

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, April 14, 1959, at 10:00 a.m.

PRESENT: Mr. Hayes, Vice Chairman, presiding
Mr. Balderston
Mr. Deming
Mr. Erickson
Mr. King
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Bryan, Alternate for Mr. Johns
Mr. Fulton, Alternate for Mr. Allen

Messrs. Bopp 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. 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,
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

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Messrs. Daane and Tow, Vice Presidents of the Federal Reserve Banks of Richmond and Kansas City, respectively
Mr. Einzig, Assistant Vice President, Federal Reserve Bank of San Francisco
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Coldwell, Director of Research, Federal Reserve Bank of Dallas
Mr. Brandt, Economist, Federal Reserve Bank of Atlanta

Mr. King stated that he wished to refrain from voting on matters coming before the Committee for action at this meeting.

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 a meeting of the Board and the Presidents of the Federal Reserve Banks, and he was invited to attend this meeting in the absence of Mr. Johns. Mr. Freutel then entered the room.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on March 3 and March 24, 1959, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period March 24 through April 8, 1959, and a supplementary report covering the period April 9 through April 13, 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 generally tight during the period since the last meeting, and particularly so

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during the last two weeks of the period. Federal funds had been at 3 per cent on most days, while dealer loan rates moved up to 3-1/2 per cent for the first time since January of last year. The Account dealt with this situation mainly through repurchase agreements, since the tightness was expected to be only temporary and to disappear with the float expansion that should be getting under way tomorrow. As of last night, there were \$245.8 million repurchase agreements outstanding, all of which were scheduled to mature on Thursday.

Although the money market had remained on a generally even keel, Mr. Rouse pointed out that the situation in the Government securities market had not been good. During the past week or ten days there had been a slow but steady deterioration in market atmosphere. Nonbank demand for securities had tapered off substantially, and buyers for continued commercial bank offerings of the Treasury's latest issues had been hard to find. Dealers had marked prices of coupon issues down, and rates on bills up, in an effort to stimulate buying interest, but thus far, at least, there had been no resumption of the large-scale redistribution of securities that occurred in the recent past. Related to this poor performance was a growing belief in the market that, in view of the continued improvement in the business situation and the heavy schedule of Treasury financing ahead, interest rates were very likely to move higher in the near future.

Mr. Rouse commented that for two reasons such expectations, and the resulting deterioration of market atmosphere, had special

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significance for the Treasury and the System at this time. First, the Treasury must decide by April 30 on the terms of the May refunding--recommendations to the Treasury would be based largely on next week's market--and it already appeared that the Treasury would not be able to go out beyond the one-year area. Secondly, holders of the 4 per cent notes of August 1961--the so-called 2 x 4's--would be making up their minds during the next two weeks whether they would turn them in on August 1 or hold them until maturity in 1961. The issue closed last night at par and 8/32 bid, equivalent to a yield of 3.11 per cent to August 1, 1959, which was about 4 basis points higher than the July 16 bills auctioned yesterday at an average rate of about 3.07 per cent. There had already been reports that at least one large New York bank was purchasing the 2 x 4's as a short-term money market instrument, planning to have them stamped before May 1 and to redeem them on August 1. Apart from the already-existing incentive to use them as short-term money market obligations, a further incentive working toward a large cash-in of the 2 x 4's was the growing belief of higher interest rates ahead. A holder who anticipated that the one-year rate will be 4 per cent by August 1 could have his 2 x 4's stamped on or before May 1, redeem them on August 1, and use the proceeds to buy the certificate into which the Treasury would probably be rolling over the 1-5/8's on that date. The holder could thus shorten up by a year without loss of yield.

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Until 10 days ago, Mr. Rouse said, the whole market had been buoyed up by the substantial nonbank demand for shorter maturities. However, with the subsequent fading of this demand, the picture had become distinctly less favorable for the Treasury.

Mr. Rouse noted that the projections for the next period indicated a tendency for natural factors to make reserves available. Despite the runoff of \$100 million of bills in the auction yesterday, this change in direction of the natural factors might help relieve the feeling created by statistical pressure. However, this probably would not be material unless the present distribution of reserves changed and reserves flowed back to the central reserve cities.

Mr. Robertson inquired as to the purpose of the purchase by the Account of about \$75 million of Treasury bills last Friday, and Mr. Rouse replied that the thought was to try to help bring about the same atmosphere as existed in the market prior to last week. The Account Management had tried to do this through the use of repurchase agreements but thought that perhaps some outright buying would help. As it developed, however, the purchases were needed from the reserve standpoint. The position last Friday worked out to about \$200 million of net borrowed reserves and there promised to be a considerable accumulation of reserve deficiencies over the week end, which in fact actually did develop. Primarily, therefore, the purchases were to supply reserves, but at the same time the

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hope was to help recreate to some extent the atmosphere and feel in the market that the Open Market Committee had requested the Account Management to maintain during this period.

Mr. Robertson then inquired what the feel was that the Desk was striving for, and Mr. Rouse replied that the thought was to run in the area of \$175 million of net borrowed reserves. There was a good nonbank demand for bills and other short-term securities and the Desk was trying to maintain a condition whereby the redistribution of securities would continue.

Mr. Rouse also verified that the purchases last Friday were not for the purpose of easing restraint and added that maintenance of the same feel in the market was directed at the last meeting of the Open Market Committee. At that time, he said, the situation that had now developed could be foreseen quite well, for there had been a substantial accumulation of short-term securities in the banks, particularly in Chicago, and the market was going to be called upon to reabsorb a considerable amount of such securities. Reference was made then to the possibility that the net borrowed reserve statistics might have to be much lower in order to facilitate the redistribution and maintain the feel in the market that had prevailed up to that time. With the refunding coming so soon after the last financing, there had not been a full redistribution of the securities, and it was hard to say what might happen in view of the frequency of

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Treasury financing and the market's knowledge that the Treasury would have to come to the market again after the refunding and, apparently, borrow almost monthly during the balance of this year.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 24 through April 13, 1959, were approved, ratified, and confirmed.

