

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on November 18, 1958.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>SM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Vardaman	_____	x _____
Gov. Mills	x <u>MS</u>	_____
Gov. Robertson	x <u>RO</u>	_____
Gov. Balderston	x <u>CB</u>	_____
Gov. Shepardson	x <u>CS</u>	_____

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board of Governors in Washington on Tuesday, November 18, 1958, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary

Messrs. Brace, Massie, Denton, Alfriend, Sibley, Livingston, McDonnell, Murray, Kemper, Jacobs, and King, Members of the Federal Advisory Council from the First, Second, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

Mr. Prochnow and Mr. Korsvik, Secretary and Assistant Secretary of the Federal Advisory Council, respectively

Before this meeting the Federal Advisory Council had submitted to the Board a memorandum setting forth its views on the subjects to be discussed. The topics, the Council's views, and the discussion were as follows:

1. What are the views of the Council regarding the business situation during the remainder of the year and approximately the first six months of 1959? Comments on the current psychology of the business community and of the general public, and on the probable effects of their attitudes on plans for capital expenditures and on actual consumer expenditures during this period, will be appreciated.

The Council believes that business during the remainder of this year and approximately the first six months of 1959 will continue to improve moderately as contrasted to the rather sharp

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increase in business activity that occurred during the summer and early fall months. The volume of business in the months ahead will be influenced in some measure by the extent to which (1) inventories generally are rebuilt and (2) the public accepts the new model automobiles. Both factors are difficult to assess with assurance at this time.

The current psychology of the business community is optimistic but somewhat less so than it was several weeks ago. Although businessmen do not anticipate a sharp rise in the general level of prices in the immediate future, they are apprehensive about the long-run inflationary pressures in the economy. The improvement in business is prompting some upward revision in business capital expenditures; the fear of inflation over the years is probably contributing to these decisions.

The current psychology of the general public, in the Council's opinion, is one of optimism, reflecting the high and recently rising level of consumer income. Indications are that the volume of retail business this Christmas will be very satisfactory.

After President Denton read the summary statement of the Council, the individual members commented on developments in their respective districts.

Speaking for the First District, Mr. Brace said that the reactions of the business community were quite similar to those reported at the last meeting of the Council and the Board. Retail trade was holding up satisfactorily and good business was anticipated through the Christmas season, but there was not quite so much confidence about further improvement in the first six months of next year. Large additional orders had been placed with the electronic industries and the same thing was true with respect to the shipyards, so that full operations were assured in those areas. The machine tool industry had shown slight improvement, but operations were well below the levels of last year. Furthermore,

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this industry had always looked for ten to twenty per cent of its production to go into foreign fields, and apparently it was being priced out of the market. Operations in the building industry, where the degree of fluctuation was less pronounced in the last eighteen months, were at satisfactory levels, particularly in the areas of municipal and public utility construction.

Generally speaking, Mr. Brace said, there was considerable activity and volume, but concern was being expressed with regard to increasing pressure on profits and not much relief was seen ahead in that regard. Concern was also felt about the stock market. The business community appeared in general to be more apprehensive about the level of stock prices than at the time of the last meeting and feared there would be an impact on business if stock prices should run into a soft spell. In summary, however, the business outlook for the immediate future was reasonably encouraging.

Chairman Martin inquired how much of the current revival in business appeared to be due to inflationary psychology, and Mr. Brace replied that in the First District very little of it seemed to be attributable to that factor. If inflationary psychology were strong, he would expect to find that reflected in the machine tool industry where there has been little increase thus far. He did not see how it had a bearing on the current levels of activity in the shipyards, the electronics field, textiles, and shoes.

President Denton commented that in the Fourth District some companies apparently were modernizing facilities with the thought in

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mind that such programs would cost more in the future.

Mr. Livingston said he did not think that inflationary psychology was too important a factor at the present time, for the revival seemed to flow primarily from consumer spending. Sears Roebuck, for example, hit an all-time high in sales in October.

