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, May 6, 1958, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mangels
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman
Mr. Treiber, Alternate for Mr. Hayes

Messrs. Erickson, Allen, Johns, and Deming, Alternate Members of the Federal Open Market Committee

Messrs. Bopp, Bryan, and Leedy, Presidents of the Federal Reserve Banks of Philadelphia, Atlanta, and Kansas City, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Marget, Roelse, Walker, Wheeler, and Young, Associate Economists
Mr. Carpenter, Secretary, Board of Governors
Mr. Kenyon, Assistant Secretary, Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York

Mr. Tow, Vice President, Federal Reserve Bank of Kansas City; Messrs. Larkin, Balles,

and Baughman, Assistant Vice Presidents of the Federal Reserve Banks of New York, Cleveland, and Chicago, respectively; Mr. Parsons, Director of Research, Federal Reserve Bank of Minneapolis; Messrs. Willis, Anderson, and Atkinson, Economic Advisers, Federal Reserve Banks of Boston, Philadelphia, and Atlanta, respectively; and Mr. Bowsher, Economist, Federal Reserve Bank of St. Louis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on April 15, 1958, 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 April 15 through April 30, 1958, and a supplemental report covering commitments executed May 1 through May 4, 1958. Copies of both reports have been placed in the files of the Federal Open Market Committee.

In reviewing open market operations since the last Committee meeting, Mr. Larkin stated that reserve availability had been maintained, but that there had been a generally uneven distribution of aggregate reserves, with a heavy concentration in country banks. The New York banks had shown a marked tendency to invest and lend rapidly when reserves become available to them, if not before. As a result, the central money market had been generally characterized by some tightness during the period.

Mr. Larkin pointed out that Treasury bill rates had moved like a pendulum since the last meeting. Shortly after that meeting,

when the Board announced the further reduction in reserve requirements and discount rates, the rate on the longest Treasury bill moved down to the 1 per cent level, where it met considerable resistance as the market tended to dry up. The rate subsequently rose to about 1-3/8 per cent under the influence of fairly heavy selling and the accumulation of large inventories of bills in dealers' hands. The re-emergence of demand at that level, however, contributed to another downward movement in bill rates. The rate in yesterday's auction was down to 1.19 per cent and this morning that issue was trading close to 1-1/8 per cent. The capital market had shown considerable hesitation under the leadership of recent declines in the prices of Treasury bonds. Prices of corporate and municipal securities resisted the declines registered in Treasury issues for a time, but subsequently they also moved down. The undertone of weakness and hesitation that characterized the capital market reflected, among other things, a shaking out of earlier speculative excesses, and also the market's awareness of the possibility that the Treasury might issue a long-term bond in the June refunding. At the present time, the market seemed to be marking time until more definite information concerning the Treasury's intentions became available.

Following Mr. Larkin's statement, Mr. Leach noted that a major reason for the pressures that had appeared in the money market

was the fact the New York banks had increased their investments substantially and were heavy buyers of Federal funds in order to maintain their reserve positions.

Mr. Larkin affirmed Mr. Leach's observation and stated that this tendency on the part of the New York banks to invest quickly was something to which attention must be paid. As a result, the banks had been in the Federal funds market and this had indeed been a most important factor in keeping the rate for Federal funds up. Thus, the usefulness of the Federal funds rate as a measure of the degree of ease or tightness in the market tended to be impaired.

In response to a question by Mr. Vardaman, Mr. Larkin said that the banks had been investing in Government securities primarily, and that they also had expanded their loans to securities dealers. In their quest for earnings the banks had displayed some tendency to sell Treasury bills and obtain higher-yielding securities.

Mr. Treiber commented that by last October the New York banks' average ratio of loans to deposits stood at 65 per cent. The average ratio was now down to 61 per cent but this was still a high figure, and quite high when compared with the same stage of the 1953-54 recession. By increasing their holdings of Government securities the banks were improving their liquidity and would be in better position, in a time of business loan demand, to move forward and meet that demand. If the banks had greater liquidity, he said, they would approach further lending with greater readiness.

Mr. Roelse pointed out that the New York banks continued to be subject to very wide swings in their reserve positions. Last Thursday, for example, they lost a couple hundred million dollars, and they were likely to be hit again from time to time.

Mr. Balderston said that he considered the point raised by Mr. Leach one of the most timely questions before the Committee. He had had some concern about the matter also, and had intended to refer to it later in the meeting. It seemed to him that the fairly obvious answer was that the System should not shoot off all of its ammunition this spring. The Treasury was going to have to do a lot of cash borrowing this fall, which was likely to cause both the commercial banks and the Treasury to call for increasing the supply of reserves. The System, he supposed, might then feel under some obligation to add to liquidity to assure the success of the Treasury offerings. To him it appeared that a part of the reserves which the System had been supplying had been misused, for they had been going into Government securities of somewhat longer maturity than would seem desirable from the standpoint of rebuilding liquidity. Therefore, as he saw it, the answer was for the System to be somewhat reluctant this spring in the amount of reserves that it supplied.

Mr. Bopp said that bankers to whom he had talked had used reserves in part to repay debt to the Federal Reserve Banks and build up some excess reserves, and in part to obtain Government

securities. They did not feel at all liquid in the sense of wanting to expand. The immediate problem was, in his opinion, that the banks at this point did not feel sufficiently liquid to go out and solicit loans. In terms of System policy, this would mean that the System should feed out reserves to produce a greater feeling of liquidity.

Mr. Allen stated that the banks in the Seventh District seemed to have sufficient liquidity but that the economic situation was an important factor in their thinking.

The discussion concluded with a comment by Chairman Martin that the problem was one which probably would be with the Committee for some time.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period April 15 through May 4, 1958, were approved, ratified, and confirmed.

Mr. Young then made a statement on the economic situation, in supplementation of the staff memorandum which was distributed under date of May 2, 1958. His comments were substantially as follows:

> Despite a 40 per cent decline from a year ago in first quarter earnings of 400 of America's large manufacturing corporations, investors in the stock market are saying by their actions that recession is bottoming out, and that inflationary recovery will soon set in. The most recent economic information, on the other hand, is saying that recession is still deepening, and that a bottom is yet to be established.

At the same time, statistical evidence of slowing of decline is little by little accumulating and a few "straws in the wind" are suggestive of leveling out and formation of a recovery pattern. Certainly, the responsiveness of bank credit expansion and capital flotations to easier monetary policies is not to be minimized as a counter-recessionary development, though it is much too soon to conclude that it is a harbinger of early recovery.

The index of industrial production dropped another two points in April, bringing the decline to 19 points, or 13 per cent. Declines were fairly widespread among industrial lines but again greater in metals, industrial and transportation equipment, and minerals. Output of lumber, cement, aircraft, and farm machinery, as well as of household durables, either held steady or improved a bit.

Manufacturers' sales and new orders were off again for March, about the same as in February, with the further decline concentrated in durable goods lines. For the past two months, the declines in new orders have been modest, however, in comparison with those of the preceding four months. In March, new orders for primary metals were virtually unchanged from February.

Business inventory liquidation in March amounted to a further $700 or $800 million, suggesting an annual rate of liquidation for the first quarter of possibly $9 billion instead of the $7.5 billion earlier reported for GNP estimates.

Estimates of new construction outlays, which had been showing stability at record levels reached last fall, have recently been revised. Revised estimates show a steady decline to $47 billion in April from the $48.5 billion estimate for October. With public construction about maintained, the decline was caused by lower private expenditures, with residential expenditures and commercial construction down to about year-ago levels and industrial construction down sharply to a fourth below last year. Contract awards through the first quarter were a tenth under a year ago, and apparently continued at this reduced level through April. These figures portend further declines in private construction.