Mr. Young made a statement on the economic situation supplementary to the staff memorandum distributed under date of April 10, 1959, his comments being substantially as follows:

Once more, recent economic data provide a record of general economic advance. Accordingly, our report today may be confined to highlights.

(1) March industrial production rose two full index points from the revised February figure, bringing the index level to 147 of the 1947-49 average. This level, together with the January and February revisions, now assures a first quarter average of 145.

(2) March gains in output were widespread, with demands for industrial and construction materials again mounting and activity in business equipment showing the beginnings of real strength. Output of consumer goods, already at record levels, apparently rose further.

(3) Housing starts for March, which have just become available, are up again, to a seasonally adjusted annual rate of 1,426,000. Value of construction put in place in March, after little change in February, attained another peak volume, reaching a level 17 per cent above the May 1958 low. For the nineteenth successive month private industrial construction declined, but other major construction components increased. Construction costs, which for several months have been showing creeping advance, are now two to three per cent above a year ago.

(4) Fresh strengthening of the labor market has been indicated by greater than seasonal rise in manufacturing and other employment from mid-February to

mid-March, a decline in the seasonally adjusted unemployment rate over this interval, slightly longer hours of work per week in March, and increased hourly and weekly industrial earnings last month. In the textile industry, a general wage increase appears in the making, with the initiative in the rise coming from unorganized mills.

(5) Accumulation of business inventories, which began in December, was extended through February according to the latest available figures. The very sharp rise in February in new orders at manufacturers, as well as the March increase in activity in durable goods industries, surely portend that business inventory accumulation will continue. In this connection, the latest McGraw-Hill survey of planned business plant and equipment outlays--results of which are to be released next Monday--will show a projected increase for 1959 significantly larger than that shown by the recent Commerce-SEC Survey.

(6) With activity and employment advancing further, personal income in March is estimated at \$368 billion, up \$3 billion from the final February figure, which was revised upward, on the basis of very recent reports, by \$1 billion.

(7) Rising personal income naturally gives impetus to retail buying. Retail sales in March exceeded moderately the substantial record of December. The advance in sales was general, with department stores doing especially well. March sales of new and used autos, which were close to the March 1957 rate, were patently strong. Used car prices have continued firm at levels considerably higher than a year ago. With strong markets for both diversified durables and autos, consumer instalment credit is showing rapid growth--at a \$4 billion annual rate according to January-February figures.

(8) Incidentally, the Board's new experimental survey of consumer buying plans and attitudes, conducted by the Bureau of Census as of mid-January, turned up with results about in line with those of the Survey of Consumer Finances conducted by the University of Michigan in January and February. Consumer attitudes appear optimistic, but durable goods buying plans look only moderately better than actual buying performance of last year.

(9) Strengthening demands in virtually all sectors of the economy are being reflected in a creeping advance in average prices of industrial commodities. Also, average prices of farm products rose modestly this past month, mainly owing to advances in livestock and grain prices. However, these recent price advances have raised only slightly the average of all wholesale prices.

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(10) With gains in activity so widespread as recent reports indicate, GNP estimators are revising their estimates of first quarter advance. Earlier they were content to project a \$10 billion rise from the fourth to the first quarter. Recently, however, they have upped their estimate to \$12 or \$13 billion--that is, to a \$465 or \$466 billion annual GNP rate.

(11) Economic intelligence from abroad would indicate that industrial activity in several leading countries of Europe rose in February. This rise would seem to be a response to stronger consumer demand for durable and nondurable goods and to increased construction activity. There is little evidence yet of pickup in European business equipment industries. U. S. exports continue to sag; the February total was the lowest since late 1955, reflecting declines in agricultural exports and to a lesser extent smaller shipments of equipment.

Mr. Thomas made a statement substantially as follows with reference to the current financial situation:

Recent financial developments, as well as those described by Mr. Young with respect to other phases of the economic situation, clearly indicate that Federal Reserve policy has not been unduly restrictive. Some question may be raised as to whether it has been adequately restrictive. Prices of industrial products are rising; speculative elements continue to be powerful in the stock market and may be appearing elsewhere; and some kinds of credit are showing expanding tendencies. In view, however, of the broad objective of promoting a growing economy, and in view of the current level of unemployment, existing productive capacity, and the moderate current volume of expenditures for expansion of plant and equipment, there seems as yet to be no clear-cut need for vigorous restraint on expansion.

In the credit area, governments and consumers appear to be the largest borrowers. Long-term corporate borrowing in capital markets continues in smaller volume than in several years. Commercial and industrial loans at banks have conformed closely to the customary seasonal pattern, particularly after allowance for borrowing by sales finance companies. Consumer instalment credit extensions, however, have reached a new high level. Mortgage demands continue

heavy. State and local government borrowing in capital markets remains close to the record level of last year and now exceeds corporate capital issues in dollar aggregates.

The Federal Treasury completed its \$4 billion cash financing operation on April 1 with a substantial assist from the banks through direct purchases and loans to dealers. The current task is for the banks and dealers to distribute a large portion of their acquisitions to the investing public as the Treasury expends the funds it obtained. So far this year, the bank underwriting and distributing operation has been successfully accomplished. From the end of last June to the end of March, the total public debt increased by nearly \$6 billion while commercial bank holdings of U. S. securities declined by over \$1 billion. In the first three months of this year, when total public debt decreased by less than \$1 billion, commercial bank holdings declined by over \$3 billion. These figures do not include the effect of the April 1 financing.

Nevertheless, the net result of all bank credit operations in recent months has been an increase in the private money supply, after adjustment for usual seasonal variations. The increase in the four weeks ending March 25 was over \$1 billion, following a smaller increase in February. Care should be exercised, however, in drawing conclusions from single-day figures for deposits; daily average figures for member banks seem to indicate only a moderate rate of growth during the past four or five months.

