one million. Bank loans continued to be in demand and there was considerable pressure for bank credit with loans up. Member bank borrowing was also increasing but the district was still a net lender with the difference between borrowings and purchases of Federal funds on the one hand and loans to banks and sales of Federal funds on the other of about $100 million on the credit side.

Mr. Mangels made the further statement that while activity in his district continued high, as had been indicated, he sensed some slight modification of the degree of optimism felt in the past. While that change was not evident there was an undercurrent of "stop, look, and listen."

Mr. Mangels agreed with Messrs. Hayes and Erickson that there should be no change in the directive or the discount rate for the next two weeks. He said that the System should not maintain any greater degree of tightness and if any mistakes were made in policy execution they should be on the side of ease. The influence of Treasury financing and the international situation should be watched closely.

Mr. Powell stated that conditions in his district continued at a satisfactory level. The district was not highly industrialized but industrial employment was very high and there was an especially low level of unemployment. The unusually long period of favorable weather had allowed very heavy shipments of iron ore from the mines of Minnesota and Michigan so that that part of the district was feeling

very optimistic. Agriculture was doing better with a very fine corn crop in most of the area. The drought area in South Dakota had had a three-inch rain during the last few days and was optimistic. Bank loans in the district were considerably higher than a year ago and he thought city banks would have to return to a borrowing position some time in the near future. Borrowings from the Federal Reserve Bank at the moment were small.

Mr. Powell favored continuing a policy which would "keep an even keel" for a variety of reasons, including the international situation, Treasury financing, and a possible build up of inventory--a development which the System should watch closely. The even keel policy should be followed, he said, until the country could see how some of the factors that were unpredictable now would work out.

Mr. Allen said that much that he might say about the economic and credit outlook had already been said. Manufacturers of agricultural machinery in his district have stated that they have experienced a noticeable but not a high increase in sales of agricultural machinery at the retail level. Loans to metal fabricators which had declined for some months had begun to move in the other direction. There were rumors of another increase in steel prices. Employment was increasing because automobile companies were hiring again for production of the new models and some of the plants were working six days a week. The automobile people were feeling that they would not be able to tell

until the end of December and possibly the middle of January whether the new cars would be well received. It would take that long to fill the channels and take care of ordinary sales. One of the very largest manufacturers was saying privately that if the industry does not sell six million cars next year the Federal Reserve System would be to blame. Another important point mentioned by Mr. Allen was the decision of Sears-Roebuck and Company to refinance $200 million of maturing term debt through the sale of consumer time paper to banks. On the question of policy, Mr. Allen would support what had been said during the meeting up to this point.

Mr. Leedy referred to the drought situation in the Tenth District as continuing to be a serious one. While there had been rains they had been spotty and had not materially changed the picture. October throughout most of the district was one of the driest months on record. As a result the district was confronted with a problem of pastures and there had been sizeable liquidations of livestock. The wheat lands in the western part of the district generally had taken soil bank payments which had been an important offset to lack of income from crops. There was increased employment in the important assembly plants which were going on an overtime basis at least temporarily. The banks in the district had not had the demands for credit experienced in most other districts. Some of the country banks in Nebraska had been borrowing more or less continually because of the drought but the Federal Reserve Bank was not much concerned about that

situation. There had also been sizable borrowings by the Omaha banks and the "oil" banks in Tulsa and Oklahoma City.

Mr. Leedy was in agreement with the statement that the hands of the System were pretty well tied so far as credit policy was concerned during the next two weeks because of Treasury financing and the uncertainty in the international situation. Aside from that he felt on balance that there was somewhat "less steam in the boiler" than there had been and the Committee was in a period of uncertainty that was going to require careful watching. That meant, he said, that for the immediate future there should be no change in the Committee directive, in open market policy, or in the discount rate.

