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, March 24, 1959, at 10:00 a.m.

PRESENT: Mr. Balderston, Chairman pro tem
Mr. Allen
Mr. Deming
Mr. Erickson
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Bryan, Alternate for Mr. Johns
Mr. Treiber, Alternate for Mr. Hayes

Messrs. Bopp, Fulton, and Leedy, Alternate Members of the Federal Open Market Committee

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Jones, Marget, Mitchell, Parsons, Roosa, Willis, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account

Mr. Molony, Special Assistant to the Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Mr. Freutel, First Vice President, Federal Reserve Bank of St. Louis

Messrs. Daane, Hostetler, Tow, Walker, and Wheeler, Vice Presidents of the Federal Reserve Banks of Richmond, Cleveland, Kansas City, Dallas, and San Francisco, respectively
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Brandt, Economist, Federal Reserve Bank of Atlanta

The members and alternate members of the Committee and the Presidents of the Federal Reserve Banks not currently members of the Committee met in executive session at ten o'clock with Messrs. Riefler, Sherman, and Rouse of the staff present. The Secretary stated that, since neither the Chairman nor the Vice Chairman of the Committee was able to be present at this meeting, it would be necessary to elect a chairman pro tem.

> Upon motion duly made and seconded, and by unanimous vote, Mr. Balderston was elected to act as Chairman at this meeting in the absence of the Chairman and Vice Chairman of the Committee.

There followed a brief discussion of the procedure for inviting observers to be present at meetings of the Committee when a President of a Federal Reserve Bank (including Committee members or their alternates) could not be present. At its conclusion, it was understood that further consideration would be given to this subject at a future meeting when the questions of attendance discussed in the afternoon session of the meeting held on March 3, 1959, were taken up again.

It was noted that Mr. Freutel, First Vice President of the Federal Reserve Bank of St. Louis, was in the Board's building today in connection with his attendance at the meeting of the Conference of Presidents, and he was invited to attend this meeting in Mr. Johns' absence.

Mr. Freutel and the remainder of the staff then entered the room.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period March 3 through March 18 and a supplementary report covering the period March 19 through March 23, 1959. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse reported that the money market had been tight almost steadily in the past three weeks, with the brief exception of the last three days in the March 11 statement week. At that time, a large reserve excess carried over the week end by the New York banks and heavy borrowing before the week end by reserve city banks in districts that were still at the 2-1/2 per cent discount rate created, temporarily, an easier tone in the money market. Generally, however, net borrowed reserves had held in the neighborhood of $150 to $200 million and the rate on Federal funds had remained close to the discount rate. The Treasury bill market had put on a remarkable performance in the face of a tight reserve situation, the discount rate increase, and an

offering by the Treasury of $2 billion of special bills. While rates on three-month and six-month bills climbed from 2-3/4 and 3 per cent, respectively, to 3 and 3-3/8 per cent immediately after the discount rate action, they immediately turned down again and currently were close to the levels prevailing before the discount rate increase. The strength in the bill market was attributable to continuing demand from nonbank corporations and, in part, to buying by Chicago banks in preparation for the April 1 assessment date on the Cook County personal property tax.

Mr. Rouse reported that the Treasury's cash offering of an additional $500 million of the 4 per cent bonds of 1969, $1-1/2 billion of 4 per cent notes due May 15, 1963, and $2 billion of special bills to mature January 15, 1960, had been well received. The bonds were likely to be heavily oversubscribed, while the notes, which the market considered rather thinly priced, were expected to be adequately but not heavily oversubscribed. Guessing on allotments for the notes started at 35 per cent early on Monday, but by the end of the day some dealers were guessing 65 to 70 per cent; Mr. Rouse thought the allotment ratio might be in the neighborhood of 50-60 per cent. One reason for the relatively small subscription for the notes was that on Thursday banks would have an opportunity to subscribe for the new "special" bills for tax and loan account credit, and in this auction they would be better able to control the amount they would receive.

The Treasury had established this timing in order to let investors know their allotments on the notes and bonds before they bid for the bills, but the effect on subscriptions for the notes suggested that the Treasury might wish to rearrange the order of the offerings if it made a similar offer in the future.

Mr. Rouse went on to say that except for the outstanding 4s of 1969, which were marked down by more than a point when the issue was reopened, the market had been generally steady to only slightly lower. Market reaction had been good to the Treasury's announcement that it was taking another step toward regularizing its short-term debt through quarterly issues of one-year obligations, to mature in January, April, July, and October, which were to be regularly refunded at auction into new one-year issues. Mr. Rouse noted that the nucleus of this idea for regularizing the short-term debt originated with memoranda by Mr. Riefler and Mr. Gaines which the Federal Open Market Committee had supplied to the Treasury.

At Mr. Balderston's request, Mr. Rouse also commented on the problem created by the 4 per cent notes of August 1, 1961. The holders of these notes would have until May 1 of this year to decide whether to redeem them this August 1 or hold them to maturity. Therefore, the Treasury wished to avoid the 1961 area in its current financing so as not to drive rates higher and encourage redemptions. The option available to the holders of the notes was also a factor to be taken

into account in considering Federal Reserve policy during the next month.