Expansion in the money supply has not equalled the increase in the gross national product. Preliminary estimates indicate that in the first quarter of this year the ratio of the money supply to the gross national product declined to below 30 per cent--or slightly less than the low point reached at the peak of economic activity in the summer of 1957. The significance of this comparison is dubious, however, in view of the marked increase in time deposits and in the public's holdings of Treasury bills during the past year and a half.

The continued growth in the money supply, notwithstanding the success of banks in disposing of Government securities and the moderateness of loan demands, would indicate that the Treasury deficit is having some expansionary effect through the use of bank credit. This monetary expansion, together with the accumulation of other liquid assets, can provide the basis for further expansion in total spending.

From the standpoint of monetary policy, as suggested earlier, restraints have evidently not been too severe. Money

markets were not particularly tight during March notwithstanding heavy seasonal credit demands at the time. An average of around \$500 million of member bank borrowing has generally not been restrictive in the past. This is especially true in March when Chicago banks more or less willingly borrow to hold Treasury bills in anticipation of customers' demands on the April 1 tax date.

Since the beginning of April, however, there are indications of increased strains on the money market. Government securities markets have been weak. Rates on 90 day Treasury bills have risen this week above 3 per cent. Yields in the longer-term issues are clustering around or slightly above the 4 per cent level. These rate rises probably reflect at least in part the efforts of banks and dealers to reduce their holdings of recently acquired securities. Unless these holdings can be reduced as the Treasury expends its balances, the private money supply will expand further.

The Treasury still has a considerable amount of borrowing ahead, although not as much as in the same period last year. A moderate amount of cash will be needed in May, with some debt retirement in June, presumably followed by substantial borrowing in July. For the four months, May to August, the net increase in the debt will be about \$1.6 billion, or approximately the same as in the corresponding period last year. In the last four months of the year the cash deficit promises to be considerably less than last year, when the Treasury borrowed heavily and also drew its cash balance down to a low level. In the first half of 1960 there should be a substantial net debt retirement in contrast to a slight increase in the same period this year.

There is a likelihood that corporations may continue to be moderate purchasers of Government securities through the rest of this year. It will continue to be necessary, however, for much of the Treasury borrowing to be underwritten by the banks, and pressure on reserves should be continued in order to force banks to sell the securities as the Treasury draws down its deposit balances.

The immediate question facing this Committee is to what extent to relieve the effect of current pressures upon the Government securities market in view of the difficult problems that surround the forthcoming Treasury financing operation. Our projections indicate that seasonal reserve needs during the next few weeks will be slight. There seems to be little reason for buying or selling for reserve purposes. Any

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temporary variations in reserve needs could presumably be met through repurchase arrangements. If bill rates remain above 3 per cent and credit demands should tend to mount, then consideration will need to be given to a further rise in the Reserve Bank discount rates, as soon as the exigencies of Treasury finance permit.

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

As various business statistics for March have become available, they have suggested that expansion is proceeding somewhat more vigorously than had seemed probable a month or two ago. The stimulus provided by the expectation of a steel strike appears to be only a partial explanation. Some of the enlarged steel output is supporting a rising volume of production in metal-using industries, and a modest start has been made toward inventory accumulation in other industries besides those using steel. Automobile sales were unexpectedly strong in March. Retail sales in general have been highly satisfactory, abetted by a considerable rise in consumer credit. There is some evidence of increasing capital expenditures, although it is still too fragmentary to warrant prediction of a late 1959 level much above the SEC estimates published some weeks ago.

It is encouraging to note the greater-than-seasonal rise in total employment in March and the greater-than-seasonal decline in unemployment. In the Second District the unemployment situation likewise improved, with the notable exception of areas where the aircraft industry is heavily involved.

The price picture is still generally stable. In the next few months the consumer price index may feel some upward pressure from the usual seasonal rise in food prices. On the other hand the continued abundance of most world commodities augurs well for stability in the wholesale index. While the possibility of excessive wage increases in the steel industry carries with it a serious threat of upward price pressure, there are hopeful indications of a salutary widespread public concern over this problem and its implications, both national and international.

Neither the price situation, nor the volume of new or unfilled orders, nor recent loan statistics suggest a change as yet from a generally cautious attitude on the part of

business to a speculative building of inventories. We should welcome the outlook for further increases in economic activity, which are needed to absorb the still large volume of unemployment, as long as they can continue gradually and without serious inflationary pressures. We should obviously remain on the alert, but signs of a boom are still lacking, except in the stock market.

The March figures on bank loans show rather greater strength in the business loan category than in January and February--although improved corporate liquidity and lower tax payments made for lower tax borrowing than in 1956 or 1957. Consumer loans also rose substantially last month. As for investments, a comparison of Government security holdings of all commercial banks on March 11, the latest available date, with those for late June 1958 discloses that nonbanks absorbed virtually all of the \$12.5 billion increase in marketable government debt which occurred during that period. This was unquestionably a favorable development, even though we cannot overlook the fact that over-all liquidity outside of the banks increased greatly as corporations and others added to their holdings of governments, principally of short maturity. The growth of this pool of potential spending power, over and above the money supply proper, will bear watching; but it can hardly be regarded as undesirable as long as sizeable unused real resources exist in the economy. Of course, with Treasury cash financing remaining a major problem through the rest of 1959, it is very difficult to forecast how long the nonbank absorption of new issues will continue and to what extent the money supply, which has behaved moderately to date, may expand unduly if it proves necessary to lean heavily on the banks. Fortunately, current cautious business spending policies suggest that the transition, if it occurs, should be gradual rather than abrupt.