Private housing starts, which were at a low level in February and March, are being awaited with interest for April. While FHA applications and VA appraisals are both

up sharply and pressures of mortgage funds are now widely reported to be depressing mortgage interest rates, there is still the question of buyer interest in new home purchases. Builders are generally said to be holding back on starts pending more test of market demand at current prices. A sharp reduction in the marriage rate since a year ago, some rise in residential vacancies, and an appreciable rise in VA delinquencies since last summer are developments of uncertainty receiving attention by both builders and mortgage lenders.

New car sales continue to run over a fourth below last year, but with auto assemblies sharply down, dealer stocks were reduced about 60,000 units last month to around 800,000 cars, or 5 per cent over a year ago. Used car sales continue to run about an eighth under last season, with used car prices about steady, a little under year-ago levels.

Sales of furniture and household durables at department and specialty stores continue to hold moderately under year-ago levels.

Reflecting the reduced levels of consumer durable goods sales, especially of automobiles, consumer instalment credit extensions have declined sharply relative to repayments, resulting in a decline in outstandings at the significant annual rate of $1.5 to $2 billion. Repossession information, though limited in scope, continues to show the highest repossession rates since the mid-thirties.

Unemployment in April declined less than seasonally, so that the seasonally adjusted rate rose from 7 to 7-1/2 per cent. Initial claims for unemployment benefits still run at quite high levels, and the number of continued claims of those unemployed 15 weeks is now double that recorded in earlier postwar recessions.

Wholesale prices have changed little since late March. Livestock and dairy prices have edged down, but farm and food product prices are still 8 per cent above a year ago. Wholesale prices of industrial commodities have shown little change for over a year, although prices of some industrial materials are sharply lower and have declined further since late March. Recently, a few industrial material prices subject to earlier declines--copper, synthetic and cotton textiles, and lumber have shown intermittent strength. On the other hand, price concessions are being increasingly reported in the finished equipment area. Actual bids on Federal highway construction during the first quarter showed the first decline since 1953--2 per cent.

Consumer prices experienced the largest monthly increase since mid-1956 in March. The rise was accounted for by further increases in prices of meats, fresh vegetables, services, and drug items. Prices of appliances, carpets, new and used autos, and fuel oils declined. With prices of meats and fresh vegetables rising further from March to April, the April consumer price index is expected to show a further rise.

Strength in consumer demand outside the durable goods area is reflected in April department store sales. Such sales were apparently up 2 or 3 per cent from March and from April of last year, although down 6 or 7 per cent from last August.

U. S. exports in February, the last month for which data are available, were down 25 per cent, or by $5 billion annual rate, from the first quarter level of last year. There were further declines in exports of steel, other metals, coal, and agricultural products, but also declines in groups that had earlier been moving well--automobiles, trucks, textiles, chemicals, machinery and equipment, and various other materials and finished products. Along with a spreading of declines among product groups, there was also a geographical spreading of decline, especially to less industrialized areas.

Despite declines in exports, imports seem to maintain a level close to that of last year.

European industrial activity advanced a little during the first two months of the year and held up well in March. There are, however, some indications of inventory liquidation in Europe, and the French financial situation is in a state of rapid deterioration. Canadian activity, which began to decline before activity in the U. S., has shown some recent signs of recovery. Residential construction, which has been actively subsidized by direct government loans, has been a factor of special strength in the situation. In Japan, a leveling out in activity after downward adjustment appears to have occurred. In various Asian and Latin American development economies, international payments imbalances and internal inflationary tendencies continue dominant.

Mr. Thomas made substantially the following statement with reference to financial developments:

Financial developments during the past month have been influenced by the further substantial additions to the availability of bank reserves and have reflected the activity of banks in endeavoring to put their available funds to use. At the same time, demands on capital markets have continued heavy.

Renewed sharp declines in interest rates--both short- and long-term--that began in the latter part of March seem to have culminated shortly after the mid-April actions by the System further to ease the credit situation. Common stock prices have risen in recent weeks to the highest level for this year, notwithstanding corporate earnings reports indicating a sharp reduction in profits of manufacturing corporations during the first quarter from the same period last year.

The upturn in yields on Government securities following System easing action may be attributed to a number of factors. To begin with, payment for the new Treasury note issue through tax and loan accounts and addition of much of the issue to bank portfolios absorbed the bulk of the reserves released by the reduction in requirements. One factor was the large volume of commitments of a speculative or temporary nature in both long- and short-term Government securities by dealers, banks, and others. With the rise in prices there has been some profit-taking. Another factor is the continued large volume of new issues of corporate and municipal securities and the heavy inventories of these held by underwriters and other dealers. The uneven distribution of excess reserves, with central reserve city banks holding few notwithstanding the larger decrease in their reserve requirements, has been attributed as another influence in the apparent tightness of the money market. It would probably be more correct to say that the city banks have been so active in putting available funds to use and were already so committed in Federal funds borrowing that they retained none of the reserves released.

New issues of securities by corporations in April, amounting to nearly $1.1 billion, exceeded those of the same month last year. The May total is estimated at $775 million, or about the same as last May. The five-month total for corporate issues at about $5 billion is only 4 per cent below the record volume issued in the same months of 1957. Issues by State and local governments continue large and the total for the five months at $3.75 billion will exceed that for the same period last year by about a fifth.

Treasury expenditures have been running below estimates, while receipts have been maintained at close to the estimated level. It appears likely that the cash deficit for the fiscal year will be little over $2 billion, instead of the $3 billion previously anticipated, unless expenditures increase sharply. The apparent lag in expenditures has often resulted in keeping the Treasury balance at the Reserve Banks at a higher level

than anticipated and thus in some unintended drain on bank reserves of a temporary nature.

In the five weeks ending April 30, banks in leading cities showed a further increase of over $2.5 billion in total loans and investments--about $1 billion more than the rather large increase shown in the same period last year. It appears that for the five months since the end of November, total loans and investments of all commercial banks may have increased by $7 billion or more--a larger expansion in a season in which little growth usually occurs than has been shown in any recent twelve-month period. The April increase reflected almost wholly additions to holdings of U. S. Government securities--particularly the new 5-year notes. Holdings of other securities also increased, and additions to loans on securities largely offset a further decline of over $800 million in commercial loans.

Demand deposits adjusted at city banks increased in the five weeks by nearly $1.5 billion, compared with a growth of half a billion at these banks in the same period last year. Demand deposits are now almost as large as they were a year ago and on a seasonally adjusted basis are at the highest level since last summer. Time deposits have continued to increase at a faster pace than a year ago.

With reference to previous discussion of the point raised by Mr. Leach, it is interesting to note that the bulk of the deposit increase in April occurred at cities outside New York. New York City banks, however, continued to add to their investments and their security loans, showing relatively larger increases than other city banks. Since mid-April, New York banks have reduced their borrowings of Federal funds.

Figures for all commercial banks, now available for the end of March, indicate that most of the credit expansion since November has occurred at city banks--both in New York and in other cities.

Country banks showed a small increase in total loans and investments which was offset by a decline in cash assets, with little net increase in total assets or deposits, but these changes compare with marked declines--largely seasonal--in assets and deposits of country banks in the same period of other recent years.

In the four weeks ending April 30, the reduction in reserve requirements released about $575 million of reserves, including the effect of the April 1 reduction at country banks carried over into this period, and a decline of currency in

circulation added another $120 million. The gold outflow drained $330 million, and most of the remainder was largely absorbed by the effect of deposit growth on required reserves. This increase was about $120 million larger than had been expected, indicating the extent of bank credit expansion in excess of usual seasonal trends. System open market operations were light in this period, covering mostly temporary fluctuations in reserve needs, and resulted in practically no net change in Federal Reserve holdings of securities. Member bank borrowings and excess reserves also showed negligible changes on the average, and free reserves generally exceeded $500 million.