With respect to the period ahead, Mr. Rouse noted that the 1-1/2 per cent tax certificates would mature today and that the nearly $2 billion of this issue to be presented for cash should create some additional demand for short-term investments during the next week. After April 1, however, when payment was made for the new Treasury issues and the Chicago situation unwound, pressures should build up as the market absorbed a sizable volume of short-term investments.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 3 through March 23, 1959, were approved, ratified, and confirmed.

Mr. Young made a statement on the economic situation supplementary to the staff memorandum distributed under date of March 20, 1959, his comments being substantially as follows:

From the perspective of national statistics, domestic economic activity is extending its upward swing.

Late figures for January industrial production obliged some downward adjustment in the index figure, though the index still rounded at 143 of 1947-49 average. Further advance through February was about 1-1/2 points, which rounded off at 144. The additional rise reflected gains in most durable and nondurable lines as well as in mining. With steel output in March at new high levels, with durable goods output advancing further, and with demands for industrial materials generally continuing strong, industrial output this month is expected to rise one to two more points.

March auto output is again back to the January level, and dealer deliveries of domestic cars continue at about a

5.1 million annual rate. Stocks at dealers are still rising, but are 8 per cent under the exceptional high of last year, which the industry hopes to avoid repeating. Used car markets appear strong, with sales and prices about a tenth higher than last year.

Since December, and after several months of irregular and modest increase, new orders at durable goods manufacturers have shown marked rise. From April 1958, however, the total rise has been about comparable with that for the corresponding period following the recession low in 1954. Nondurable goods lines have reported successive gains in orders and sales during each month of this ten-month period.

In January, book value of manufacturers' inventories rose for the first time since August 1957. The increase was concentrated in metals and metal fabricating lines. The GNP experts are estimating a $3 to $3-1/2 billion annual rate of inventory accumulation this quarter.

In February, construction activity remained at about the very high levels reached in January. Housing starts edged down further, but at 1.3 million plus units were at the highest February level in four years. Continuing high levels of FHA applications and VA appraisal requests are believed by the industry to portend continuing high levels of starts. Nonindustrial work on architects' drafting boards, which had declined sharply in the first three quarters of last year, has recently been rising strongly, though the total remains quite far below the peak reached in late 1957.

Both employment and unemployment were little changed in February. Average hours worked per week, although 1-1/2 hours greater than a year ago, were off slightly from January; since September, weekly hours worked have fluctuated close to 40. For the third successive month, hourly earnings in manufacturing during February remained at $2.19; weekly earnings declined slightly.

Personal income in February reached a new high of $365 billion, up $1.5 billion from January and $17 billion, or 5 per cent, above the recession low. In dollars of constant purchasing power, income was up 4 per cent from the low point of the recession and 1 per cent from the prerecession high. The recent advance reflected mainly a further rise in wage and salary payments, but higher old-age and survivors' benefit payments were also of importance in causing the rise.

With personal income advancing further, retail sales in February were strong and close to the record December level. As to durable goods, sales were off at furniture and appliance

stores but up at automotive outlets and at lumber dealers. Sales at nondurable goods outlets were also higher. At department stores, sales in the first half of March remained close to January-February levels despite bad shopping weather in the midwest and northeast.

In wholesale markets, the average of industrial prices rose further in February, with higher prices posted in textiles, hides, fuels, lumber, copper and brass mill products, nonmetallic minerals, and machinery. Prices of industrial materials have risen further in March. February increases in industrial prices were offset by declines in prices of agricultural commodities, so that the average of all prices at wholesale remained about unchanged. In recent weeks, prices of grains and of livestock have strengthened somewhat. However, with supply conditions as they are in agriculture, this is expected to prove temporary.

Concerning prices, a further note may be added regarding industrial material prices. It is useful to divide these between price-sensitive materials and others. Average prices for sensitive materials (including textiles, lumber, plywood, wastepaper, and some feeds) have now risen 7 per cent since the low last spring; since late fall, the rise has been about 1 per cent a month. On the other hand, average prices of other materials (steel mill products, paper, chemicals, and building materials other than lumber) have shown little change since the summer of 1957. This latter group of prices changed little over the 1953-55 recession-recovery period, and then rose sharply by 12 per cent over the next two years when output was generally straining the limits of capacity.

Concerning future domestic activity, the most important item of news is the release of the Commerce-SEC survey of business plans for plant and equipment spending. The new data confirm that a rise in such spending set in last quarter and project a 4 per cent rise over the year. The pickup in spending plans was sharpest for durable goods producers and transportation but was also marked in nondurable goods lines. Past patterns of these surveys show that, once business capital spending begins to advance, each successive survey for a period reports actual expenditures in excess of earlier projections.

No pickup in exports is yet indicated by trade data. While exports in January were up slightly from December, the average of the two months was below the level of last spring and summer. Total nonagricultural exports averaged only 2 per cent above last summer's low. Imports, on the other hand, continued at close to record levels.