In terms of credit policy, our problem at present is to maintain a reasonably firm rein on credit expansion and a reasonably firm interest rate structure, without pushing these tendencies to the point where we inhibit further desirable expansion. It seems to me that the recent degree of tightness has been appropriate, and, in the light of the latest business and credit statistics, I see no reason to intensify this restraint over the next three weeks. In fact, I believe we might be inviting dangers if we were to intensify the present degree of restraint. During the past week or two there has been a significant decline in nonbank demand for securities, and this decline itself--even in the absence of any divestment of securities by the nonbank sector--has had the effect of tightening the market. At the same time, the heavy calendar

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of Treasury financing ahead and the continued improvement in the business outlook--especially the March employment figures--have led to the emergence of a belief that interest rates will almost inevitably move higher. This in turn has brought into sharp focus the question of the Treasury's forthcoming refunding and cash financing, and particularly the question of the disposition of the 4 per cent notes of August 1961--the so-called 2 by 4's--by holders of that issue. If it should turn out that the market tightens itself because of continued slow nonbank demand for securities--or possibly because of nonbank divestment of securities, which could begin at any time--particularly with a reactivating of capital expenditure--then any move toward further restraint by the System could be a serious mistake, since it would be superimposed upon increased tightness generated by the market itself. I would therefore make no overt move toward further restraint at this time, but would continue to have day-to-day operations conducted largely in terms of the feel of the market, with the Manager of the Account instructed to maintain about the degree of restraint we have had in recent weeks. This might imply a considerable range within which reserve statistics would fall. In my view the directive may appropriately be left unchanged.

Mr. Erickson stated that the picture in the First District was one of continuing recovery, but at a more modest pace. When comparisons were made with a year ago, there was distinct improvement; in the short range, however, the degree of improvement was much harder to measure. From the first of this year through April 4, department store sales were 4 per cent ahead of the corresponding period a year ago, compared with an increase nationally of about 8 per cent. In the four weeks prior to Easter they were .7 per cent below the corresponding period last year, but that may have been due at least in part to weather conditions. A survey of capital expenditures for 1959, now being completed, indicated tentatively a rise of only 1.6 per cent,

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compared with an estimated increase nationally of 7 per cent, and in February nonagricultural employment was down .2 per cent from January. On the other hand, a poll of New England purchasing agents showed an increasingly greater percentage reporting increased production in each of the past three months, and F. W. Dodge figures for February showed a 38 per cent increase in construction contract awards over February of last year, although this was due primarily to one large award for an oil refinery. The past two weeks had seen greater use of the Reserve Bank's discount window and borrowings yesterday totaled almost \$80 million. Apparently some Boston banks could not get Federal funds at 3 per cent and came to the Reserve Bank.

Mr. Erickson expressed the view that for the next three weeks there should be no overt change in policy. He would favor no change in the Committee's directive or in the discount rate, and he would not increase the degree of restraint. This would be a difficult period, and he would leave it to the Manager of the Account to judge the feel of the market.

Mr. Irons said that his impression of the national situation was much along the lines indicated by Mr. Young's statement. There appeared to be growing strength in virtually all major areas of economic activity, and the over-all picture was one of a strongly expanding economy. In the Eleventh District, the picture was much

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the same and could be summed up as generally favorable at very high levels of activity. Retail trade in the major cities had advanced substantially from a year ago and also in comparison with preceding months. The employment and unemployment picture was good and improving in the major centers, with Houston the only city where unemployment, at 5.8 or 5.9 per cent, was a high percentage of the labor force. While there had been some layoffs in the aircraft industry around Dallas, offsetting factors apparently had prevented the percentage of unemployment from rising appreciably. Many of those laid off were understood to have moved to other areas of the country and obtained employment. Personal income was up, and the situation in the petroleum industry had improved. The oil people did not particularly like the mandatory import controls but believed that they could operate satisfactorily with them. The agricultural situation had improved considerably during the past week due to snow and rain.

On the banking side, Mr. Irons said he had been told by bankers, especially city bankers, that loan demand was very strong. In the Eleventh District, loan totals did not decline very much a year ago and the banks came into this year with a rather high level of loans, so a slight increase now was leading the bankers to feel that loan demand was quite strong. Although borrowing from the Reserve Bank had not been large in total amount and very few country banks had been borrowing, there had been an increasing tendency on the part of large city

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banks to come in for a day or two.

As to attitudes, Mr. Irons said that recently he had more than the usual number of contacts with business executives and others in the district and found them quite optimistic almost without exception. Their principal worries were about the wage-cost problem and the Government deficit.

As to policy, Mr. Irons said that he was rather satisfied with developments during the past few weeks. While he was inclined to agree with Mr. Thomas that perhaps monetary policy had not been unduly restrictive, in his judgment it had been satisfactory. He would favor continuing about the same degree of restraint, relying heavily on the discretion of the Account Management with regard to open market operations. If the economy should continue to move ahead as strongly as at present, policy might have to be changed quite soon, but at present, with the Treasury problem in the picture, it would be appropriate to maintain the status quo. He saw no reason to change the policy directive or the discount rate at this time.

Mr. Mangels reported a continuing rising trend in Twelfth District economic activity. Employment was up in March and insured unemployment was down, with the decline larger than in any March for the past four years. Department store Easter sales were at record-breaking levels. Automobile sales were up, steel production had increased, and there was an improved demand for copper and aluminum.

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Western pine lumber production was up 10 per cent from March 1958 and plywood demand was holding well, but key grades of Douglas fir had been cut in price because of a slight decline in orders. In agriculture, cotton planting was expected to increase 12 per cent over 1958, for the largest planting since 1954; plantings of spring wheat and rice also were up, with declines in potatoes and hay. For the three weeks ended April 1, all categories of bank loans increased as did holdings of Government securities, while demand and time deposits both declined. Twelfth District banks were net buyers of Federal funds last week and were expected to be net buyers again this week. Borrowing from the Reserve Bank had remained intermittent and nominal, but there were some indications that the banking situation was getting tighter and reports were heard that loan demand was likely to increase. Accordingly, some banks were expecting to sell Government securities.

Mr. Mangels said that he would favor continuing to maintain the present degree of pressure. He agreed with Mr. Hayes that this pressure should not be accentuated, for he would want to give the banks a little time to make an orderly distribution of Government securities to permanent holders. Mr. Mangels expressed some concern that the threat of strikes might be inflating statistics on production, new orders, and inventories, and that the last half of the year might not show as strong a picture of advance. He felt that it would therefore be well to wait a little before increasing pressure and that there would be time to do so in the next few months if necessary.