Speaking for the Second District, Mr. Massie said that economic recovery was continuing, although the rate of expansion seemed to have slackened. The upturn had reduced somewhat a fairly bad unemployment situation in the District, but in several areas the rate of unemployment continued to be considerably higher than the national average. While hourly wage rates had been relatively stable, there had been a tendency to handle the pickup in business by increasing the number of hours worked so that average earnings on a weekly basis and total payrolls had risen. From the income standpoint, therefore, the District was not in too bad shape. The volume of construction activity represented a strong spot, particularly in the areas of public works and public utility construction. Whether these rates of activity could be sustained, he did not know. Department store sales, particularly in New York City, were quite good, having bounced back from a drop in September to new peaks in October. Retail trade was spotty, however, the volume being related directly to the amount of unemployment in the area concerned. In general, it was felt that business through the end of the year would be quite good, with good Christmas trade. Business was expected to improve slightly in the first six months of next year, but it was questionable whether there would be the rate of expansion that marked the period from June to September.

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Mr. Massie said he had the feeling that inflationary psychology had not yet taken the form of influencing too much decisions with regard to new plant and equipment. Everyone was trying to keep a little ahead of the game in cost saving, but a lot of the larger plans had been fairly well completed and no one appeared to be stepping forward with big ideas of expansion merely on the basis that expansion would cost less today than sometime in the future. Many plants, he noted, had excess capacity at present. When it came to the investment business, however, everyone was talking about inflation and the desirability of getting out of fixed-income securities into equities. At the savings banks, it was found that savings were not piling up as fast as they did last spring. Some savings bankers had been trying to keep informed on where money was going and it appeared that some of it was going into the purchase of stocks, although not in any sensational amount. Analysts were talking quite a bit about the long-term future and were pessimistic about Governmental fiscal policy; they were wondering whether the country would be faced for some time with the problem of an unbalanced budget.

Mr. Massie said that he could not measure what effect inflationary psychology might be having on the purchase of goods by the public. It had not shown up yet in the purchase of automobiles, but purchases of big-ticket appliances had picked up a bit. As yet, it appeared too early to tell how much inflationary psychology would distort the regular pattern of business.

Summarizing, Mr. Massie said that, as he saw it, business would be quite good and trend upward into 1959. There appeared to be nothing

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in sight which would raise prices quickly, but there was apt to be a persistent increase. In general, conditions in the Second District were improving, but they were spotty and there continued to be a lot of unemployment. People were trying to work more hours and not take on additional help and this, along with greater efficiency, might mean an unemployment problem for some time.

It was necessary for Mr. Sienkiewicz to return to Philadelphia prior to this joint meeting, but he had left with President Denton a statement concerning developments in the Third District. This statement, which was read by President Denton, indicated that the rate of recovery had slowed down somewhat in recent weeks, the exception to the general trend being retail trade which continued to show steady gains. Department store sales through the end of November were about one per cent larger than in the same period a year ago, and retailers expected a larger Christmas business than last year. Automobile sales, on the other hand, continued slow. Repayment of instalment loans, principally on automobile purchases, had consistently exceeded extension of new loans, indicating the growing liquidity of the consumer. Manufacturing activity, although still below last year's levels, had shown an upward trend in both durables and nondurables, with some plants approaching or even exceeding the levels of a year ago, when declines were in process. Liquidation of inventories, which began late last year, was quite pronounced until October, but since then some restocking had been in evidence. Construction activity in the District was showing a marked gain, but not as much as in the country as a whole, while anticipations

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for capital expenditures in the coming months had been revised slightly upward according to a recent survey. The extent of obsolescence in plant equipment in the Philadelphia area was still large and the pressure to modernize facilities would continue to be strong. Costs had been rising and strenuous efforts were being made to control expenses by pruning operating expenditures and making operations more efficient. While earnings and profits were still well below those of the previous year, they had shown significant recovery since the first quarter of 1958. Any further improvement would depend on the trend of wage demands, which had been rather vigorous since the new pattern of wage and fringe benefits was established by the automotive industry. Estimated unemployment was still about seven per cent of the labor force in the Third District, reflecting gains in working hours and in productivity, largely through improved plant and equipment facilities. Both durable and nondurable goods industries had shown increases in employment, average weekly and hourly earnings, and average weekly hours worked. New claims and continued claims for unemployment insurance benefits had been declining in recent months.