In Europe, industrial production appears to have leveled out in December and January, though in Canada advance was resumed and in Japan it was continued. European steel prices have strengthened recently, partly reflecting U. S. demands, and steel output has increased a little. European textile output, in contrast, shows no recovery impulse, although recently demands in the wool sector appear to have improved.

One concluding comment is in order. A Washington Post story on Sunday carried charts of industrial production and GNP purporting to show that recovery this time has lagged the performance of two preceding postwar cyclical recoveries. This result is a matter of the dating of cyclical troughs. The article's dating of the 1949-50 cyclical trough, for example, hits a quarter of steel strike and also permits inclusion of the first post-Korean quarter in the comparison with later cycles. The more our staff restudies the dating of business cycle turning points, the more dissatisfied we are with those commonly accepted. One of our important current projects is a reassessment of this whole body of "established" historical fact.

Mr. Thomas made a statement substantially as follows with reference to credit developments:

Since the last meeting of the Committee, financial markets have absorbed with remarkably little disturbance the effects of the discount rate increase, some tightening of bank reserve positions, the demands of the corporate tax and dividend payment period, and the announcement of a Treasury cash financing operation. Interest rates and bond yields generally have been fairly steady around or slightly below high levels that had been reached earlier.

Explanation of this relative calmness in money markets during a period of special pressures would seem to rest partly in the moderateness of current credit demands, but more largely in the general state of liquidity of the economy. The Federal Government has continued and will continue for several months to be a heavy borrower, but no further acceleration in borrowing lies ahead, and the debt management program seems to be taking an orderly shape with less uncertainty as to the volume and nature of financing operations. State and local governments also are persistent borrowers on a relatively substantial scale, but no higher than a year ago. Consumer instalment credit has expanded somewhat in recent months, on a seasonally adjusted basis.

Home mortgage financing no doubt continues large but pressures in this market are not increasing. Forward commitments of life insurance companies for residential mortgages declined somewhat in December and January, along with decreases in commitments for business financing. To what extent this may reflect a falling off in demands or to what extent a lessening in the funds available for investment is not yet clear.

The moderating of credit demands has been most evident in the business sector, where there has also been an increase in liquidity. New corporate capital issues have been much smaller than at this time of other recent years, and, as stated, insurance company commitments for business financing have declined. Even though business capital expenditures in the future should turn out to be larger than present expressed intentions indicate, currently demands are relatively light.

Business borrowing at banks, though larger than last year, has generally been somewhat less than in other years. Following a greater than seasonal decline in the first two months in business loans at all commercial banks, such loans at city banks during the first three weeks of March showed a larger increase than in 1958 but a smaller one than in 1957 and 1956. Loans on securities increased much less than last year.

Not only has bank loan expansion been moderate, but investments by banks have decreased somewhat in recent weeks. The decline in holdings of securities contrasts with a substantial increase usual in the first three weeks of March. On balance, bank deposits have shown no striking departure from usual seasonal patterns. The turnover of demand deposits has increased to around the level reached at the peak of economic activity in the summer of 1957.

To some extent, the moderation of credit demands might be attributed to System policies of mild restraint and to the restraining effects of higher levels reached by interest rates--above levels that might be considered appropriate for the current posture of Federal Reserve policy. Most likely some of it is due to the liquidity that has been built up in the economy and is still being accumulated by business corporations. Financing has been available either from internal funds or from other nonbank sources.

With the continuation of recovery and the end of the seasonal decline in credit demands, question may be raised as to what lies ahead with respect to credit needs. Projections based on reasonable assumptions indicate the feasibility of a 6 per cent increase in real output this year to a gross national product of about $485 billion by the final quarter of

the year. This rise envisages moderate accumulation of inventories, a larger increase in business spending for plant and equipment than is shown by the latest survey, and a continued high level of housing starts at least until midyear, as well as large governmental expenditures.

Exploring the consequences for financial markets of such a pattern of economic expansion, a continued high level of demands for credit is implied, and--even more striking--a further substantial increase in availability of nonbank funds to meet the economy's financing needs seems to be possible. Principally, these funds would be made available by corporate business. If profits are as high as they could be under the projected pattern and over-all investment programs do not pick up steam until late in the year, corporations should be in position to add substantially to their already much improved liquidity positions. While their borrowings from banks are likely to increase, in contrast to net repayments in 1958, the rise should be quite moderate, and security financing would likely be down.

Consumer borrowing through both mortgages and through short- and intermediate-term credit would likely expand sharply. Under the assumed growth conditions, external financing by State and local governments is likely to continue at close to the peak rates of 1958. If Federal Government expenditures are kept at or close to budget estimates and incomes reach the levels indicated earlier, Federal needs for cash financing would be about as large in calendar 1959 as they were in calendar 1958--about $7-1/2 billion.

If corporations prove able and willing to meet the major share of the Treasury's needs for external funds, the banking system and other financial institutions would be able to accommodate consumer and other sector financing requirements with only a moderate expansion in bank credit. On this assumption, expansion of the active money supply might be only about half of what it was last year--or less than 2 per cent.