Mr. Vardaman gave an outline report on his motor trip made during the month of October through parts of the States of Virginia, North Carolina, Tennessee, Arkansas, Louisiana, Mississippi, Missouri, Illinois, Indiana, Ohio, Michigan, Pennsylvania, Delaware, and Maryland. Distance traveled was about 3,800 miles, visiting twenty-seven principal cities and numerous small towns, meeting primarily with individuals and groups engaged in small business and professions.

Mr. Mills said that his views of near-term System credit policy were in line with the consensus already expressed. Specifically, he was in complete agreement with Mr. Hayes' appraisal of the economic situation and would second his suggestions for flexibly adapting the System's credit policy to developments in the economy that are

within the realm of possibility.

Mr. Robertson said he could not see the "straws in the wind" that other members of the Committee seemed to see that would indicate a slackening in the economy. It appeared to him that the Middle East crisis would likely result in an increase in Federal spending, and with more money in the picture, it would be more necessary than ever that the System maintain restraint. Therefore, he would align himself with Messrs. Irons and Vardaman, as he understood their statements, that restraint certainly should not be lessened. He would dislike very much during the next two weeks to see any mistakes on the side of ease in the execution of policy and if mistakes have to be made he would make them on the side of restraint. In other words, he would do whatever was necessary to maintain the existing degree of restraint without any slackening.

Mr. Shepardson said that in view of the uncertainty created by recent foreign developments, he would hesitate to change existing policy until the Committee could see which way developments turned. It appeared to him that the Committee had been getting some of the results that it wanted to achieve and that it should maintain about the line that it has been following. He said he was particularly concerned with the factors presented by Mr. Young relating to price increases and, while he recognized that the System can not control all of the factors involved in the price situation, he felt it should keep itself in position to do what it can to resist further price increases.

Therefore, with the present uncertainties and the latent pressures that are still in the economy he favored holding as nearly as possible to the degree of restraint which has been exercised during recent weeks.

Mr. Fulton said activity in his district continued at a very high pace with unemployment at the lowest level in over a year and it is impossible to employ skilled workers. The machine tool industry has a large backlog of orders which is increasing and deliveries are being postponed. Steel is working at over rated capacity levels but there is still a marked shortage in structurals, plates, and bars which are not being promised until the first quarter of 1958. The automobile industry is living off of its inventory and currently is taking on 15 per cent of steel mill output instead of the actual 20 per cent of current production. The estimate in the Fourth District is that 6,750,000 cars will be produced next year. How that many cars will be financed is a matter still to be settled but a further lengthening of instalment terms might become the rule rather than the exception. Another development is that further tightening in the steel picture might come from the tanker program being talked of for the transportation of oil. Mr. Fulton did not think that such a program could be carried out without the allocation of materials which would be to the detriment of the takers of present production.

Mr. Fulton felt there are serious pressures in the price field. Automobile prices have gone up about 7 per cent. Coal and freight rates

have increased and the price of scrap metal in Cleveland has gone as high as $78.00 a ton on at least one sale. These developments, added to wage increases that are a part of the recent wage agreement, portend higher steel prices after the first of the year. He looked for a strong seasonal upswing in loans. Some businesses have used their working capital and if there is any disposition on the part of business to buy ahead in inventories the demand would be very strong. The low liquidity position of many of the banks is aiding System policy in that banks are screening loans. In these circumstances, he did not think there is any reason for a relaxation of the policy now being followed and if any error is to be made it should be for the purpose of holding the line and should not be on the side of ease. He would keep the bill rate in close relation to the discount rate and would make no change in reserve requirements or the discount rate until pressures appeared more vigorously than is the case at the present time.

In response to an inquiry from Governor Vardaman as to whether the automobile companies had been assured by the steel industry that their needs would be taken care of, Mr. Fulton stated that it was a foregone conclusion that since the automobile manufacturers are steady customers of the steel companies their needs will be taken care of and there will be no restriction on the manufacture of automobiles because of a lack of steel.

Mr. Williams commented that recent information as to future expectations had come to the Philadelphia Bank from two special sources,

(1) the annual survey of capital expenditures, and (2) conversations with 13 economists representing manufacturing, retail stores, railroads, and banks.