President Denton said there was nothing startling to report from the Fourth District. The atmosphere of the business community was good and the rate of steel production had been increasing. Some steel people were convinced that fabricators were now taking steel at about the rate they were using it, tending to hold their inventory or perhaps increase it slightly. The aluminum industry was beginning to face a real problem from the standpoint of imports. While the use of aluminum was increasing right

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along and there was optimism about its use for the future, the volume of imports was holding operations below the rate at which they would stand otherwise. The glass business was feeling the effects of a strike, which would affect some automobile companies if it were protracted. There were not yet enough new-model automobiles in retail hands to indicate the trend in that industry, but the new models seemed to have been fairly well accepted. Heavy industries in the area had released many modernization programs and this was tending to put the people to work, while housing activity continued at a high rate.

All of these things, President Denton said, led to the belief that business would continue to expand during the period immediately ahead. As to the longer-run future, businessmen were particularly bothered by the problem of costs, with apprehension expressed that costs might make products unable to compete with imports. This was true, for example, in the glass industry. With that type of problem ahead, the business community that he came in contact with was not in any way optimistic for the long pull.

As to psychology, President Denton said it was good in the sense that the consumer appeared willing to spend money. There had been no substantial reduction in consumer spending during the recession period and spending continued to be heavy at the present time.

Mr. Alfriend reported continuing economic recovery in the Fifth District. Slow improvement was continuing in textiles, with inventories reduced to more satisfactory levels, but profit margins were disappointing. Department store sales dropped in September but picked up again in October.

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As to unemployment, all of the States of the District were in line with the national average except West Virginia, and considering the peak of unemployment reached in that State, the recovery had been quite good. In shipbuilding, the rate of activity was high but the heavy backlog had been reduced considerably over the past year; some substantial Government contracts were recently awarded in Maryland. Construction fell slightly in September but continued to run at levels considerably ahead of 1957. While department store sales for the first nine months of the year were slightly below the previous year, it was believed that the Christmas trade would bring the figures about into line. Crops were coming in well, with the rains just about right.

In the Fifth District, Mr. Alfriend said, there was evidence that people were drawing rather substantial sums out of time accounts to place with brokers, and these were people who normally would not do that. While one could not trace what securities such people were buying, he strongly suspected it was stocks and not bonds. In general, however, the tone was very much improved, psychology was better, the people were happier, and the feeling was one of a good recovery.

Speaking for the Sixth District, Mr. Sibley said that the agricultural situation was entirely satisfactory, both in terms of prices and production, although there was some apprehension about hog prices next year. Generally speaking, business in the District had shown slight improvement since the last meeting of the Council and the Board. In the minds of some people this was disappointing because previously the rate of recovery had been rather rapid. The textile industry had improved greatly

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in the last two months and in Georgia this was having its effect in terms of employment and optimism. At the banks, applications were being received for standby money. With insurance companies cutting down on their loans, there was some feeling that there might be a lack of funds and that the commercial banks would be called upon for more term-loan financing.

Mr. Sibley said that inflationary psychology seemed to develop entirely from the stock market. He saw no consumer buying which arose from apprehension that goods would be scarce, and it appeared that productive capacity would be able to supply legitimate needs for the foreseeable future. In general, business interests did not appear to be undertaking to buy now because of a feeling that prices might go up. There appeared to be more apprehension about whether money would be available for expansion in the event of material growth in a particular business.