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After expressing the view that net borrowed reserves should be kept within a range from \$125 to \$150 million, Mr. Mangels said that he would make no change in the discount rate at this time and that he felt the directive was satisfactory.

Mr. Deming reported serious early spring drought in the Ninth District. Except for some local areas in southern Minnesota and the Upper Red River Valley, both topsoil and subsoil moisture supplies were low, and high winds and dust storms over much of the area during the past week caused a further deterioration in 1959 crop prospects. It appeared that about a fourth of the planted acreage of winter wheat in South Dakota might be abandoned. Only very favorable rainfall and growing conditions for the next few weeks could offset the early drought for the district as a whole. Livestock were in good condition, thanks to plentiful supplies of relatively cheap feed, but water supply was a problem in some areas in the west, with stock ponds either dry or only partially filled. In contrast, the general business picture looked quite good. Farmers' income was still running ahead of last year, construction activity was showing a strong seasonal upturn, both in residential and other types of building, and there was a heavy backlog of contracts and new building permits. Mortgage credit appeared ample at the moment and for the immediate future, and employment was improving as construction and mining activity boomed. There had been a big push during the past few weeks to mine

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and move iron ore from the iron ranges to the lower lake ports; some ore had been shipped by rail from the ranges rather than wait for boat shipment when the lakes were cleared of ice. Expansion in ore demand was putting new vigor in the depressed iron ore mining regions of the district.

As to the district banking situation, Mr. Deming said there had been a sharp increase in loans during the last part of the first quarter, particularly in business loans. Reserve city bankers in Minneapolis and St. Paul expected a particularly heavy demand for business loans this summer and next fall, with such demand pretty much across the board. More country banks had borrowed at the Reserve Bank in the last half of March than in any half-month period since June 1957. In summary, there was a stronger than normal seasonal increase in business activity in the district this spring, with the demand for credit growing rather sharply.

Mr. Deming expressed agreement with the policy suggestions made thus far at this meeting. He was satisfied with what had been done during the past several weeks, and he would favor continuing about the same degree of pressure.

In the absence of Mr. Allen, Mr. Mitchell reported on developments in the Seventh District. Among other things, he referred to surprising strength in the producers' durable goods area and characterized the construction machinery industry as

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being in almost a boom period. Farm machinery sales were excellent last year, it appeared that this year might be even better, and reports on lines such as electrical equipment and oil pipeline equipment also were encouraging. On the other hand, the employment situation did not appear to be quite as good as reported generally. In Chicago, this might be due partly to the fact that packing houses were moving out of the city, thus cutting down the demand for labor of a type that had difficulty in finding alternate employment. In eastern Michigan and the Detroit area the unemployment situation continued to be bad; in view of current levels of automobile and truck output, it did not appear that much more recovery would come from the automotive industry in the near future. Hence, it appeared that unemployment would continue rather large in that area in the absence of some rather spectacular development. As usual, the Chicago banks lost a substantial amount of private demand and time deposits during the period between March 25 and April 1, most of which was replaced by deposits of banks outside the area and by a large increase in Government deposits. The Chicago banks also borrowed to some extent from the Reserve Bank, mostly earlier in the week, and sold securities. They were now in the process of getting the private deposits back to Chicago.

Mr. Leedy stated that Tenth District agricultural conditions continued favorable. Although the wheat crop probably would not be

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as large as last year, a good crop still was in prospect. Some areas had been hit by drought, particularly in Oklahoma where only about 50 per cent of the wheat crop was in good condition. Slaughter cattle prices had continued to strengthen and were currently above year-ago levels, with larger numbers of cattle being marketed. Feeder cattle prices also continued to advance and currently were at higher levels than at any time in 1958. Prospects were favorable for range and pasture conditions, feed supplies were abundant and these were factors in the strong demand for feeder stock. The unemployment situation had improved, with agricultural employment contributing substantially to the improvement. Department store sales in the district through April 4 showed an increase of 11 per cent over a year ago. Demand for credit remained quite strong, particularly at country banks, and this was being reflected at the discount window, where a large number of country banks were borrowing and there were major borrowings by city banks. Interbank deposits at city banks were off sharply.

Mr. Leedy said that except for the Treasury financing he felt the System might now be giving serious thought to the question of applying additional pressure on bank reserves. As he understood it, the money supply was now 4 per cent above a year ago, which was a higher level than desirable at this juncture. Therefore, except for the Treasury situation, he would like to be moving in the direction

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of a higher level of net borrowed reserves. With the strength evident in the economy, he felt that the Committee should direct its attention toward moving further in the direction of restraint at the first possible opportunity. During the period immediately ahead he hoped float would not be permitted to create more ease than had existed. Perhaps the market had already discounted to some extent System action in the direction of further restraint, and if so he felt that the System might have more freedom of action. In summary, while he recognized the difficulty as far as the Treasury was concerned and the complication caused by the 4 per cent notes of August 1961, he felt that the System ought to avail itself of any opportunity to increase slightly the degree of current pressure.

Mr. Leach reported that economic gains had continued in the Fifth District with the exception of coal mining areas in West Virginia. The latest information indicated that employment gains were widespread and the man-hours had increased in most manufacturing industries. Areas of strength included textiles, furniture manufacturing, cigarette production, lumbering, and residential building. Bituminous coal production declined in March for the sixth consecutive month, with continuing adverse effects on unemployment in West Virginia.