The survey indicated an increase in capital expenditures of 13 per cent in 1957 with a concentration of 43 per cent in petroleum, 63 per cent in chemicals, and 6 per cent in primary metals. Four of the remaining 13 classes planned increases, with nine planning to spend less than currently. On the question of inventories the results of the survey had been less than satisfactory in past years because of the rapidity with which the inventory situation could change. Therefore, the Federal Reserve Bank of Philadelphia did no more than ask for a general opinion about inventories and the consensus was that they were satisfactory at the present time.

Mr. Williams then referred to comments of six of the 13 economists previously mentioned which he summarized as follows:

1. (Chemical company) Expects a gross national product of $430 billion as the average for 1957. Excess capacity is being built into the American system but it will not show up or become serious until about 1958 or 1959. One of the company officials earlier had pointed out that the company was getting a substantial percentage of sales from products that were not in existence 10 years ago--the implication being that the chemical industry would continue to develop and bring out new products to keep the industry booming forever. The economist's reply to a reference to that statement was that the chemical industry is also making things that they wish they were not making any longer.

2. (Railroad) Economists had pretty well sold their managements that the American economy probably was growing at a rate of about 3 per cent a year and as a result of that we may be making capital investments much too fast with the result that we may be building toward an ultimate collapse that could be serious.

3. (National bank) Customers are complaining about the profit-margin squeeze. Productive capacity is adequate in many lines and prices have not gone up as much as expected. Tight money together with prospective overcapacity is making for ever tougher competition.

4. (Steel company) The steel industry is liquidating inventory. As we enter 1957 production is at capacity and will probably continue so through most of the second quarter. The second half of the year, however, is expected to be lower than the first half. Thus far so far as plate steel is concerned at this company, the demand should hold up throughout most of the year. In this line they look for very little decline in 1957.

5. (Hardware manufacture) Recently there has been a softening in new orders which is expected to continue through January and February of 1957 but the company still has a huge backlog. The reason for this situation is a price increase announced some time ago which stimulated a flow of new orders to get in under the wire. 1956 has been the company's best year ever and they expect 1957 to be even better. Dollar volume in 1956 will be 25 to 35 per cent higher than 1955 and although they expect 1957 to be still higher the percentage increase will not be as great as the 1956 increase over 1955.

6. (Linoleum and related products) They expect 1957 business to be somewhat larger in dollar volume than 1956. The standard forecast in terms of gross national product ranges from $420 billion to $425 billion. Are rather inclined toward the latter figure. Most of the increase in dollar volume for 1957 is expected to come from price increases due to rising wages stimulating higher costs and higher prices. Feel that we are in danger of pushing our productive capacity in the American economy too fast, but that this will not show up to be a serious problem before 1958 or 1959, perhaps late in 1957. As far as business confidence is concerned the profit outlook is now less favorable than it has been recently. As far as the building and construction industry is concerned, expect a somewhat higher over-all dollar volume in 1957, again due largely to price increases. With respect to housing starts, they are thinking in terms of 1 million for 1957. Repair and modernization business is going to help that along. The crest in commercial construction is expected to be reached in about 12 to 18 months. Industrial construction is still strong, with considerable backlog of orders. Tight money is a major but not the only factor in the construction outlook.

7. (Department store) Department stores' downtown sales in the spring of 1957 are expected to be 3 per cent lower than the spring of 1956. Expect a leveling off of sales in the suburban stores. Over all 1957 is expected to be close to 1956.

Mr. Williams thought there should not be any great change in the next two or three weeks in the Committee's short run policy. There were expectations of the need for purchases of securities between now and the end of the year which would run off in January but his assumption was that the present degree of tightness would not be increased. He did not favor any change in the discount rate at this time.