Mr. Sibley noted that employment in the Birmingham area had not been keeping pace with the national figures and that developments in Louisiana had been rather disappointing, due particularly to the oil situation. He then cited economic and financial statistics indicative of unevenness throughout the District and weakness in the Louisiana area as compared with other parts of the District. Summarizing, he said that the economy of the District had not changed greatly since the time of the last meeting but that the tendencies were slightly upward. People were thinking about inflation solely on account of the stock market.

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In response to a question by Governor Robertson about the extent of wage increases, Mr. Sibley replied that this was one of the things in people's minds for the longer term. However, he did not feel that wage increases had been sufficient in the last two or three months to be a material factor in people's thinking. Messrs. Sibley and Jacobs then responded to questions by Governor Shepardson regarding the crop situation in Louisiana and economic status of that area generally. In response to a further question by Governor Shepardson, Mr. Sibley said that the upswing in prices had more than overcome losses to livestock and citrus fruits suffered in Florida last winter.

Mr. Livingston reported that business continued to improve in the Seventh District and that unemployment, although still substantial, had been tending to decrease. The steel business was good, with production higher than the national average, and estimates for the first half of 1959 indicated production increases. Retail sales were very satisfactory. As to automobile sales, it was too early to tell but he happened to believe that the industry would have a fairly good year. Farm income continued good, although farmers in the corn belt area were somewhat concerned about hog prices during the coming year. Construction continued satisfactory, with the greatest volume in public works and public utilities.

On the psychological side, Mr. Livingston said that he agreed generally with what had been said at this meeting. As a supplemental comment, he added that while plants generally had excess capacity, programs to correct obsolescence were constantly going on and there was

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some evidence that these programs were being stimulated by a belief that they would cost more at a later date.

Mr. McDonnell said that conditions in the Eighth District were slightly better than the summary contained in the composite report, primarily because farm production had been at record levels. It appeared that farm cash income would be about 5 to 10 per cent better this year than last year. Employment was increasing and unemployment decreasing. Steel output was at a good rate, southern pine production was substantially higher than last year, and the same thing was true with respect to the output of hardwood. Construction was at a high rate.

As to psychology, Mr. McDonnell said that businessmen were happy at the moment but that optimism was tempered by deep-seated feelings of uneasiness about the future. These doubts had been heightened by the results of the recent Congressional elections, the unbalanced budget, and the growing strength of labor unions. In this connection, he listed the types of legislation for which the labor interests had indicated that they were going to press.

Summarizing, Mr. McDonnell said that psychology at the moment was good but there was a feeling almost of frustration concerning long-run trends.

Mr. Murray reported that conditions had continued to improve in the Ninth District since the last meeting of the Council. If anything, the farm picture looked a little better, with good weather for crops and harvesting conditions favorable. Another strong factor in the District was construction. Businessmen in Montana were expressing themselves in terms

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that the recession was over in that State. He suspected that iron ore shipments would be a little better next year than in 1958, when they were down substantially. Retail sales dragged a little in the late summer and in September, some of this probably having been attributable to warm weather. Figures for October and early November were much better. Bank deposits in October were up substantially and personal income was reaching a high figure.

Mr. Murray said that psychology in the District was not very different from that indicated by reports from the other districts. Everyone expected that there would be very good holiday trade and that business would continue good into the first part of next year. With the farm picture dependent on rainfall, it was hard to predict too far into next year, and if moisture conditions were not good in the spring the farmers would stop spending very quickly. At present, however, the farmer was feeling good and the extent of his spending was shown by retail and farm implement sales. Generally speaking, businessmen were not too concerned about increasing prices as far as the immediate future was concerned, but many were wondering what the more distant future would hold. While a number of new plants had been announced in the Minneapolis area, he did not feel that this represented scare building, for in most cases the need was there today. In general, the public was spending money for current needs. Automobile dealers were feeling happier and looked for some improvement both in volume and in pricing. All in all, business was good and should continue to be through the early part of next year. Generally speaking, the public was not too concerned about the prospects of inflation.