Continuing, Mr. Leach said the borrowing behavior of member banks seemed to indicate that monetary policy was having a more widespread effect on country member banks than generally realized

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and that problems of discount administration were already present. In the first quarter of 1959, 122 banks borrowed from the Federal Reserve Bank of Richmond, which represented 27 per cent of all member banks in the district, an impressive figure considering that 46 per cent of the member banks had not borrowed during the last twenty years. Seven of the banks that borrowed during the quarter had not borrowed in the previous five years, and three of the seven had been out of debt to the Reserve Bank for 22 years or longer. In comparison, only 87 banks borrowed during the first quarter of 1957, when credit restraint was presumed to have been considerably greater than now. There was little difference in the dollar amount of borrowing during the two periods. Twenty-eight member banks were indebted to the Richmond Bank for more than one-third of the days in the first quarter of 1959, and for many of them the season of greatest credit demand lay ahead. Of those 28 banks, 22 now had higher--many much higher--loan-deposit ratios than in the first quarter of 1957. A few of the 28 had no bills or certificates, and it was assumed that nearly all had depreciation in their security accounts.

For the United States as a whole, Mr. Leach said, both the number of country member banks borrowing and the amount of their borrowings during each of the first five semimonthly periods in 1959 were larger than during the corresponding periods of 1957. The number of country banks borrowing in the first half of March 1959,

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the latest period for which information was available, was 626 as compared with 472 in the first half of March 1957, and average daily borrowings were \$198 million as compared with \$171 million. Borrowings of reserve city banks, however, were \$43 million lower in the first half of March 1959 than in the first half of March 1957, and borrowings of central reserve city banks were \$211 million lower.

From these statistics, Mr. Leach concluded that recent policy might have had greater tightening effects on country banks than aggregate reserve statistics would indicate. This, together with the fact that the Treasury was faced with particularly critical problems in the near future, pointed up the need for care in the intensification of credit restraint. On the other hand, recent economic developments as described in the staff report and in the comments of Mr. Young and Mr. Thomas seemed to call for greater restraint. If it were not for the condition of the Government securities market and the Treasury problems ahead, he would favor somewhat greater restraint at this time. However, those factors must be considered and the case for going into a more restrictive policy did not seem great enough to outweigh them. On balance, therefore, he would favor maintaining about the same degree of restraint on the availability of reserves in the period immediately ahead, with no change in the discount rate.

Mr. Mills said that he found no cause to alter the position he had taken previously, as recorded in the minutes of the last two

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Committee meetings, which was in effect that the System should guard against allowing the cumulative pressure on reserves inherent in its present policy from developing to a point that would convert a monetary policy of restraint into one of restriction. Mr. Leach's remarks have illustrated some of the pressures present in current System policy. Country banks have gradually been moving toward a freezing in their positions, aggravated by massive purchases of U. S. Government securities last year on which they now have a heavy depreciation.

When considering the borrowing position of the member banks, Mr. Mills said, one should look both at the total borrowing picture and the composition of that total. By this he meant that in reviewing the total of member bank indebtedness, attention should be paid borrowings other than those at the Federal Reserve Banks; namely, borrowings by way of Federal funds and repurchase agreements. It was the grand total of borrowings that in a real sense reflected the pressure of System policy registered on the heavy side when reductions in Federal funds takings occur simultaneously with an increase in Federal Reserve Bank discounts. Under circumstances where a marked increase in discounts at the Federal Reserve Banks was occurring at the expense of a reduction in Federal funds advances, there was more severe reserve pressure on the position of member banks than would be indicated by the level of discounts taken by itself. A development of this kind would be a matter of especial importance when moving into a period in which the Treasury must come into the market for

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funds because it heralded the possibility that a policy such as the System has been following, when reflected in a rising volume of Federal Reserve Bank discounts, might become a serious handicap to the Treasury's financing operations which it is an obligation of the System to foster within appropriate limitations. Fundamentally, however, what puzzled him, and surely raised similar questions in the minds of members of the Committee, was how to draw an economic dividing line between prosperity and desirable growth in the economy and the kind of situation that could burst out into an inflationary disturbance. He was apprehensive as to the ability of any group to read the future so accurately as to be able successfully to impose a monetary and credit policy capable of influencing future credit developments that were in an embryonic stage and might or might not eventually emerge from their chrysalis.

Mr. Robertson said that his views coincided with those expressed by Messrs. Leedy and Leach, and he agreed with the suggestion in Mr. Thomas' statement that Federal Reserve policy had not been too restrictive. There appeared to him to be nothing that the System could do at the moment, or for the next three-week period, because of the Treasury's problem. However, as indicated by the picture presented today, the whole economy was reaching toward boom proportions and he feared that the System was apt to lose control if it failed to adopt a more restrictive policy at the first opportunity. While that

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opportunity was not yet here and he would hold still for the present, he would not take any action to support the market. In open market operations, he would attempt to achieve an even keel position on the basis of providing or absorbing reserves to the extent necessary.

Mr. Shepardson said that he could only echo what had already been said. As he saw it, the existing situation could easily explode into a very undesirable one. It was regrettable that the Treasury situation was such as to preclude more definite action at present, for in the background was an expansion of the money supply that could be a source of trouble in the not too distant future. In his opinion, current figures showed that the System had not been quite as restrictive in the past month or so as had been envisaged. Although accepting the situation as it stood and recognizing that not much could be done at the moment, he felt that the System should be alert and on guard against developments that seemed to him to be near the surface.

Mr. King stated that he did not wish to comment at this meeting.

Mr. Fulton said that the steel industry was operating near capacity; much of the current activity had been the result of anticipation of a steel strike. The steel companies had offered a one-year extension of the present contract and the union had refused that immediately. Steel men were apprehensive that the union would request

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at least a 40 cent an hour increase in wages and fringe benefits, which they felt would be completely out of the question, and they were saying that a long strike would be preferable to giving in to such a demand. They stated that steel workers were now getting 30 cents an hour more than automobile workers and 63 cents an hour more than the average of all industrial workers. From present indications, Mr. Fulton said that it appeared that a strike of about six weeks' duration might be possible despite the existence of substantial unemployment. Those in the industry had been amazed at the record of profits during a period when, in many instances, operations were only at about 50 per cent of capacity. With operations having reached 93-1/2 per cent of capacity nationally and 95 per cent in the Fourth District, the steel companies were certainly making money and the union would be endeavoring to get a part of it. In the current situation, the automobile industry and many other users were trying to lay in a 90-day inventory.