This assumes, however, a concatenation of many favorable events--and an avoidance of unfavorable events. If assumes no extraordinary inventory accumulation, increases in capital goods spending but not of boom proportions, Federal expenditures within the limits prescribed by the budget, some drop-off in housing activity after midyear, no repetition of the 1955 boom in auto sales, stock price movements that neither unduly depress nor exhilarate spending attitudes. In particular it depends

upon the ability of corporations to maintain a high level of profits in the face of wage pressures and price competition and also their willingness to invest their surplus funds in Treasury offerings. In addition it assumes the adequacy of an increase of less than 2 per cent in the money supply while the gross national product increases by 6 per cent. This assumption is not unreasonable in view of liquidity already outstanding.

To the extent that these conditions are not met, Treasury debt management problems--and those of the monetary authorities--would be made more difficult. At some time in the next year or so, as profits level off, corporations might well become net sellers rather than net accumulators of liquid assets. Moreover, sustained high levels of consumer spending would suggest that the flow of personal savings may not be adequate to provide much of a market for Government securities. The public may want to hold larger cash balances than are indicated. At some stage pressure on the commercial banking system will begin to mount. Perhaps some expansion in bank credit should be permitted, but the pressures are likely to be strong enough to require restraints to avoid undue expansion.

For the immediate future, to cover seasonal credit demands, some additional Federal Reserve credit will evidently be needed. In the absence of System open market purchases, net borrowed reserves may increase to as much as $300 million next week and to around $500 million in the first week of April, when payment for the new Treasury offerings will cause an increase in required reserves. This would call for System purchases of some $300 million in order to avoid an increase in restraint. After that, assuming a continued gold outflow of about $100 million a month (which might not occur), the usual variations in reserve needs will result in no marked change until late May.

Mr. Balderston inquired of Mr. Thomas whether, in the light of the additional tax burden that insurance companies would have to carry, they might be less desirous of placing funds in mortgages and would be tempted to place more money in tax-exempt securities.

Mr. Thomas replied to the effect that this trend was already evident in some cases. However, he did not think the additional burden

would be enough to make a great deal of difference. A spokesman for the insurance industry had indicated that the companies would have less funds available for investment next year, but the spokesman also foresaw a declining demand pressure.

Mr. Treiber then made the following statement of his views on the business outlook and credit policy:

> Business activity continues on a moderate upward slope. There is no indication of an abrupt turn, either up or down. Consumer demand, which has been the mainstay of the recovery, continues strong, assisted by a rising volume of consumer credit. Employment and unemployment data show little change. Although inventories have begun to increase, much of the increase seems to be a precautionary accumulation in expectation of strikes in the metal industry. Any sustaining further force from inventory accumulation will probably be deferred until the latter part of the year. Prices remain fairly stable. Fortunately, public opinion is expressing increasing concern regarding the forces making for higher prices. The general situation of supply and demand in the private sector of the economy does not yet suggest the prospect of a resurgence of inflationary forces. Any renewed inflationary pressures are likely to be initiated by the large Treasury deficit.
>
> U. S. Government security holdings of all commercial banks declined in February by $2 billion, reducing total loans and investments by almost that amount. Thus, the reduction much more than offset the purchase by the banks of almost $1 billion of new Treasury notes in January. Commercial bank holdings of Government securities are now lower than at any time since last September.
>
> Our projection of the cash deficit of the Treasury for the calendar year continues virtually unchanged at nearly $12 billion. New money borrowing during the remainder of the calendar year will be very large. The placement of Treasury issues without a substantial rise in bank credit is a major challenge in the months ahead.
>
> Current business and credit conditions do not call for any change in credit policy. The Treasury has just offered for cash subscription three issues totaling $4 billion, to be paid for next week. The Treasury's financial operations

call for market stability, not only through the payment date but for a reasonable period thereafter. Thus, business and credit conditions and Treasury operations call for the continuation of an "even keel" policy. As pointed out by Mr. Rouse, we must bear in mind that by giving notice to the Treasury before May first, holders of the $2-1/2 billion of 4 per cent Treasury notes due in August 1961 may obtain payment of their holdings on August 1, 1959.

In continuing the same credit policy, we should give primary attention to the behavior of the money market and the rates of interest in the market. High corporate liquidity and the resulting availability of nonbank funds in the market resulted in less pressure over the tax date than had been expected. This factor in combination with the concentration of borrowed reserves in Chicago and the demand for short-term Government securities, in preparation for the April 1 Cook County tax, have reduced somewhat the need for bank credit and have justified a higher level of net borrowed reserves.

The combination of factors leading to the absorption of Treasury issues may lose its strength just at the time the supply of Treasury issues increases, perhaps causing interest rates to rise. Too great a rise could lead to expectations of a further increase in the discount rate and other restrictive Federal Reserve measures; such expectations could stimulate a rapid further rise in rates, a result we would consider unfortunate. We would hope to see short-term interest rates fluctuating around the discount rate, without being a great amount above or a great amount below the discount rate for any prolonged period. With short-term rates behaving in this fashion, the exact amount of net borrowed reserves is not of great significance.

In summary, we would favor (a) no change in the formal directive; (b) no change in the discount rate; and (c) the conduct of open market operations so as to continue to maintain about the present degree of restraint without placing too much emphasis on the amount of net borrowed reserves.