Mr. Johns was not aware of anything pertaining to the Eighth District which needed to be discussed at any length. Member banks in the district had been in relatively easy reserve positions. There had been some member bank borrowing largely for seasonal purposes but that had slackened recently. He had made some limited inquiries from some of the large member banks, mostly in St. Louis, recently to see if they had an answer for the failure of loan volume to show expansion according to the traditional seasonal pattern. There was some diversity in the replies but the interesting response was that the banks were not concerned because the loan demand had not gone down last spring and, therefore, they were very happy with the present volume. It may be that there are growing evidences of a leveling out of the boom but it was Mr. Johns' impression that the national economy was operating at or approximately at capacity. In that situation, he would not like to see any easing of the degree of restraint that had been imposed

in recent weeks. Neither would he recommend any further tightening during the next two weeks.

Mr. Szymczak said that while there are some weaknesses developing in the economy they are not serious. It will not be possible to judge how serious they might become until after the first of the year or perhaps in February of next year. In the meantime, he felt that the international situation would be expansionary in its net effect; also during the next two weeks there would be the important problem of Treasury refunding as well as the new money bills of almost two billion dollars. For these reasons he would not alter in any way the policy or practice that had been pursued in the last few weeks. He felt that when the Committee meets again on November 27 it should take a look at the discount rate because the over-all economic situation appears to be inflationary.

Mr. Balderston expressed the view that there was no question that the Committee should maintain existing open market policy between now and the middle of December because to do otherwise would not be "playing fair" with those responsible for Treasury financing. However, he was concerned about a mixture of developments that confused him. On the one hand he sensed that there may be another increase in steel prices as well as a demand for higher freight rates. An increase in steel prices would increase inflationary pressures in the spot where they have been the worst, i.e., metals and metal products. Since the Second World War, prices of industrial commodities have climbed 23 per

cent; metals and metal products have gone up twice that amount. Mr. Balderston felt that if prices were raised further that action would accentuate the cost-price squeeze that is being disclosed in the third quarter reports. The other factor in the national situation that puzzled him was his feeling that expansion of plant by the use of capital already raised might mean excess capacity even next year. If that appeared, it would bear down on prices and perhaps bring about some liquidation of inventories. Consequently, he felt that the immediate problem is to watch for inventory accumulations in the weeks immediately ahead. The current policy should be continued for the present, but the Committee should watch these divergent influences because they may present problems later on.

Chairman Martin stated that as he understood the discussion it was the consensus that there should be no change in the existing directive to the Federal Reserve Bank of New York or in the discount rate, although there was some indication that the Committee might be alert to a change in the rate later. He suggested that the members of the Committee approach the November 27 meeting with an open mind on the entire economic picture. The other members of the Committee concurred in Chairman Martin's statement.

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York, until otherwise directed by the Committee:

(1) 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;

(2) 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;

(3) 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.

Further reference was made to the question raised by Mr. Rouse earlier in this meeting with respect to an increase in the limit on the total amount of bankers' acceptances that may be acquired by the Federal Reserve Bank of New York and held at any one time. Chairman Martin suggested that the memorandum prepared by the Federal Reserve Bank of New York with respect to purchases of bankers' acceptances for the account of foreign central banks be circulated to all of the

Presidents so that the matter raised by Mr. Rouse could be taken up at a later meeting. Mr. Rouse stated that an addition to the memorandum could be prepared and sent to the Board of Governors and the Presidents which would comment on the purchase by the Federal Reserve Bank of New York of acceptances for its own account. There was unanimous agreement that this course should be followed.

At the request of Mr. Hayes, Chairman Martin commented briefly on his observations during his recent trip to Europe.

Mr. Leedy inquired whether there would be any objection on the part of the Presidents to postponing the December meeting of the Presidents' Conference with the understanding that it would be held in connection with one of the meetings of the Federal Open Market Committee in January. After a discussion, the suggested postponement was agreed to by all of the Presidents.

Mr. Rouse reported that the Emergency Training Program approved at the meeting of the Committee on January 10, 1956 was now in operation and the first two trainees were at the Federal Reserve Bank of New York.

Thereupon the meeting adjourned.

Assistant Secretary