Reports from the automobile industry indicated that sales were doing rather well, and one source had stated that the industry expected 1960 to be a much better year than 1959, in fact almost another 1955. Wage negotiations were also in progress in the rubber industry, which had been operating at a high level of production because of the anticipated strike. In rubber and also in aluminum, where negotiations were due to take place in August, there was

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stockpiling of inventories. This factor of stockpiling led some businessmen to believe that the current high level of activity represented something of an artificial situation, and there was caution and hesitation in a number of industries. Machine tool orders had increased somewhat and the backlog had extended to around 3-1/2 months, but much of this was explained by orders for large machines that take a long time to build. This industry, like the steel industry, was feeling the effects of foreign competition, and if the wage-price push should continue it feared not only a loss of foreign markets but strong competition in domestic markets from foreign-made commodities. Fourth District unemployment had been declining and only half of the major areas were now classified as areas of substantial unemployment, as against almost 90 per cent a short time ago. The work-week was now averaging 40.5 hours against 37.3 hours a year ago, and the appearance of overtime suggested that employers would tend to put additional people to work. Prices were poised on the brink of further increases. Some foundries and machine tool firms would like to raise prices if it were not for the fact that the level of their operations was on the low side. District department store sales for the year to date were about 5 per cent ahead of last year.

Mr. Fulton expressed concern about the possibility that yields on Government securities would increase to the extent that

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the optional 4 per cent notes of 1961 might be redeemed in large volume. He felt that the System could not ignore the situation of the Treasury, with the requirements for new money and the possibility of a large redemption of the 4 per cent notes, and he would take no further restrictive measures at this time. If the System were to stabilize the market at the level of a couple of weeks ago, he thought that it might save itself from more serious trouble a little later on. It was his opinion that net borrowed reserves around \$100 million, with the level in the market commensurate, would place the System in a better position without doing violence to the posture of restraint than if it continued to let the market deteriorate. Another thing in the minds of bankers was that the prime rate should go up shortly. In 1953, he recalled, the result was rather disastrous when a change in the prime rate came at the time of a Treasury offering. If there was any possibility of suggesting to the large banks that an increase in the prime rate could well be held off for some future time, the Treasury would be afforded a breathing spell that would be profitable. The whole level of the market was the thing that would trigger such an increase and the System, of course, did have some influence in that regard. Mr. Fulton concluded by saying that he would not favor any change in the discount rate or the directive at this time.

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Mr. Bopp said that unemployment remained the major problem in the Third District, and it was not easy to convince some people that Federal Reserve policy was appropriate to the present circumstances. While not all parts of the district were as depressed as the hard coal areas, the labor classification of major areas in March was unchanged from January and only three such areas had less than 6 per cent unemployment. On the other hand, in South Jersey rapid development was taking place with more applications for new plants than at any time in the history of the area. This led him to conclude that monetary policy could not do very much about depressed localities and that local leadership had a great deal to do with developments in a particular community. In other words, he felt that monetary policy was not an appropriate instrument for dealing with local pockets of unemployment and that in many cases the problem was more a lack of leadership than loss of resources.

Mr. Bopp went on to say that a re-check made in the middle of last month showed an upward revision in capital expenditure plans of manufacturing firms in the Philadelphia metropolitan area. According to the survey, which covered nearly 500 manufacturing firms, 44 per cent in durables and 56 per cent in nondurable goods industries: (1) capital expenditures currently planned for 1959 totaled \$345 million--an increase of 29 per cent above the amount estimated in mid-September 1958; (2) the revised estimates for 1959 totaled about

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10 per cent more than actual expenditures in 1958; (3) a relatively large number of firms had raised their estimates; (4) most of the dollar increase in durables was accounted for by fabricated metals, electrical and nonelectrical machinery; in nondurables by petroleum and coal products, chemicals, printing and publishing, and paper; and (5) estimates of capital expenditures in 1960 as compared to 1959 showed that 24 per cent expected them to be larger, 21 per cent smaller, and 55 per cent about the same.

Another survey showed that prospects for housing in the district were considered good. Builders, lenders, and realtors revealed considerable optimism, tempered of course with caution, about the 1959 housing outlook. Demand for new and existing houses had increased in recent weeks, and inventories of new homes were small. Mortgage money, although not so plentiful as last year, was reported to be sufficient for all current needs. The prevailing rate for conventional mortgages on new homes, with a one-third down payment, was 5-1/4 per cent. FHA mortgages were available at par or discounts of only one or two points, while VA mortgages were selling at discounts of six to eight points, with little money available. The scarcity of VA money reflected in part the reluctance of lenders to take these mortgages until Congress acted on pending bills to raise the VA rate. Although most builders seemed confident about the housing market, they were being careful to keep their inventory of

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unsold homes at a low level. Usually they built one or more sample homes and then geared their construction to actual sales.

Mr. Bopp said he would favor continuation of present policy with respect to the discount rate, the directive, and the tone of the market.

Mr. Bryan stated that Sixth District statistics were showing much the same trends as the national figures, although in many instances the rate of improvement had been slightly higher than for the country as a whole. After citing a number of favorable comparisons with year-ago and month-ago levels, he said that insured unemployment was, practically speaking, the only item showing an unfavorable comparison, and that even so the unemployment situation was not serious in the district.

With respect to policy, Mr. Bryan said he was in agreement with Mr. Robertson and with others who had expressed similar views. He did not think that monetary policy had been particularly tight. In the three weeks ended April 8, market factors caused a reduction of \$122 million of reserves but Federal Reserve credit supplied \$394 million, so that the System increased the total of reserves and excess reserves. On a year-to-year basis there had been about a 4 per cent increase in total effective reserves, adjusted to take into account the difference in reserve requirements. In his opinion, the money supply figure was sufficient to finance a first-rate

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inflation and it would easily be possible to get into trouble. One important factor was the situation in which the Federal Government now found itself by virtue of imprudent fiscal policies over a period of years. If the System tried to ease the Treasury's problem by means of monetary policy, it could be in a position for months of supplying reserves to the market in grossly excessive amounts and thereby simply make inflation certain. Therefore, he believed that the Desk should use every opportunity to effect sales of securities in the market. Certainly, it should not exert much effort to prevent the market from tightening in the face of developments. He would not be dissatisfied if the bill rate went $1/4$ per cent above the discount rate.