Mr. Freutel said that the settlement of several long strikes in the St. Louis area, Louisville, and Memphis was the major development of interest in the Eighth Federal Reserve District in February

and March. A strike of glass workers near St. Louis had interrupted auto production in Evansville, as well as in areas outside the district. Most district cities reported moderate improvement in employment conditions as manufacturing activity picked up, but unemployment remained at about 6 per cent. Construction activity was expected to grow rapidly with better weather as there appeared to be a large backlog of work already contracted for. Production of pine and hardwoods had risen lately and producers expected an improving market. Aluminum production had been increased, and production of coal and petroleum was running well above year-earlier rates. Department store sales in all the reporting centers of the district had been considerably higher for the year to date than in the same period of 1958. Loans at district weekly reporting member banks rose over one per cent in the five weeks ended March 18, compared with little change at this time normally. Real estate loans continued to rise and there was an increase in loans to business firms. On the other hand, these banks reduced their holdings of securities.

Mr. Bryan said that the employment situation in the Sixth District seemed to be improving slowly and that there did not seem to be any substantial differences between trends in that district and national trends. He expressed himself as well satisfied with open market policy and said that he would advocate no change in it.

Mr. Bopp said that he had little to report from the Third District except continuation of a rather substantial level of

unemployment. While new and continued claims for unemployment benefits in Pennsylvania were lower than a year ago, they were still above 1957, and complete data for January showed 9.5 per cent of the district's labor force unemployed compared with 7 per cent for the country as a whole. Business loan demand to meet March 15 tax payments was light. Pressure on the reserve positions of the large Philadelphia banks had moderated somewhat in recent weeks, and those banks continued to rely primarily on the Federal funds market to secure reserves not secured from the sale of securities.

As to policy, Mr. Bopp said that he would favor no change in the directive and no further change in the discount rate. In his opinion, approximately the same degree of restraint that had prevailed recently in open market operations should be continued.

Mr. Fulton reported that steel operations in the Fourth District were continuing at a high rate. For the district as a whole, operations were at about 93.5 per cent of capacity, and in spite of this backlogs were building up at the mills. Inventory accumulation was one of the principal stimulating factors. Department store sales in the district were now running at about the level of two years ago, and construction activity had been strong. However, one fairly large residential builder indicated that he expected new housing starts in the last half of this year to be at only about 50 per cent of the rate for the first part of the

year. Unemployment was dropping slowly but there were still quite a number of people who were running out of employment benefits and had not yet found employment. In summary, it might be said that activity in the Fourth District was at quite a high level.

Mr. Fulton expressed the view that the Desk had done a good job recently in conducting open market operations. He would not favor any change in the discount rate or in the policy directive, and he would want to maintain about the same feel in the market as during the past three weeks.

Mr. Shepardson said he had nothing to add to the views already expressed other than to comment that the picture presented by Messrs. Young and Thomas seemed to be a favorable one. He would advocate the continuation of present open market policy for the next three weeks.

Mr. Robertson agreed, stating that because of the Treasury financing program there was nothing to be done for the present except to continue the current policy. As he understood it, however, the consensus at the last Committee meeting was to maintain an even keel with doubts resolved on the side of restraint, and it was his impression that the tendency had not been on the side of restraint. For the next three weeks he would maintain as even a keel as possible.

Mr. Mills said that in his judgment near-term System policy should maintain a degree of pressure on reserves focused on the need for effecting a redistribution of the Treasury's new security

offerings into permanent hands. He believed that the time had come for the Open Market Committee to take a new look at the problem involved in a continuation of the type of policy followed over the past three weeks. From the comments of Mr. Thomas, there appeared to be cause to feel that there was not going to be an excessive demand for bank credit, at least to an extent that would require its being curbed through an unduly restraining monetary and credit policy. Such being the case, he felt that the Committee should be careful not to exaggerate the liquidity in corporations and elsewhere as a force that could release demands and work toward undesirable price pressures. On the contrary, a good case could be made to the effect that the degree of liquidity might work in conjunction with a System policy seeking to contain an unwise expansion of credit. The liquidity would in due course be used to take care of corporate demands for reinventorying or to carry additional investment in accounts receivable, and it would provide the ability to do so without drawing on any marginal expansion of bank credit. At such time as there was a divestment of the excessive liquidity, the masses of Government securities that moved into the market would of themselves exert a restraining influence by bearing down on the price level of such securities. Therefore, he returned to the thesis he submitted at the last Committee meeting that a policy which contemplated continuing a constant level of negative free reserves would in reality compel a contraction of

credit by imposing a vice-like pressure on the banks. Accordingly, it was his feeling that while moderate pressure was required in order to effect a redistribution of the Treasury offerings, the System should be cautious. In open market operations, he felt that doubt should very definitely be resolved on the side of ease.

Asked by Mr. Szymczak whether this meant that he would favor letting the level of negative free reserves vary substantially, Mr. Mills replied in the affirmative and said that he would favor permitting a variance up to the level of positive free reserves if natural forces produced such a situation temporarily.