Assuming usual seasonal variations in deposits, which would result in some decline in required reserves until mid-June, followed by a sharp increase in the latter part of June, and assuming also customary seasonal variations in currency and float and continuation of a gold outflow until mid-June, projections of the Board's staff for the coming weeks indicate continuation of weekly average free reserves of well over $500 million until the week ending June 4. If banks continue to expand credit in an endeavor to utilize all available reserves, they may bring about a contraseasonal increase in the money supply. Then the volume of free reserves would be lower, unless maintained by System operations.

Perhaps the time has come when consideration should be given to whether further credit expansion at the rate and of the type which has taken place in the recent past should continue to be encouraged. Will commitments be made that might lead to future difficulties? Perhaps easy money has done all it can in mitigating recession and promoting recovery until other essential adjustments are made.

Mr. Treiber presented the following statement of his views regarding the business outlook and credit policy:

The business picture continues weak, with the general level of activity still declining. There is some evidence of a slowing down in the recessionary movement in some areas but there is no clear evidence of a general bottoming out. Nevertheless, the business community and consumers in general continue to have considerable confidence in the longer run outlook.

As for inventories, there is some evidence of a tapering off in the rate of inventory liquidation, but the ratios of inventories to sales are still high. Continued

liquidation for some months longer appears likely. Plant and equipment expenditures may be expected to decline further, probably into 1959. Such expenditures frequently work toward lower levels even after economic activity as a whole begins to expand again. On the other hand, retail sales on the whole continue to hold up well, even though personal income has been declining. While consumer spending remains a critical area in the business outlook, its maintenance at a high level, except for durable goods, and especially automobiles, is most helpful. State and municipal spending continues to be a strong element, but the expected growth in Federal expenditures has been slow in materializing.

In the production area the steel and automobile industries continue at about the same depressed level. The construction picture has been somewhat disappointing. While further declines in business construction are to be expected, the outlook for residential and public construction now appears to be mildly encouraging. The employment situation continues to be disturbing. The slight improvement in total employment figures falls considerably short of seasonal expectations. Unemployment seems likely to continue at a relatively high level for some months. Although the consumer price index rose again in March, there is a good chance that the index will turn downward. Not only should seasonal factors bring down food prices, but there is considerable evidence that actual transactions in finished goods at both wholesale and retail levels are occurring with increased frequency at below-list prices.

As for bank credit, business loans have shown further contraction in recent weeks, but bank investments have continued to expand rapidly. Since the end of October, total loans and investments at the weekly reporting banks have risen $6 billion. The New York City banks have been most aggressive in utilizing available funds and have shown a 12 per cent increase, while the other reporting banks have shown a 5 per cent increase. Easier credit conditions have enabled banks to improve their liquidity and reduce their loan ratios. The New York City banks have reduced their average loan deposit ratios to 61 per cent in mid-April compared with 65 per cent in October. Other reporting banks have reduced their ratios from 55 per cent to 52 per cent. Nevertheless the ratios are considerably higher than in the same stage of the 1953-54 recession; in April 1954 the ratios were 49 per cent and 42 per cent, respectively.

In our opinion further measures are needed to combat the recession. In this recession, which has already exceeded in intensity the last two recessions, it must be apparent that monetary policy cannot, and should not, be expected to do the whole job. It seems to us that a more active fiscal policy is

needed. While the System does not have responsibility for determining fiscal policy, and there are varying views as to the desirability of different types of Governmental action, it seems to us that a tax reduction could be more quickly effective and more easily reversible than an equivalent expansion in Government expenditures. At the last meeting of our directors there was a good deal of discussion of possible Government action, and our directors were strongly of the opinion that tax reduction is called for. Permission to speed up the rate of depreciation on new investments would probably constitute the most important contribution to prompt increases in business spending. I would favor not only such a provision but some reduction in the income taxes of all taxpayers--individual and corporate--and in some excise taxes. I think, however, that there should be a terminal date for at least some of the reductions in view of the prospect for substantially increased Government expenditures later on.

With a view to making the contribution of monetary policy as great as possible, we would favor somewhat higher free reserves. Recognizing the dangers inherent in concentrating on statistical measurements and that it is important that the "feel of the market" clearly be that of ease, it seems to us that free reserves up to about $3/4 billion would not be out of order. We were glad to see the reduction in the prime rate from 4 per cent to 3-1/2 per cent, but developments in the long-term market have been less satisfactory. We would hope that lower rates would stimulate residential construction and municipal public works, and help to promote further improvement in corporate liquidity which will subsequently facilitate corporate spending. Uncertainty regarding the Treasury refunding and expectation that a long bond will be offered have probably tended to hold rates up. A large offering of longer maturities by the Treasury would be undesirable in present circumstances. From our preliminary consideration of the matter, however, it would seem that there should be no serious objection to a further moderate step of debt extension provided the Treasury limits the amount.

We see no reason for a further reduction in the discount rate at this time, but we would favor another reduction in reserve requirements as soon as practicable. Early in June might be an appropriate time for such action. The projections indicate a sharp drop in free reserves at that time. Perhaps the latter part of May would be equally appropriate. A further narrowing of the differentials between the banks of different classes would seem advisable. A greater reduction for banks in central reserve cities seems especially desirable in view

> of their higher loan deposit ratios, their traditionally aggressive lending policies, and their practice of making full use of available reserves.
>
> We believe that the directive by the Committee to the New York Bank might well be revised to take account explicitly of the System's efforts to combat recession. Clause (b) of the directive calls for open market operations with a view "to contributing further by monetary ease to resumption of stable growth of the economy." Since that clause was adopted on March 4, 1958, the economy has moved downward further. Would it not be desirable to state clearly that we are fighting a recession? Perhaps the clause might be revised to call for open market operations with a view "to continuing to combat the recession by contributing further through monetary ease to the resumption of stable economic growth."

Mr. Johns said he found little in the way of developments in the Eighth District that seemed to merit comment. Business loans of banks in the district continued to decline while loans against securities continued to rise along with investments, about in line with the national pattern. In the most productive cotton area, namely the Delta, the outlook was rather bleak due to weather conditions. The planting season was said to last only another two weeks and even if it stopped raining now it would not appear possible to get all of the crop planted. This situation, of course, would produce distress in certain parts of the Delta area.

Mr. Johns said that he had been on vacation most of the time since the last Committee meeting, during which time he made no attempt to keep up with open market affairs. However, since returning he had tried to look back and apply hindsight. He hoped that in the

next three weeks, or the period until the next Committee meeting, the Desk would be a little less diligent about preventing free reserves from rising to somewhat higher levels. He would rather take $500 million as a sort of absolute minimum below which the Desk would be diligent to keep free reserves from falling, and he would be not at all concerned about the days when free reserves rose to a figure of around $800 million, or even $1 billion. Exactly how this would be accomplished he did not know, but he would suggest a somewhat broader range of free reserves as a target. As long as there appeared to be tightness in the money market in the face of a presumably adequate supply of reserves throughout the country as a whole, he would attempt to avoid that tightness and supply reserves without reluctance. He realized that this placed him somewhat in disagreement with the opinion expressed by Mr. Balderston but that was the way he saw the matter.

Mr. Johns went on to say that he would like to support the suggestion by Mr. Treiber that the first opportunity be availed of to accomplish a further reduction in reserve requirements. In his own view it would be desirable to take some action next time--perhaps not for reasons of monetary and credit policy but for other reasons he considered important--to adjust the reserve requirements of country banks. If reasons were found to reduce reserve requirements against time deposits, that would affect country banks more than the

other banks and there would be this collateral benefit. For the time being he would not do anything further about the discount rate. Although he had not come to the meeting prepared to argue for a change in the policy directive, he was somewhat attracted by the language suggested by Mr. Treiber.

