MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 20, 1956

The second statutory meeting of the Federal Advisory Council for 1956 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on May 20, 1956, at 2:18 P.M., the President, Mr. Fleming, in the Chair.

Present:

William D. Ireland	District No. 1
Adrian M. Massie	District No. 2
William R. K. Mitchell	District No. 3
Frank R. Denton	District No. 4
Robert V. Fleming	District No. 5
Comer J. Kimball	District No. 6
Homer J. Livingston	District No. 7
Lee P. Miller	District No. 8
Julian B. Baird	District No. 9
R. Crosby Kemper	District No. 10
George G. Matkin	District No. 11
Frank L. King	District No. 12
William J. Korsvik	Acting Secretary

On motion duly made and seconded, the mimeographed notes of the meeting held on February 19, 20, 21, 1956, copies of which had been sent to the members of the Council, were approved.

A complete list of the items on the agenda for the meeting, and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 15, 16 and 17.

The meeting adjourned at 6:15 P.M.

WILLIAM J. KORSVIK
Acting Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 21, 1956

At 10:00 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

Present: Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, George G. Matkin, Frank L. King, and William J. Korsvik, Acting Secretary.

The Council reviewed its conclusions of the previous day regarding the items on the agenda, and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 15, 16 and 17, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:35 P.M. on May 21, 1956.

The meeting adjourned at 12 noon.

WILLIAM J. KORSVIK
Acting Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON MAY 22, 1956

(Non-agenda item) At the February meeting the Council, considering certain bills that had been introduced concerning the subject of bank mergers and consolidations expressed itself as follows:

> The Council unanimously believes that the power to deal with all bank mergers and consolidations, whether accomplished by purchase of stock, acquisition of assets, or otherwise, should be vested solely in the appropriate bank supervisory agencies.

At its meeting on May 20, 1956, the Council was apprised of a proposed bill on this subject presented by the Treasury Department and shortly to be introduced. After consideration of the provisions of such bills, the Council adopted the following resolution:

> WHEREAS, the Council believes that the power to deal with all bank mergers and consolidations, whether accomplished by purchase of stock, acquisition of assets, or otherwise, should be vested solely in the appropriate bank supervisory agencies.
>
> BE IT RESOLVED that the members of the Federal Advisory Council hereby unanimously endorse the provisions of the bill presented by the Treasury Department and that the appropriate Congressional Committees be so informed.

The Council understands that hearings on H.R. 9424, S. 3424, and S. 3341 (to the enactment of which the Council is opposed) will be held by Senator O'Mahoney's Antitrust and Monopoly Subcommittee of the Senate Judiciary Committee on Wednesday, May 23, 1956. The Council would like to discuss this matter with the Board of Governors.

1. What are the views of the Council with respect to the prospective business situation from now until late 1956? What is the current situation with respect to inventory accumulations? To what extent is there a gray market in steel?

All members of the Council report a highly satisfactory level of business so far in 1956 despite some soft spots. However, there are mixed views as to the business situation from now until late 1956. Two members expect a modest increase in business; six members anticipate a sidewise movement in the economy; and four members believe business may decline. Members from districts with a concentration of heavy industry are least optimistic. All members of the Council express concern about inventory accumulation in automobiles, some types of steel, farm equipment, consumer durables, furniture and agricultural commodities. The accumulation of steel reflects in part the anticipation of a strike and also price increases which may result from the approaching wage negotiations. There is evidence in some districts of a gray market in certain steel items, but this situation has not developed to any important degree.

2. (a) What is the current situation with respect to demand for commercial and industrial loans?

All districts report a continued heavy demand for commercial and industrial loans.

2. (b) What is the outlook for such demands during approximately the next six months? Is there likely to be an increased demand around the middle of June similar to that shown in March?

Most districts expect these demands to continue in the next six months. An increased demand for funds around the middle of June, similar to that shown in March, is likely.

2. (c) Is demand for consumer credit increasing or leveling off?

The Council believes that consumer credit is leveling off.

2. (d) What is the current and prospective situation with respect to mortgage loan demand, and are mortgage lenders in a position to take care of credit demands?

The Council believes that mortgage loan demand is outrunning the supply of savings available for investment in mortgages and that there is little prospect for any early change in this situation. Construction money is very tight and rates on mortgages have increased. The Council does not believe mortgage lenders are presently in a position to take care of the demands made on them for mortgage credit.

3. What are the views of the members of the Council with respect to the credit policies that should be followed by the System over the next six months?

The members of the Council approve the credit policies presently being pursued by the System. In view of the mixed business outlook the current degree of restraint should be maintained but not increased. However, additional reserves may be required for the June tax needs, Federal fiscal requirements in the early summer months and other seasonal factors. Should indications of a general slowing down in the economy appear, the Council believes action to lessen credit restraints would be necessary. The present situation underscores the necessity for keeping the discount window continuously available.

4. Have rising interest rates seriously affected the demand for money?

Aside from some postponement of certain public projects, the Council believes the recent rise in interest rates has not seriously affected the demand for money.