In reply to a question regarding the effect on the Treasury bill rate, Mr. Mills said that the Committee was dealing essentially with the availability of credit and, in dealing with that, could not make itself responsible for fluctuations in the rates on Treasury bills or other short-term securities.

Mr. Leach said it appeared from the latest information that, with the exception of West Virginia, the economy of the Fifth District was continuing to move forward. In the textile industry, production of many cotton gray goods and synthetic fabrics had been heavily sold through the second quarter and into the third. Demand for seamless hosiery continued strong, with factory output in general sold out until May. Orders for Southern pine lumber had held at high levels, and production and shipments had increased substantially. Seasonally adjusted sales by furniture stores rose 6 per cent in February from

the preceding month and were up 26 per cent from a year ago. Department store sales, on the other hand, had declined.

Mr. Leach went on to say that West Virginia continued to lag the other States of the Fifth District. Nine of that State's sixteen classified labor market areas were areas of "substantial labor surplus" when the recession began, and all sixteen had been so reported since May 1958. Employment in mining, seasonally adjusted, declined 20.3 per cent from July 1957 to May 1958, and had remained practically unchanged since that time. The decline in bituminous coal production continued last month, with overseas shipments down sharply. Average weekly hours in coal mining dropped from 34.8 in January to 32.8 in February.

With respect to policy, Mr. Leach expressed the view that the current Treasury financing clearly called for System actions directed toward maintaining an "even keel." He was glad that the System had entered the even keel period with a discount rate of 3 per cent and a record of substantial net borrowed reserves over a period of several weeks. Recent experience had again shown that no single statistical indicator could be relied upon in judging the tightness of the market, and he knew of no better instruction that could be given to the Manager of the System Open Market Account than to go by the feel of the market in attempting to maintain substantially the same degree of pressure.

Mr. Leedy said that the national trends reported at this meeting prevailed generally in the Tenth District. The value of construction contracts awarded in the district in January was one-fourth greater than in the same month a year ago, and department store sales were up sharply. While the difference could be accounted for to some extent by the earlier Easter date this year, for the week ended March 14 department store sales exceeded the year-ago level by 19 per cent. For the first two and one-half months of the year, such sales were up 12 per cent. Nonfarm employment in mid-January surpassed the year-earlier level by a small margin. This was the first time since January 1958 that district employment figures showed an increase over the same month of the preceding year. Unemployment figures were down, but only slightly.

Turning to banking developments, Mr. Leedy said there had been considerable strength during the past four weeks in most major categories of borrowing, with demands particularly strong from retailers, public utilities, sales finance companies, and manufacturers of metals and metal products. Over this period repayments by seasonal borrowers had been below last year. Nonguaranteed farm loans were higher now than at any time since 1952 and stood at record levels. The growth of loans and a seasonal contraction of deposits had led to major adjustments in the investment portfolios of reporting banks. Total investments during this period had been reduced by roughly

$100 million, with about $60 million of the reduction occurring in the past two weeks.

Mr. Leedy expressed the view that continuation of the policy followed in recent weeks would be appropriate. From the figures furnished, it seemed evident that it would be necessary to supply some additional reserves. Until the payment date for the new Treasury issues had passed, he felt the Desk must be careful that the reserve positions of banks did not tighten too greatly. After that date, however, it was his feeling that doubts should once more be resolved on the side of restraint.

Mr. Allen reported that Seventh District department store sales had been excellent, although some slight allowance must be made because Easter was early this year. In the four-week period ended March 14, district sales were up 13 per cent compared with 11 per cent for the nation. Within the district, all of the principal cities showed large increases during this period, but Detroit, with a plus 29 per cent, had by far the largest gain. Employment was improving in a broad variety of business lines, although certain special situations had produced layoffs. Buick had furloughed a number of workers, other automobile plants were expected to do the same now that inventories were approaching the 800,000 level, and layoffs in other industries had followed decisions to move factories or to drop unprofitable lines. Protective buying

of steel against a possible strike was now in full swing and order books were closed for the second quarter. It was believed that a four or five week strike would not affect total steel output for the year as a whole because a slump in the third quarter was now certain, strike or no strike. Of the Chicago purchasing agents who buy steel, 44 per cent indicated that they were trying to build up a 60-day supply by June 30, while 56 per cent were aiming for a 90-day supply.

With regard to the automobile situation, Mr. Allen said that people in Detroit expected the daily sales rate for the month of March to average 18,500, although it was only 16,645 for the first eight selling days. On March 10, dealers' inventory of new cars was 795,000 and, with the industry reluctant to let the figure go much beyond 800,000, production cutbacks appear imminent. The manufacturers' current aims were production of 590,000 cars in March, 580,000 in April, 520,000 in May, and 535,000 in June.

Business loans of Seventh District banks had been rising over the March tax payment date, which Mr. Allen felt could be attributed as much to inventory building, principally in steel, as to tax borrowing. Because of the increase in business loans, and because the Chicago banks were currently accumulating Treasury bills and temporarily losing deposits in anticipation of their April 1 tax date, the larger Chicago banks were showing a substantial basic

reserve dificit. This was expected to be eliminated soon after the first of April.