Mr. Bryan said that developments in the Sixth District conformed largely to the national pattern. While there were some differences they were not too significant. On the basis of reports from all over the district which were made at the last directors' meeting, it appeared that the only places in the district where there was a sense of optimism were the State of Florida and some of the coastal resort areas. Unemployment in the district continued to go up, although there were no further reports of large and dramatic layoffs involving large numbers of workers. However, there were dribbles of layoffs which seemed to represent tightening of managerial practices and elimination of employment expenditure items that perhaps could have been eliminated all along.

Mr. Bryan said that he had reviewed the national picture as carefully as he could and that personally he could see no evidence of quick or immediate recovery. While there did appear to be some slowing down of the rate of decline, he became a little disturbed when he tried to calculate what would be necessary in the way of recovery to absorb new workers coming into the labor market and at the same time reduce unemployment to acceptable levels. He wished

to align himself with the point made earlier in the meeting by Mr. Bopp to the effect that the banks did not have sufficient liquidity to be a very dynamic factor in recovery, except for making investments which enabled them to obtain some income without materially reducing their liquidity. Accordingly, he rather believed that the time might be close at hand when a further reduction of reserve requirements would be in order. If such a step were taken, he would like to see some reduction in the requirements against savings and other time deposits. While he could make that argument on two or three counts, he wished to mention only one; namely, that the typical bank tends to regard its savings deposits as less volatile and more available as a basis for longer-term credit than is true in the case of most of its demand deposits. Accordingly, there being some concern with the problem of longer-term investments, he believed that a reduction in the reserve requirements against time deposits would have a favorable effect. He saw no reason to change the discount rate at the moment but he would have no objection to a change in the directive along the lines suggested. If errors were to be made in the operation of the Account, he felt that the errors should be on the side of ease rather than tightness.

Mr. Bopp reported that business activity in the Third District continued downward, with no significant evidence that the decline was

flattening out. Department store sales improved somewhat in the week ending April 26, but sales for the past four weeks and the year to date were two and three per cent, respectively, below last year. Automobile sales in March were 22 per cent below last year. Preliminary data indicated an upturn in April, however, with registrations in Philadelphia 18 per cent above March, the April spurt in sales reflecting the "You-Auto-Buy-Now" campaign conducted in Philadelphia from April 19 to May 3. The campaign was reported to have been a success and many dealers reported "healthy" sales increases, especially in suburban areas. Some believed, however, that the result was to borrow sales from May and June. Unemployment in the district's fourteen labor market areas rose in March and amounted to 9.6 per cent of the labor force, with the percentage unemployed in those fourteen areas ranging from a low of 5.8 to a high of 21.2. Eight of the areas, mostly the coal-mining and heavy-goods manufacturing centers, had more than 10 per cent of their labor force unemployed. The rise in unemployment reflected mainly a continued decline in manufacturing employment. New unemployment compensation claims, although below the usual quarterly peak, were still at a very high level. Continued claims for Pennsylvania remained at about 350,000 compared with 150,000 in April of both 1956 and 1957.

Mr. Bopp continued by saying that a recent re-check of manufacturers' capital expenditure plans for 1958 showed that manufacturers had revised their plans downward by 6.5 per cent since last fall. All of the decline was in durables, the plans of nondurable manufacturers remaining the same. In the Philadelphia metropolitan area, which accounted for the major part of the survey total, the downward revision was 3 per cent. While manufacturers of transportation equipment, printing and publishing, paper, rubber, and stone, clay, and glass reported significant upward revisions in their spending plans, according to the revised estimates total capital expenditures in 1958 would be 20 per cent below actual expenditures in 1957. Construction, although showing some improvement recently, was running considerably below last year. Total contract awards in March were above February, but still 13 per cent below last year. Awards for public works and utilities were slightly above last year, but those for residential and nonresidential construction were about one-fifth below year-ago levels.

Mr. Bopp then said that before turning to a discussion of policy he would like to make a few comments about inventories. An approach to the inventory situation from the point of view of gross national product tended to indicate that liquidation at an annual rate of $8 or $9 billion could not be sustained very long. On the other hand, such a rate meant in actual dollar terms a liquidation

per quarter of something like $2-1/4 billion. If this figure were compared with total inventories of around $90 billion, it seemed possible that inventory liquidation could continue at this rate for a very considerable period of time. This approach, therefore, suggested caution with regard to the prospect of a quick turn-around in the inventory situation. It might be mentioned, however, that at the last meeting of the Philadelphia Bank's directors there were reports that orders coming in were increasingly being marked "rush."

As to the policy directive, Mr. Bopp said that a change along the lines suggested would be agreeable to him. On the other hand, he thought about the same thing might be accomplished by substituting the word "recovery" for the words "resumption of stable growth," so that the directive would provide for "contributing further by monetary ease to recovery of the economy." He would not suggest any change in the discount rate at this time but he would favor a somewhat larger volume of free reserves. In connection with reserve requirements, he had one comment of a technical nature. This concerned the possibility that if the Board should be authorized to allow banks to count vault cash in their required reserves, it might want to consider, for reasons which he outlined, whether reserve requirements should be computed on the basis of deposits as of the close of the business day. This matter would require study but it might be something to bear in mind.

Mr. Fulton referred to a recent tabulation in the American Banker which indicated that in the first quarter of this year the decline in bank debits in the Fourth District, as compared with last year, far outstripped the decline in any other district. He said that this tabulation seemed to point up rather well the facts of life in the Fourth District. The steel industry had expected a spring upturn but it did not materialize, and new orders from the automobile industry were simply not coming in. It was not expected now that they would come in until the latter part of July or in August, since the new models would probably be introduced late in September or in October. The operating rate was low in practically all of the mills and there was no immediate prospect for improvement. One mill in the Cleveland area closed down for repairs and then stated that it would not reopen until orders picked up and that meanwhile orders would be filled from other mills. There were, however, some orders being placed for large transmission pipe, as companies apparently were feeling pressure to expand their facilities. The demand for structural steel and plates had softened due to a considerable extent to postponement of expansion plans. Actually, the tin plate mills were the only bright spot, although the small pipe situation had picked up a bit by reason of some ordering for home construction and nonmanufacturing structures. Inventories in the hands of some steel users would be substantially reduced by July and should be replenished. However, it was indicated that

inventory liquidation would go on for some time in the case of those manufacturers having fairly good inventories. The steel men were optimistic about the fourth quarter, maybe too much for their hopes to be realized. They seemed surprised that there was not some anticipatory buying due to the fact that steel prices might go up in July following the contract wage adjustment. However, it appeared that consumers were just not ordering even in the face of that anticipation. It might be that the consumers were in a sense daring the steel companies to raise their prices.

Mr. Fulton said that in the machine tool industry orders were still far below last year's level, despite the improvement that took place in February and March. In the last couple of months there were several orders for large machines but by and large the machine tool industry was eating up its backlog and expected to restrict production a little later in the year. Unemployment in the district was still going up, although not at quite the earlier rate, and more areas had been added to the surplus labor area classification. Housing starts showed some signs of increasing and the anticipations of builders were better than they had been; they now intended to start a greater number of houses within the next three months than they had expected to start a short time ago. Mortgage money was becoming available but builders and lenders were both quite cautious. Retail trade, other than in automobiles, was down about 5 per cent from a year ago. In the retail food lines, which had been somewhat

insulated from the recession, there was an indication in cities of substantial labor surplus that the situation was beginning to be felt in declining sales and also in differences in the selection of goods. All in all, there was no indication in the district that the recession had bottomed out or that there would be better days in the immediate future.