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Reporting for the Tenth District, Mr. Kemper said that business conditions continued excellent, largely on account of favorable agricultural conditions. Weather had been favorable for harvesting and there were record yields on the smallest acreage planted in 40 years. Prices received were up about 5 per cent from last year. After commenting on the price of feeder cattle, Mr. Kemper said there existed a feeling, as previously mentioned by Mr. Livingston, that hog prices probably were going to be lower. There had been a great demand for money in the Tenth District, as reflected by the recent growth in business loans. On the other hand, the unemployment situation was not too good. The State of Kansas was probably in the worst situation because of cutbacks in airplane construction and the picture would be worsened considerably in the Kansas City area if a rumored airlines strike should take place. Residential construction in the District was excellent, as were department store sales, while automobile sales were not down as much as the national average. Substantial amounts of foreign products were being imported and were underselling local manufactured goods. There had been quite a strong reaction to the results of the election, many people feeling that the labor interests would get their way with the legislators and that this meant further inflation. Whereas it was thought that business would be good for the next few months and probably into next year, there was doubt with regard to the longer-run future, it being felt that rising wages and costs would be reflected by higher prices and greater inflation. Time deposits had fallen off and a lot of that money appeared to be going into the stock market as well as into farm land and other real estate.

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In response to a question by Governor Shepardson, Mr. Kemper expressed the view that cattle prices were reaching dangerously high levels. Inventories at the first of January would be quite high, ample feed was available, and there was plenty of water. Despite the current optimism, quite a number of people felt that the price situation in cattle might turn earlier than generally anticipated.

Mr. Jacobs said that the recession in the Eleventh District had been less acute than in the nation as a whole and the outlook was more promising. The main development was the remarkable recovery of agriculture, and it appeared that farm cash income would be as much as 25 to 30 per cent higher than in 1957. Industrial building was proceeding at an increased rate. The only serious problem related to the oil industry, and that industry was now in much better shape.

Mr. Jacobs commented that almost every businessman was worried about inflation as it might affect others but seemed to believe in a dim way that it might help his own business. He hoped the Treasury and the Board would find a way for the banks again to sell Government bonds with the assurance that the bonds sold would continue to be the safest investment in America. In his opinion, the problem of Government financing was going to be critical.

Mr. King reported that, with certain variations, developments in the Twelfth District were following the general pattern. Perhaps that District most resembled the Eleventh District in that the downturn had been less pronounced and recovery more rapid. Two factors were defense spending and continuing population growth. His guess was

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that recovery would continue through the first six months of next year at least. Construction was strong in the District, with a good deal of the housing being financed through FHA mortgages. Mortgage money was becoming quite scarce, rates quite high, and the larger banks were carrying quite a few mortgage brokers, who seemed to be experiencing difficulty in selling their mortgages through the normal outlets. Automobile dealers seemed optimistic, and it appeared that the manufacturers would prefer not to press the dealers to grant terms beyond 36 months. Oil was in oversupply and lumber prices were down somewhat. Retail sales continued good and there was optimism with regard to Christmas trade.

Mr. King said that business psychology appeared to be slanted a little more toward inflationary considerations than reported in the other Reserve Districts. Many people seemed anxious to buy land for house or plant sites and were talking about the scarcity of land. The psychology was in terms that it would be better to improve plants or to build now because those things would cost more later. Public psychology had been influenced by the elections and by developments in the stock market, and people appeared to be quite concerned. Consumer psychology was geared to the amount available for spending and it seemed likely that the consumer would have quite a lot of money to spend during the next six months.

Governor Shepardson inquired whether the unemployed appeared to be seeking jobs aggressively or whether they were accepting unemployment compensation complacently, and President Denton commented that in

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the Fourth District many people were able to fit into temporary occupations which left them eligible for unemployment compensation. He also said that he was amazed at the favorable record of loan delinquencies in communities where there had been substantial unemployment. Mr. Sibley stated that although the unemployed desired jobs they were not suffering too much because of Government payments and family employment. Mr. Livingston expressed the view that most of the unemployed were aggressively seeking jobs. Many unemployed people who did not expect to be recalled to their usual type of work were looking for jobs elsewhere.