Mr. Freutel reported that evidence of improvement in Eighth District business continued to accumulate. Construction, in particular, had picked up sharply with dry weather, and the outlook for building in the next few months was very good. The value of construction contract awards was about 9 per cent larger in the first two months of this year than in the same months of last year. There also was an unusually large volume of work contracted for in the latter half of 1958, much of which was still in progress. Employment conditions had been getting better in the major metropolitan areas, St. Louis, Louisville, Memphis, Evansville, and Little Rock. All of these areas were sharing in the rise in construction, and they also had experienced

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marked rises in manufacturing activity. Improvement in consumer demand for durable goods had been especially beneficial to Louisville and Evansville, where a large part of total manufacturing employment is in household appliances and automobiles. St. Louis was feeling a general improvement in manufacturing output, with steel especially strong, while outside the major metropolitan areas there had been gains in the lumber and paper industries. Output of pine and hardwoods had been picking up with better weather and had recently been considerably above average rates of the last three years. Production of bauxite and aluminum increased in March, but lead output in Missouri was still depressed. Department store sales had been strong in the district, as elsewhere. Increased plantings were expected for all but a few major crops, with the greatest increase expected in cotton.

Mr. Szymczak said that one could make quite an argument for a more restrictive policy, with the economy trending upward not only seasonally but over all and with the potentiality of further price increases. About the only prices moving down were in the agricultural sector. However, the Treasury was in the market. The Treasury had a severe problem and there was the possibility of a disorderly market unless the System took cognizance of market conditions. In the circumstances, there appeared to be no choice except to continue to pursue the policy that had been followed during the period just past.

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Mr. Balderston expressed himself as perplexed by the dilemma described at this meeting. Clearly, the business cycle had pushed into higher ground and the reports made at this meeting were among the most rosy in his recollection. Additional points that had not been stressed included the improvement in profits and the cash flow, and to him these were striking developments relevant to the discussion. Neither had the comments at this meeting stressed the improvement in European countries. He saw the makings of great inflationary pressure in the future because the corporate and bank liquidity of the moment was bound to introduce water into such brakes as the System could apply. In this connection, he recalled that in the early part of 1955 the System's measures of restraint were ineffectual during a period when the banks were in a position to sell securities as rapidly as they loaned. The current liquidity, combined with the potential rise in velocity of deposits, was again likely to result in a lag in the impact of restraining actions. Despite his concern, however, he found himself unable to recommend a tightening of policy until after the impending Treasury financing, for the Treasury problem seemed to him extremely grave, particularly in view of public awareness of the strong improvement in practically all segments of business and the expectation that Congress would continue to authorize spending in excess of revenues. Therefore, his conclusion,

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with which he was quite unhappy, was that present policy should be continued during the next three weeks, with the hope that after the Treasury financing the System might be able to apply more restraint.

Mr. Hayes said that the consensus in terms of policy for the next three weeks seemed clear and called for maintenance of about the same degree of restraint as had existed during the past three weeks. In reaching this conclusion, however, it was also clear that the views of those who had spoken covered a wide spectrum of opinion. While all were concerned about the Treasury's problem, there was a wide variation in views. There were those who felt that the Treasury problem was an additional reason for moving cautiously and that a certain degree of caution might in any case be warranted by the lack of definite inflationary threats at the present time. There were also those who concluded with only the greatest reluctance that the System should refrain from further tightening because of the Treasury. Between those extremes, many seemed to believe that perhaps the System might be moving soon in the direction of further restraint, although obviously the Treasury's situation precluded such action for the time being. At the other end of the spectrum were a few who would even do a little probing now in spite of the Treasury's position. It seemed clear that maintenance of the present degree of restraint was defined pretty much in terms of the feel of the market rather than any specific net borrowed reserve figure, for specific figures

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had been mentioned only by a small number of those present. Mr. Hayes said he took it that it was the intention of the Committee to rely fairly heavily on the discretion of the Manager of the Account in maintaining the tone of the market about as it had been.

Mr. Hayes commented that some interesting points had been brought out in the discussion. On the one hand, there was the dilemma the Committee now faced, with the obvious possibility of serious inflationary difficulties in the future. Much had been said concerning the better than expected progress of business, the rather ample money supply, and the degree of liquidity outside the money supply. If tightening should become clearly desirable, possibly this might make such action a little more difficult. On the other hand, some had expressed the view that there was danger in moving against inflation at a time when all of the evidence was perhaps not yet in. There was also a view that recent statistics on borrowed reserves and borrowings at the Reserve Banks might not have given as adequate a picture of the pressures under which the banking system had been operating recently as one might wish to have. These comments, while covering a wide spectrum, seemed to him to indicate quite clearly a consensus in favor of maintaining the status quo. He had heard no suggestion that the directive might be changed or that near-term consideration be given to any change in the discount rate.

Mr. Hayes then inquired whether there were any differing

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views with respect to his summation of the policy views at this meeting, and none were heard.

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/

(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.

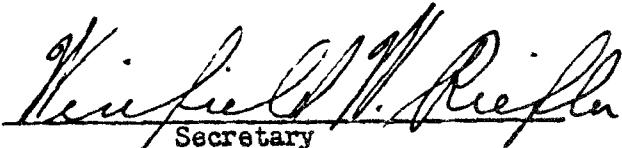
It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, May 5, 1959, at 10:00 a.m.

1/ As set forth on page 2 of these minutes, Mr. King had stated that he wished to refrain from voting on matters coming before the Committee for action at this meeting. He did not participate in the vote on the directive.

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The meeting then adjourned.


Secretary