Mr. Fulton said that, like Mr. Johns, he felt that the Desk had possibly been a little too precise in trying to achieve free reserves of around $500 million. He would like to see a wider fluctuation, and if float and certain other temporary factors provided more reserves he would not act to offset those factors. He would like to see a volume of free reserves around $600 million, believing that the decline in the velocity of money meant that there was a need for a larger volume of free reserves in order to offset that decline. He would favor a reduction of reserve requirements against time deposits and felt that this would be helpful particularly to the country banks, even though most of the free reserves were now lodged with those banks, for it might induce the country banks to expand their loan portfolios at the longer-term end. Many of the country banks were well loaned up in mortgages and the type of thing that credit policy was now trying to encourage. As to the policy directive, he felt that some change along the lines Mr. Bopp had mentioned might be desirable at this time, that is, for

the Committee to express itself as being in favor of recovery. In other words, the Committee would be positive in the fact that it was trying to create recovery rather than to promote resumption of stable growth. He would not favor any further change in the discount rate at this time.

Mr. Shepardson said that although he could not see any bright rays of sunlight in the picture at present he would like to raise a question as to what should be done about the situation. He then referred to the experience over a period of many years in trying to correct the agricultural problem by setting up artificial situations that were not in conformance with reality. This had resulted in building up surplus upon surplus and had created distortions in the agricultural picture that only gradually were beginning to work themselves out in some areas. He went on to say that the country was now suffering from a period of excesses. For example, the concern expressed about the lack of continued expansion of plant and investment raised a question as to why one would expect a lot of additional expansion in the face of existing excess capacity and what inducement there would be for someone to expand further in the face of present conditions. Favorable depreciation rates, tax relief, or other measures might be provided in an effort to encourage people to spend money for things for which there was no present demand, but he could not see the logic in such actions.

In the past, for instance, people had acquired household durable goods a piece at a time when they had the resources available, but in recent years most new home purchases had included package deals including a complete assortment of such items and people were not going to be in the market again for a while. As far as living expenses were concerned, the consumer generally seemed to have money available, outside of the heavy unemployment areas.

The thing that concerned him most, Mr. Shepardson said, was the continued talk about artificial moves of one kind or another designed to stimulate overindulgence at a time when there was a need for adjustment, for in his opinion the country had not gone through the adjustments that must take place unless there was going to be a bigger binge in the future. Consequently, while he would not pretend to say that the sun was shining brightly, he felt that it would not help to follow a policy of endeavoring aggressively to produce additional spending and investment on the part of people and business for things that were not needed. In summary, he felt that the System could afford to go along with its present policy for the time being and let some of the existing conditions go through the natural process of adjustment, painful as that might be.

Mr. Robertson said that he would accept Mr. Shepardson's statement almost verbatim except for the conclusion, since he agreed that there were adjustments which must take place. There were some people, he said, who were not gloomy, including himself, and it might

be well to accent some of the positive things that were admitted, even by those who were the gloomiest. For example, there was the good agricultural picture along with some rise in residential and nonresidential construction and an optimistic feeling in those fields. Retail sales were holding up and State and local government spending was doing well, which would offset some of the declines. Furthermore, there were optimistic features of the inventory situation, some of which had even slipped into the comments at this meeting, for it appeared that inventories might be getting down to minimum working levels.

While the economy was in the bottoming-out process, which he thought was now taking place despite some denials, he would favor doing everything possible by means of monetary policy to aid the process of recovery. He would agree with those who had commented about the undue diligence of the Desk in holding down the level of free reserves, and he would be inclined to move up, with a target of perhaps $800 million, instead of holding to the present levels. This would increase the liquidity of the commercial banks by increasing the availability of funds, and one result might be to pull longer-term rates down and create an incentive for the expansion of bank credit, not only by city banks but eventually by other banks as well.

The present language of the policy directive seemed to him very clear and more appropriate now than when it was adopted. He

said the Committee is attempting to contribute through monetary ease to the resumption of stable economic growth and the directive as now worded represents a clear statement of that objective. He saw no need for a change in the discount rate and he would wait to comment on reserve requirement changes, if any, until the appropriate time.

Mr. Mills said that Mr. Balderston had stated his own views with regard to policy and that the statement by Mr. Thomas had highlighted the same line of reasoning. It seemed to him that the System already had accomplished a very important objective in stemming a decline and in laying the basis for new growth in the money supply. To inject additional reserves aggressively into the commercial banking system, as he saw it, could work toward reducing, rather than increasing, commercial bank liquidity if they were employed to acquire long-term securities. For the present, he felt that it would be advisable for the System to concentrate on its fundamental responsibility to provide adequate credit availability to the commercial banking system. It appeared to him that a level of positive free reserves in the range of $500 million would allow the commercial banks ample latitude to meet such an additional loan demand as might occur and to expand their investments within reasonable limits. He felt that level was also a range that would permit the movement of reserves between central reserve city, reserve city and country

banks without in the process producing a money market tightness that could not be corrected promptly by modest direct Treasury bill purchases or the use of repurchase agreements.

Looking at the U. S. Government securities market in recent weeks, he was conscious of an impending problem in regard to the Treasury bill sector of the market. Where in recent years the Treasury had properly increased the amounts of its weekly bill offerings, the market might now be losing its previous capacity for their absorption, due to two reasons: the first reason has to do with the outflow of gold, the dollar amount of which had formerly been invested in Treasury bills which were now coming back onto the market. The second reason has to do with the resistance of corporation purchasers of Treasury bills when their yield falls to around one per cent. A side issue of that situation may find corporations pressuring their depository banks for time deposit privileges at interest rates above the yield on Treasury bills and the banks covering such demands by acquiring higher yielding issues of U. S. Government securities. In order to prevent the heaviness in the Treasury bill market that stands to result from these conditions, the Desk might flexibly operate so as to jockey the yield on Treasury bills to the end of maintaining their investment attractiveness to those corporations and other investors who would otherwise shy away from that sector of the U. S. Government securities market. In Mr. Mills' belief,

adoption of this policy would not lift the level of Treasury bill yields high enough to handicap long-term financing at economically favorable interest rates.

Mr. Mills also expressed the view that by refraining from further forcible injections of reserves into the commercial banking system, a reasonable pressure would be placed on the reserve positions of commercial banks that would have the effect of encouraging a redistribution of the longer-term U. S. Government securities that they had acquired on the occasions of recent Treasury financing operations. In that event, the previous procedure of resorting to the commercial banking system as the initial underwriter of new U. S. Treasury security offerings would have been reactivated and a step taken toward broadening the market for the Treasury's recent offerings at the same time that the commercial banks would have been given an incentive to readjust the composition of their investment portfolios for liquidity considerations.

Mr. Mills did not feel that there should be another reduction in reserve requirements in the near future, that the policy directive should be changed, or that there was any need to consider a further reduction in the discount rate at this time.

Mr. Vardaman said that any detailed statement he might make would be in effect a repetition of the situation described by Mr. Shepardson and the conclusion reached by Mr. Robertson. In particular,

he would try to raise the level of free reserves to around $700 million or perhaps $800 million and keep free reserves at a level from there on up. He would not favor reducing reserve requirements further at this time and he could not see any circumstances under which a reduction would be appropriate unless things became much more serious than he felt they would. However, that matter could be discussed at the proper time. He went on to say that he had spent most of the month of April away from Washington talking almost exclusively to nonbanking groups, both large and small, and that personally he did not agree with the statement that an atmosphere of gloom was prevalent. It seemed to him that the country was in better shape than at any time in the past six months, not in terms of economic conditions but in the sense that the American people seemed to realize now what confronted them. The feeling of panic on which the country had been teetering at the first of the year appeared now to have been replaced by an attitude of calculation and the country had come to grips with known conditions. He did not find any sense of panic at present in the places he had been, but rather a determination toward moderate buying and moderate spending in accordance with present circumstances. He did not find anybody running to cover except perhaps a few bankers who were the exception rather than the rule. The sentiment that was most pronounced was to be let alone, as Mr. Shepardson had stated

so well. It appeared that the American people would not welcome a broad tax cut program or broad incentives to corporations to increase already excessive capacity. The people just wanted to be left alone to work their problems out for themselves, provided the System made ample money available. If any pressures should develop with regard to the availability of reserves, he would be inclined to reduce reserve requirements further but right now there were at least two layers of reserve fat in the case of the country banks. There was also at least one layer at the city banks if they did not abuse the situation. Accordingly, he would not move on reserve requirements at this time. In summary, he would favor letting things go along more or less as at present for another three weeks.