As to policy, Mr. Allen commented that what Mr. Leach had said was precisely what he himself had in mind.

Mr. Deming reported that nonfarm employment in the Ninth District apparently reached its usual seasonal low point in February and that a moderately strong improvement in the employment picture was currently under way. For several months, construction contract awards and the valuation of new building permits had been running substantially ahead of year-ago figures, so an unusual amount of construction activity was in prospect. New car sales had been particularly good in recent weeks, along with farm machinery sales. Dealers in farm equipment and machinery expected sales over the next few months to continue good in view of the farmer's relatively strong financial position and the fact that livestock and grain inventories were high. After about midyear, however, 1959 crop prospects would be a determining factor in farm spending. Bank debits, running 7 to 10 per cent above a year ago, were another indication of rather strong current business activity, and there had been a fairly strong improvement recently in the demand for bank loans. This increase was general and did not seem to reflect anything special like inventory build-up or tax borrowing. Activity in district mining industries was being expanded, which was of particular significance in the important iron ore producing areas of northeastern Minnesota and upper Michigan,

hard hit by the unemployment because of the 1957-58 recession. Current estimates were that 75 million tons of ore would go down the Lakes this season as against 53 million tons in 1958. In 1957, however, 85 million tons were shipped. Montana copper production was strong and Anaconda's smelters at Anaconda and Great Falls were operating almost at capacity in so far as copper was concerned. Total Anaconda employment in Montana, however, was 9,000 as against 13,000 two years ago, indicating very strong productivity gains. Offsetting somewhat the improvement in mining and manufacturing was the current unfavorable trend and outlook for prices of most farm products. A much smaller winter wheat crop was now definitely in prospect for 1959 in South Dakota and Montana.

Mr. Deming summarized by saying that as the first quarter neared its close, over-all economic advance was continuing in the Ninth District and businessmen were fairly optimistic about the immediate future.

Mr. Deming expressed himself as satisfied with the current course of credit policy and said that he would favor no change in the next three weeks.

Mr. Mangels said that there had been no major change in Twelfth District conditions, which continued to be good and to expand. However, it had been noticed that the spurt in construction activity experienced for a number of months seemed to be

moderating. In California, construction industry employment was down somewhat in February, while other areas of activity showed substantial increases in employment, particularly organizations having to do with defense contracts. In the southern California area, aircraft firms had increased employment to a moderate degree, which more than offset a decline in the aircraft industry in the northwest. Unemployment in California had dropped to 4.5 per cent, but in the State of Washington stood at 5.7 per cent. The demand for lumber continued strong, orders were in excess of production, and prices were better, with the result that rather substantial profits were anticipated. Steel production in the district was running at 87 per cent of capacity, and capacity was about 25 per cent higher than a year ago. Department store trade and automobile sales continued to show improvement.

On the financial side, Mr. Mangels said that in the three weeks ended March 12 bank loans increased, with the bulk of the increase in business loans and some increase also noted in real estate and consumer credit loans. Demand deposits were up about $100 million, but time deposits declined $3 million compared with an increase of $130 million in the corresponding period a year ago, thus indicating a major change in the savings habits of people on the West Coast. Borrowings at the Federal Reserve Bank continued to be scattered and nominal in amount. Twelfth District banks

were net sellers of Federal funds last week, and it was predicted that in the coming week they would again be net sellers. Bank debits for the first two months of this year showed an increase of 11 per cent over the first two months of 1958, and for February were 15 per cent higher than in the same month of 1958.

Mr. Mangels expressed agreement with those who had felt that no change in policy was necessary. He believed that the Desk should have leeway to consider the feel of the market and he would want to maintain an even keel in the light of the Treasury situation. Mr. Mangels concluded with the observation that the San Francisco directors had been unanimous in following the lead of the other Federal Reserve Banks in increasing the discount rate, although earlier there had been indications that some of them might not favor a change.

Mr. Irons said that there were no developments of significance to report from the Eleventh District. During the past three weeks, conditions had been satisfactory, with activity at a high level.

Mr. Irons also said that he was satisfied with open market policy over the past three weeks and that a status quo position seemed quite obviously indicated with the Treasury in the market. He agreed with Mr. Treiber that there was no need for change in the directive, the discount rate, or the degree of restraint. He would avoid any tendency toward ease and would maintain approximately the same degree of restraint that had existed in the past three weeks.

Mr. Erickson reported that business continued to improve in the First District, although not spectacularly. In some items the district was running slightly above the national figures, while in others it was below them.

Mr. Erickson said he had nothing to add to what others had stated with regard to policy for the next three weeks. He would favor no change in the directive or in the discount rate, and he felt that the degree of restraint that had existed recently should be continued. He would leave it to the Management of the Account to judge the feel of the market.

Mr. Szymczak observed that normally the second three months might be expected to show more of a seasonal improvement than the first three months of the year. With the Treasury in the market, he would not want to disturb the market during the forthcoming period and therefore would leave things about as they were. However, he was impressed by what Mr. Mills had said in connection with the redistribution of Government securities and allowing the reserve position to change in order to make such securities more attractive. While he did not know how this could be done without affecting the bill rate and its relationship to the discount rate, anything that would aid in redistributing Government securities at this time would be helpful to the over-all situation.