2. What is the prospective demand for bank loans during the remainder of this year and during approximately the first half of 1959?

The members of the Council believe that the prospective demand for bank loans will follow the usual seasonal pattern during the remainder of this year and during approximately the first half of 1959. Some increase in loans is anticipated during the balance of 1958. A modest reduction in loans after the first of the year probably will be followed by a gradual increase in loan demand to the middle of 1959. The extent to which banks are called upon to finance an increase in business inventories will influence considerably the demand for bank loans.

After reading the statement of the Council, President Denton said the members felt from their individual knowledge that the usual seasonal upturn now in process would be sufficient to send total loans up a little during the remainder of the year. They also felt that after the seasonal drop early next year there would be some upturn in the spring.

Chairman Martin inquired whether the Council members were disappointed about the demand for loans thus far. While some members

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responded in terms of the demand being less than they had anticipated, the demand was reported to be strong in certain districts. Mr. Massie commented that the slackening-off in loan demand last year caused quite a bit of relief. About the time business started upward, there was quite a bit of demand for large term loans and it was thought that this might set a pattern. However, the demand had not developed to any large extent. The banks were still fairly heavy on loans and nobody was out looking for them.

3. Does the Council have comments on the appropriateness of current credit policies?

The Council believes that current credit policies are appropriate in that they provide sufficient credit for the needs of business and the requirements of the Treasury and yet exercise some restraint on inflationary pressures. The anticipated federal deficit with large government expenditures, combined with a probable rise in business activity, may require a reappraisal of current credit policies in the months ahead.

There was no discussion with respect to this topic.

4. The Board has been asked to consider a change in the provisions of Section 3(D) of Regulation Q that would bring about a uniform grace period of 10 calendar days for computation of interest on savings deposits received during any month. (The reasons advanced in the request presented to the Board are indicated in the copy of a letter which has been sent directly to the members of the Council by the Secretary of the Board of Governors.)

A substantial majority of the Council favors a change in the provisions of Section 3(D) of Regulation Q that would bring about a uniform grace period of 10 calendar days for the computation of interest on savings deposits received during any month.

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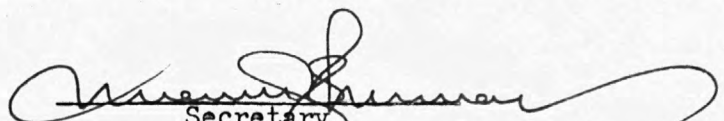
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President Denton remarked that although this item was not of major importance, it had caused considerable discussion at the meeting of the Council. The argument on one side was that an increase in the grace period to ten calendar days during any month would constitute in essence simply an increase in the maximum allowable rate of interest. However, a large majority of the Council favored such a course. It was noted that, allowing for holidays, the present regulation permitted an aggregate of 102 days of grace in the year 1958, with a considerable variation from one month to another, and the simplicity of the uniform approach had an appeal which contributed strongly to the consensus. In addition, it was pointed out that such a procedure would enable banks to compete on a more even basis with savings and loan associations.

President Denton stated that the next meeting of the Federal Advisory Council normally would be scheduled for February 16 and 17, 1959, and it was indicated that those dates would be agreeable to the Board of Governors.

President Denton noted that this was the last meeting which he, Mr. Kemper, and Mr. King would attend as members of the Federal Advisory Council. After he expressed appreciation for the cooperation received from the Board and its staff, Chairman Martin said that the absence of the retiring members of the Council would be felt keenly, but that they would continue to be considered as part of the System family. Mr. Livingston expressed the appreciation of the Council for the leadership rendered by President Denton during the past year.

Thereupon the meeting adjourned.


Secretary