Mr. Leach stated that although the decline in economic activity in the Fifth District continued, recent weeks had brought some--mostly seasonal--favorable developments. New orders for southern pine lumber in the first three weeks of April exceeded production and shipments, a slight but spotty improvement occurred in March in manufacturing man-hours, and construction contract awards rose sharply in March. Early estimates of department store sales, seasonally adjusted, showed a sizable pickup in April over March. Also, there were once again reports and signs of improvement in making the textile industry. While these were not strong or clearly discernible, and were certainly not conclusive, there

had been a gradual expansion in demand for cotton print cloth for spot and nearby delivery, and mills had been receiving an increasing number of inquiries about third and fourth quarter coverage. In addition, there had been sizable forward buying of synthetic goods for the first time this year. The most unfavorable district development was a further decline from already low levels in the production of bituminous coal. Largely because of this, West Virginia had one of the highest rates of insured unemployment in the country.

Business loan demand had been relatively strong, Mr. Leach said, and weekly reporting member banks in the Fifth District had been able to increase their investments only 6 per cent since the first of the year as compared with 14 per cent for all weekly reporting member banks. This relatively strong loan demand had been an important factor in the reluctance of member banks to reduce rates to business borrowers not on the prime rate list. There had been some, but not many, reductions of 1/4 to 1/2 per cent to such customers.

Mr. Leach went on to say that business and financial leaders in the Fifth District did not seem to be greatly worried about a further deepening of the recession even though they did not expect early recovery. There was, however, considerable talk about inflation, and the unexpected rise in the consumers' price index in a period of recession was causing more and more people

to wonder whether inflation was inevitable. This growing feeling gives him concern even though as yet it seemed to have had little practical effect, except possibly on the stock market.

In regard to policy, Mr. Leach expressed the view that the System had gone as far as it should go under existing conditions to promote recovery from the recession. Monetary policy had made its contribution and, in his judgment, further easing would not be constructive. He would continue to use repurchase agreements, to the extent practicable, to meet temporary needs for reserves and would reduce reserve requirements in preference to making open market purchases if substantial amounts of reserves should be needed for longer periods. It was his recommendation that the directive be renewed without change, with the understanding that the Manager of the Account would aim at the same degree of ease that the Committee had been trying to attain during the last three weeks. He would not change the wording of the directive unless the Committee was going to change policy, and he did not favor any change in policy.

Mr. Leedy stated that his report from the Tenth District would be for the most part just a continuation of what he had heretofore reported. The agricultural situation in the district was quite different from that which Mr. Johns had reported in the Eighth District, due to a considerable extent to the fact that

winter wheat is the Tenth District's predominant crop. There had been some late planting of spring crops due to moisture conditions but the crops were now pretty well in and planting had not been so late as seriously to affect the prospect for good crops in all areas. Reports for the first three months of the year indicated that agricultural cash receipts measured very well against the similar period last year. There had been some weakening of cattle prices due to increasing marketing of cattle, but the price of feeder cattle had been well maintained because of excellent pastures in the district and the good supply of feed. The employment picture had followed the national pattern; after a contraseasonal downturn between February and March, employment had continued to edge downward, the loss having been in factory jobs. Those losses had more than offset increases in nonmanufacturing employment. In the Tenth District that meant for the most part reductions in employment at automobile assembly plants, at aircraft plants, and in the petroleum industry. Construction awards during the first three months of the year had been little different from the first quarter of 1957, but nonresidential building awards were the only major type of construction activity in which awards were higher than last year. Department store sales were about the same as last year, which meant that the district was doing better than the national average. Contrary to the national pattern, there had been some recent strength in business loans. Nonguaranteed loans to farmers were close to the

peak of the past several years, due in large part to the cattle feeding operations that were being carried on.

Mr. Leedy said that he would make no change in policy although he would favor a change in the execution of that policy. Having just gotten through reducing reserve requirements and the discount rate, he felt that it would be untimely to take further action in these areas and he could see nothing to justify such action. At the last Committee meeting, as he understood it, the consensus favored a range of free reserves between $500-$750 million, but reports showed operations to have been decidedly at the lower end of that range. The fact that the New York banks had been employing fully the reserves made available to them did not indicate to him conclusively that they had been in quest of earnings altogether for there had been two unusual situations. First, there was the Treasury financing in this period in which the banks participated very substantially and, second, there had been a large amount of financing of securities dealers. On the latter point, it occurred to him that the System may have contributed something to the situation by limiting the making of repurchase agreements to a rate equal to the discount rate. In any event, it seemed to him that the System would be justified in feeding out further reserves, running the level of free reserves up beyond $600 million, and reaching, if necessary, to the upper part of the range which he understood had been agreed upon at the last meeting. Aside from that, Mr.

Leedy said, it was his feeling that the Committee should no nothing, for what had already been done tended to put the System in the proper posture. As he saw it, no change should be made in the directive at this time.

Mr. Allen said that in the Seventh District the month of April produced little news of a favorable nature except for the usual seasonal movements in construction and outdoor work. Of course the downward trend in steel and automobiles had slackened and might be over, but the current level of operations was low. Relatively good times were being experienced in Iowa and other agricultural areas, and it now appeared that Midwest farm income was more likely to show an improvement in 1958 than could have been anticipated at the beginning of the year. Prospects hinged primarily on meat animal prices, which were also the most uncertain element. Prices, of course, should decline as supplies increased, but on the demand side, consumer buying of meats had been encouraging. Checkbook spending in the district's metropolitan areas in March was 4-1/2 per cent below March 1957. This was the third consecutive month in which bank debits fell below a year ago, and the margin had been increasing.

In the matter of savings, there had been a slowing down in activity. Inflow to bank savings account in March was relatively smaller than a year ago, but withdrawals were still lower, so balances continued upward. Most of the reserve ease in the past

few weeks had been concentrated at country banks. The Chicago central reserve banks had been showing a basic reserve deficit, but this was attributable to the operations of one bank which had been carrying a heavy dealer position in Governments. That bank had been covering its deficit by purchasing Federal funds rather than by borrowing.

Over the past week end, Mr. Allen said, he attended a National Industrial Conference Board meeting in which approximately 50 businessmen participated. The feeling over-all was decidedly optimistic--or perhaps complacent would be a better word. The president of the company which is the world's largest manufacturer of small engines said that they shipped more engines in the first quarter than in any first quarter in their history, and that May would be a good month--much better than expected. There were a number of other reports which, while not as good, were surprisingly satisfactory. However, no steel or automobile people were present.

Mr. Allen went on to say that although automobile sales figures for the last 10 days of April would not be out until tomorrow, it was understood that they would show no improvement over the second 10 days, when the daily average was 14,125. The national inventory, which on April 20 was 835,000, was probably a little lower on May 1, but not by more than 20,000. Second quarter production was estimated at 962,000 cars as follows: April 316,000 (actual), May 325,000, June 321,000. It appeared that nothing could happen to

increase that projection, while a decline in sales would reduce it. Sources in Detroit were talking about production of 500,000 cars in the third quarter and 1,200,000 in the fourth quarter, which would mean a 3,900,000 car year. It seemed definite that new model introduction--Ford and Chevrolet at least--was planned for October 1 this year as against November 1 last year.