Mr. Szymczak then referred to the proposed amendments to Regulations T and U, recently published by the Board in the Federal

Register for comment, and said that anything the Presidents could contribute would be helpful, not only from the standpoint of restraining credit in the stock market sector but also from the standpoint of making the regulations more workable. The Board's objective, he noted, was to obtain as many suggestions as possible with a view to making the regulations work well over a period of time.

Summarizing, Mr. Szymczak said he subscribed to the suggestions made by Mr. Mills in that he felt the System ought to try to do whatever it could through adjustment of the reserve position and through open market operations that would be helpful in redistributing Government securities. He felt that it would be desirable to pursue Mr. Mills' point to the extent possible, to obtain suggestions on Regulations T and U from all parts of the country, and to make it possible for the Treasury to go into its present financing and its projected financing without undue disturbance.

Mr. Balderston asked Mr. Rouse whether the tightness in the market during the past three weeks had been about the same as during the preceding three weeks even though net borrowed reserves had averaged higher, and Mr. Rouse replied that in his opinion it had been substantially the same. Mr. Balderston then inquired whether, if the present degree of restraint were continued this would probably mean about the same level of net borrowed reserves. Mr. Rouse

replied that he thought so, although a somewhat lower level of net borrowed reserves might be required to do the job in the period following April 1.

In a further question, Mr. Balderston asked Mr. Rouse whether he felt as a practical matter that Mr. Mills' suggestion was applicable; in other words, whether there was likely to be enough variation in reserves so that people would not get in the habit of reading policy by looking at the figure of net borrowed reserves. Mr. Rouse replied that he hesitated to attempt to answer the question.

Mr. Balderston then referred to the comments by Messrs. Treiber and Rouse earlier in the meeting concerning the fact that holders of the 4 per cent Treasury notes of August 1, 1961, would have until May first to decide whether to redeem them on August first or hold them until maturity. He was not sure as to what, if anything, the Committee might do to help the Treasury in this regard. The Treasury had the feeling that System policy between now and the first of May might be determining, but it was his own feeling that the expectations of holders of the notes as to the course of rates between now and August 1961 would be determining. In any event, the amount involved was great enough to give the Treasury concern and he felt certain that the Treasury would be grateful if the System could do anything that would be of help.

Mr. Balderston then said he gathered it was the consensus to leave the directive unchanged and to continue the same degree of restraint during the next three weeks.

At this point Mr. Szymczak addressed certain further questions to Mr. Mills regarding the suggestions on policy that the latter had made, stating that he found them appealing.

In response, Mr. Mills commented that a policy calling for maintenance of a constant level of negative free reserves meant that banks under pressure would liquidate or refrain from making loans in order to reestablish their reserve position and produce a margin of excess reserves. If the System proceeded to extinguish these reserves, there would be a constant downward pressure. If the Committee could avoid that kind of development and reach a point where member banks were no longer under as heavy pressure to liquidate securities, beyond a modest amount to permit them to expand their loans, he could foresee a stability in the market that would be reflected in a level of interest rates which, generally speaking, would be consistent with the pattern that existed just before the Treasury announcement. Otherwise, he did not know just how those securities would meet the market and what the reception would be. If the growing downward pressure were removed and member banks were allowed to expand their credit within reasonable limitations, he did not believe the market effect would be extreme, even though the reserve position might move from a negative point toward zero.

Mr. Deming said that he also was sympathetic toward such an approach. He inquired of Mr. Mills what guide he would use if there seemed to be some upward pressure on bill rates. Would this, he asked, be a kind of a signal?

Mr. Mills responded that possibly it would, or that one could take the reserve projections placed before the Committee at this meeting. With the April 1 payment date for the new Treasury securities, it might be necessary to support the reserve positions of the banks in order to maintain their tax and loan accounts, and it was his feeling that the Committee could afford to err on the side of ease as to the amount of reserves supplied at that time. Having done so, he would not hurry to withdraw those reserves. Instead, he would let them be absorbed in the market for a period of time to see what reaction that would have on interest rates. Then, if the expansion of bank credit over the next few months should pace the improvement in economic activity, such improvement of activity would exert a tightening influence that would gradually absorb any excess of reserves supplied to the market. Experience would show whether the amount supplied had been more than necessary or desirable.

Mr. Balderston then asked Mr. Rouse whether he considered the policy directive satisfactory, and Mr. Rouse replied in the affirmative.

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal

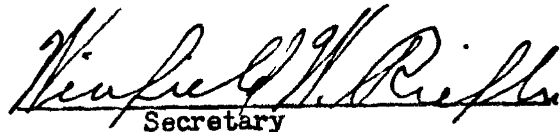
Reserve Bank of New York until otherwise directed by the Committee:

(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 fostering conditions in the money market conducive to sustainable economic growth and stability, 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.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, April 14, 1959, at 10:00 a.m.

The meeting then adjourned.



Secretary