As to policy, Mr. Allen felt that the System should stay just about where it was. Like Mr. Leedy, he understood at the last Committee meeting that the agreement was on a range of free reserves from $500 to $750 million, and the results of open market operations therefore showed figures lower than he had expected. He would favor a continuation of that range, with the expectation that probably in the next three-week period the Desk would find it possible and practicable to achieve a little higher level of free reserves than had prevailed recently. With regard to the policy directive, he would prefer not to include the word "recession," among other reasons for the unimportant one that once that word was in the directive he felt that there would be differences of opinion as to the timing of its removal. Consequently, he thought it would be just as well to leave the directive in its present form.

Mr. Deming reported that there had not been much change in basic conditions in the Ninth District although, as elsewhere, sentiment seemed to have improved somewhat. With reference to the farm situation, the magazine of the Great Northern Railroad said

that in the area there had probably never been a spring as encouraging as this one. In all, the farming side of the picture seemed pretty good. In nonagricultural lines seasonal expansion was taking place, but the expansion was not as strong as usual nor was it expected to be. Employment layoffs had continued and in some areas the situation probably would continue through the summer. Banking presented a considerable contrast to last year, the seasonal deposit loss being just about 60 per cent of last year. The loan decline at city banks was being offset by expansion elsewhere, with the result that loans in total were even with the end of last year. While there was some recent expansion at city banks, it apparently was not as strong as last year. Some city banks seemed more aggressive in making loans, that is, more eager to make loans, and there was advertising for loans in contrast with last year.

Mr. Deming expressed agreement with those who were inclined to feel that monetary policy had done its job thus far and that it was in just about the right position. However, he felt that the Desk might seek a somewhat higher level of free reserves than apparently it had been able to achieve. While he recognized the difficulty in getting to that statistical position at the present time, he felt that the objective could be pursued a little more strongly. He saw no reason to change the directive for, as Mr. Robertson had said, the language seemed more pertinent now than when it was written.

Mr. Mangels stated that the West Coast had not experienced the increase in activity that had been expected. Production of automobiles, machinery, and metals, was still somewhat unfavorable while there had been some improvement in construction and lumbering along with gains in aircraft and shipbuilding. In March, public construction was somewhat above the previous month, and also a year ago, as was residential construction, and there were indications that the Veterans Administration had had quite a substantial increase in appraisal requests. Department store sales did not show much change, being down about 1 per cent in April from a year ago, while automobile sales were down 16 per cent from last year. There had been delays in getting in the spring crops due to adverse weather conditions, but it developed that farm income in the first two months of the year was higher than the level of any comparable period in the last five years. At the last meeting of the Salt Lake City directors, the director who is in the farm equipment business indicated that his business and that of his competitors was going along very well, and the Idaho economy, as previously reported, seemed to be in quite good shape. At the last directors' meeting in Seattle it was mentioned that the Boeing plant was now employing about 62 thousand workers, some 2,000 more than estimated a few months ago, and it appeared that this level would be sustained for the next year or two. Boeing expected to have orders for B-52s

aggregating $500 million, the Government had ordered some new ships in the Seattle area, and a $75 million missile base was to be constructed near Spokane. A director representing the lumber industry said that sales were better than last year in the Washington area. The lumber people were somewhat optimistic about an increase in residential construction and Government orders for shipments to Korea. The Chairman of the head office directors found among business sources a somewhat more optimistic attitude, and he himself was somewhat more optimistic although he could not quite explain the reasons. Bank loans in all six categories showed an increase in the three weeks ending April 23, and both time and demand deposits increased more than the normal Twelfth District proportion of the national figures. Borrowings from the Federal Reserve Bank were nominal. The banks continued to feel that they had adequate funds to meet foreseeable loan demands, and they were not concerned about their liquidity position.

Mr. Mangels said that the San Francisco directors joined in the recent discount rate reduction without enthusiasm, in fact with some reluctance. He went on to say that he would not recommend a further reduction in reserve requirements although he felt sure that the banks in the district with large amounts of savings funds would welcome a reduction in the requirements against savings deposits. In terms of policy actions, he felt that the System had done about

what it should do and he would be content to coast along on the basis of those actions for the present.

Mr. Irons reported that there had not been much change of significance in the Eleventh District, except possibly with regard to weather conditions. He said that the Reserve Bank tried to maintain fairly good contact with businessmen and other parties in the district, and that it did not find an attitude of pessimism but rather an attitude of confidence. Businessmen--and not only the large ones--realized that they had to be cautious and sound and could not do some of the things that they did a couple of years ago. However, he found more comment and underlying concern about high and rising prices, inflationary possibilities, big Government deficits, and deficit spending than about unemployment or declining business or gloom in the oil industry. Also, while the sample might not be conclusive, the Bank had not found any great enthusiasm, even among the reserve city banks, about the second reduction of reserve requirements. In summary, while he did not mean to paint a rosy picture, he found more conversation and talk about the price situation and the possibility of more inflation than about the problems of the recession.

Mr. Irons said that construction had turned up, with contract awards in April about 28 per cent above a year ago. Both residential and nonresidential construction awards were running ahead of last year.

In this connection, the Reserve Bank had invited bids on a remodeling and expansion of the head office building and four of the ten firms invited to bid immediately rejected the invitation, stating that they were already too fully occupied to take on another job. The agricultural situation had been slowed down due to rains, particularly in central and northern Texas, but in other parts of the district the agricultural outlook was very good, and in all probability the farmers would get in their crops. In the "valley" the agricultural interests were very happy with the weather and the state of the world. From the standpoint of money in pocket, farm cash receipts for January and February were 30 per cent above a year ago. The rate on mortgage money had apparently declined by about 1/4 per cent on conventional loans and was now 5-1/4 to 5-3/4 per cent, with money available. Insurance companies, savings banks, and others were saying that they had money for mortgage loans. The oil situation seemed to look a little better at the moment. Production was still running on an eight-day allowable basis but it appeared quite certain that the rate would not go lower. In fact, it seemed possible that it would go up a little in June. There had been some decline in stocks and the price situation was somewhat better than that prevailing three or four months ago. In the oil industry there was a feeling--somewhat similar to that with regard to the general economic situation--that nothing was going to happen to skyrocket the industry out of the current bottoming-out process, but that recovery would be more or less gradual.

Mr. Irons said that the banks in the district were in a much more liquid position than they had been and that there was no borrowing from the Reserve Bank except by a few country banks. In the last week or two, there had been a decline in commercial bank loans, largely due to a decline in loans for oil drilling and sales finance. There had been some increase in employment but less than seasonal. Unemployment was running 5 to 5-1/2 per cent, with some of the cities running about 4-1/2 per cent and Houston higher.

On policy, Mr. Irons said that the System had taken a position of ease and that he questioned whether there should be any further easing in any way. While he would not place too much importance on free reserve statistics, he would like to see free reserves remain in the $500-$600 million range and he would not try to push beyond that, especially with central reserve city banks utilizing all available funds. He would dislike to see free reserves move up to $700-$750 million, for he felt that the System had done all that it could through easy money and he could not see that the answer to some of the economic problems, for example, in the automobile and steel industries, would come from still easier money. Something else was wrong in the automobile industry than just a lack of availability of money. In addition to observing free reserves as a statistic he would observe interest rates, the Treasury bill rate, and the Federal funds rate as a guide,

along with the money supply and the extent of credit expansion. The trend in the money supply he considered quite important. There seemed to be a strong demand in the capital markets and some concern that the rates on longer-term funds had not been driven down enough, but he questioned whether they should be driven down any lower. He would not be disturbed about the current level of longer-term rates in view of the current demand in the capital markets. Obviously, he would not favor a change in the directive of the kind suggested, but he had been something less than happy about the language of the directive in the past few weeks. If he were recommending any change, he would like to see the word "further" deleted because that seemed to put the Committee in the position of committing itself at every meeting to further ease and he thought that was not a good thing ever to get into the directive. He did not favor any further reduction in reserve requirements and he would like to hold policy about where it was now, with the bill rate around 1-1/4 per cent and the Federal funds rate in some kind of touch with the discount rate. As he had said, he would watch credit expansion, the increase in the money supply, and other factors of that sort and be sure before taking any further easing action that the System could see what further ease would accomplish other than to stimulate speculation and drive up the price of Government securities.

Mr. Erickson stated that the downtrend still continued in the First District, but that there were some hopeful signs. Nonagricultural employment continued to move down, with the unemployment concentrated in manufacturing. Nonmanufacturing employment in March, for the first time during this recession, dropped slightly below a year ago. In March, employment was down 4 per cent compared with the national average of 3.4 per cent. All manufacturing indices also showed declines. However, construction contract awards were up 15 per cent in March, so that awards in the first quarter were even with the corresponding period last year. The increase in March was attributable to public works and utilities. For the past 10 consecutive weeks, electric power output had shown a more favorable comparison to a year ago than U. S. output. Easter department store sales were disappointing, but after Easter sales improved and thus far this year were 3 per cent behind last year compared with a 2 per cent decline nationally.

Mr. Erickson went on to say that the Boston Bank had completed a survey of 79 mutual savings banks and that in March they showed the largest monthly increase in deposits since November 1953, while real estate loan balances in March reflected the first decline since September 1954. A short time ago the larger savings banks reduced their rate on conventional mortgage loans to 4-3/4 per cent and other banks were following suit. Even in Providence, Rhode Island,

which is the worst labor area in the Northeast, one of the larger commercial banks stated that their savings deposits were increasing at the rate of $200-$300 thousand a week.

As to policy, Mr. Erickson said that he would make no change in the discount rate or in the policy directive, which he felt covered the situation adequately. Neither would he favor a change in reserve requirements at this time. In open market operations, he would like to have a target of $500-$700 million for free reserves, with errors on the side of ease with less reluctance.

Mr. Szymczak said it was his feeling that current policy should be continued but that reserve requirements should be reduced further if and when an opportunity appeared. Whether anything was done in regard to time deposits should, in his opinion, depend on the situation prevailing at the particular time. He had a feeling that something should be done in that regard, but that was simply his feeling as of the moment. More important, as he saw it, was the question of adjustment in requirements of central reserve and reserve city banks. He agreed with Mr. Mills that there was a problem created by the excess reserve position which may have to be taken up by open market operations in case reserve requirements are reduced. He agreed with Mr. Robertson that the direction as written related more to the present situation than the situation prevailing when it was adopted. There was a point in Mr. Irons'

comment about the word "further," but he did not think that the directive should be changed at this time. He would do nothing on discount rates but he would watch the situation as to fiscal policy, as recommended by Mr. Treiber, because the System no doubt would be expected to take a position on taxes. Whether the System should recommend that the present tax levels be held would again, he felt, depend on the situation as it was seen at the particular time. However, the System ought to be prepared to take a position in connection with the tax rates--excise and corporate--that terminate in June.

Mr. Balderston said that disenchantment with both the design and price of this year's automobiles, the stickiness of prices, and the indication that some American products had been priced out of foreign markets would seem to call for some very fundamental remedies on the part of business itself which might require some time. For the long pull, the most disconcerting current happenings were imprudent Government spending and the possibility that the automobile industry might perpetuate escalator clauses in its wage contracts. Although he had favored a quick tax adjustment some time ago, he was now apprehensive about the large Federal deficits that apparently would flow from spending actions already taken. If increased by a large tax reduction, the inflationary basis created by those deficits might

be beyond the power of monetary policy to control. As to open market policy, the staff had made clear that there was no tangible evidence that the capital goods recession was bottoming out. Hence, a continuation of present policy would seem to be indicated, with a target for free reserves of perhaps $600 million and no further change in the discount rate. Since he felt that the directive should be changed only when there was actually a change in policy, he would leave the directive unchanged for the moment.

Chairman Martin said that in his own view the present open market policy was about right, and that he felt this statement largely reflected the general thinking. There were shades of opinion, however, and he found it difficult to express the consensus on free reserves. He was not sure whether, as had been suggested here, the Committee actually agreed on a range of $500-$700 million at the last meeting. He himself had said $500-$600 million and there were different observations around the table, some being on the high side, some favoring the status quo, and at least one member favoring a somewhat lower position. His own thinking, Chairman Martin said, was that the Committee was pursuing a policy of ease and that it ought not have any knots develop in that policy.

With regard to changing the directive which was first adopted at the March 4 meeting, Chairman Martin suggested that a change along the lines suggested by Mr. Treiber might leave the Committee open a little to the question of whether it was aware

on March 4 that a recession was under way, whereas actually no one around the table had any doubt on that score at the time. Therefore, to make the suggested change might have the effect of producing a record that would be confusing. Accordingly, in his own view it would probably be better not to tamper with the directive, although he did not think that any great problem was involved.

Chairman Martin then said he took it to be the majority view that there should be no change in the directive. When no one questioned that statement, he returned to the subject of free reserves and said again that he was not sure quite how to state the consensus of the meeting in the light of the different views that had been expressed.

At this point Mr. Thomas commented that it seemed to him that the idea of a target for free reserves of $700-$800 million was a delusion. A level of around $500 million had prevailed and at the same time there had been an expansion of bank credit to the extent of about $7 billion. If this expansion had not taken place, there would now be free reserves of $1 billion, or perhaps more. It did not appear to him that the level of free reserves could be kept at $700-$800 million as long as the present attitude of the banks continued, that is, the attitude that they would put to use all available funds and keep no excess reserves. The country

banks were not likely to keep more than about $500-$600 million of excess reserves so that any free reserves in excess of that amount would be absorbed by further credit expansion. A substantially higher level, he suggested, could be achieved only if the Treasury bill yield were pushed down so low that banks would hold idle cash rather than buy bills.

Chairman Martin said that these comments pointed up the problem of using free reserve target figures at all. However, they had to be used as an indication, for that was the framework within which the Account Management had to work. As he saw it, the majority would favor a slight easing of the recent free reserve level, and that, he said, was about the best he could do to state the matter.

In comments which ensued, Mr. Shepardson said he wished to align himself with the view of Mr. Irons that free reserves ought to be kept in the $500-$600 million range, while Mr. Treiber said he would feel that if free reserves went up to $700 million there were times when this should not be disturbing at all. Mr. Johns stated that if the level should go up for a few days he would not act too quickly to bring it down, and Mr. Robertson indicated that he agreed completely with Mr. Johns.

At the conclusion of the discussion, Chairman Martin said that there appeared to be a reasonable meeting of the minds, if

one were to accept the $500-$600 million range that had been suggested within the framework of the general discussion, and that this was probably sufficient guidance for the Desk.

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 contributing further by monetary ease to resumption of stable growth of the economy, 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.

With reference to the question of the rate applicable to repurchase agreements, Chairman Martin suggested that further consideration of the matter be deferred unless the problem was regarded as

urgent. When Mr. Larkin stated that the problem was not at all urgent, it was agreed to carry the matter over until the next meeting of the Committee.

It was then agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, May 27, 1958, at 10:00 a.m.

Thereupon the meeting adjourned.

Secretary