5. Does the recently released Standard Factors analysis accord with the observations of the members of the Council as to the incidence by size of borrower of tighter credit availability? If a differential effect has resulted, how would you deal with it?

The analysis reported certainly does not accord with the experience of the members of the Council in their respective institutions or in banks with which they are familiar. Regardless of the condition of the money supply at any time, credit is extended to borrowers upon the basis of credit worthiness and not upon the basis of size.

6. At the meeting of the Council with the Board in February, reference was made to the study of consumer credit requested by the President. The Board has undertaken a study of this subject and, if desired, would be glad to discuss the study with the Council.

The Council will be most interested to discuss the study with the Board.

7. The Board would appreciate having the views of the Council on the draft revision of the Board's Regulation K, "Corporations Doing Foreign Banking Or Other Foreign Financing Under the Federal Reserve Act."

Some members of the Council have discussed the draft revision of Regulation K with a few of the principal institutions affected by the Regulation. It is the Council's understanding that these institutions have presented their views to the Board. If the Board desires comments in addition to those already presented, the Council will be pleased to consider the Regulation further after discussing it with the Board.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 21, 1956

At 2:20 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Fleming, in the Chair.

Present: Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, George G. Matkin, Frank L. King and William J. Korsvik, Acting Secretary.

Dr. Woodlief Thomas, Economic Adviser to the Board, Dr. Ralph A. Young, Director of the Division of Research and Statistics, and Mr. Frank R. Garfield, Adviser on Economic Research, Division of Research and Statistics, assisted by other members of the Board Staff, gave an audio-visual presentation on "Credit Expansion and High Level Business Activity". The presentation was off-the-record.

The meeting adjourned at 3:30 P.M.

WILLIAM J. KORSVIK
Acting Secretary

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 22, 1956

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Wm. McC. Martin, Jr.; Vice Chairman C. Canby Balderston; Governors M. S. Szymczak, A. L. Mills, Jr., J. L. Robertson, and Chas. N. Shepardson; also Mr. S. R. Carpenter, Secretary, and Mr. Merrit Sherman, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrain M. Massie, William R. K. Mitchell, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, George G. Matkin, Frank L. King, and William J. Korsvik, Acting Secretary.

President Fleming stated that at its meeting on May 20, the Council considered the provisions of certain bills that had been introduced into the Congress on the subject of bank mergers and consolidations even though this matter had not previously been placed on the agenda. He then read this non agenda item and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors.*

The President of the Council then read the first item of the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* as printed on pages 15, 16 and 17. This was followed by a discussion in which each member of the Council recited on business conditions and prospects in his district.

The President of the Council read the second item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* mentioned above.

President Fleming then read the third item on the agenda and the conclusions of the Council as stated in the *Confidential Memorandum* previously mentioned. There followed a brief discussion of the timing and volume of the demand for loans for meeting the June tax payments.

President Fleming read the fourth item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* cited above.

The President of the Council read the fifth item on the agenda and the conclusions of the Council as stated in the *Confidential Memorandum* previously mentioned.

The sixth item on the agenda and the conclusions of the Council as stated in the *Confidential Memorandum* previously mentioned were read by President Fleming. A brief discussion followed.

President Fleming then read the seventh item on the agenda and the conclusions of the Council as stated in the aforementioned *Confidential Memorandum.* Some brief comments followed.

WILLIAM J. KORSVIK
Acting Secretary

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on May 20, 1956, at 2:18 P. M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

Mr. Fleming, President of the Council, read a letter he had received from Mr. Edward E. Brown, acknowledging the Council's resolution and gift presented to him by the Executive Committee of the Council, which then consisted of Messrs. Robert V. Fleming, William D. Ireland, Henry C. Alexander and Frank R. Denton.

The Council approved the Secretary's notes for the meeting of February 19-21, 1956.

Fleming. Following the February meeting of the Council, Chairman Martin suggested that the Secretary of the Board of Governors furnish the Council with a copy of the transcript of the proceedings of the joint meeting of the Council and the Board. It was suggested that the Secretary of the Council review the transcript upon receiving it from the Board. Any differences between his notes and the transcript would be referred to President Fleming and, if necessary, to Mr. Carpenter, Secretary of the Board. The Council unanimously approved the suggestion.

Livingston asks if the Council meeting must be held on a week end.

Matkin states that to be able to travel on Saturday saves time.

Fleming suggests that perhaps the sessions should continue to be held as they have been in the past.

Fleming reports that at the A. B. A. Spring Meeting, he visited with Chairman Martin about certain practices that had come to his attention and which had caused some bankers to be concerned as to the continuous availability of the Discount Window. Martin assured Fleming that the Window would remain open and would so suggest in his, Martin's, speech before the Pennsylvania Bankers Association. Fleming then reads excerpts from Mr. Martin's speech.

Fleming discusses at length his efforts on behalf of the Council on the bills before the Congress, having to do with bank mergers and consolidations. He also reads a bill presented by the Treasury Department and to be introduced on Wednesday, May 23, by Senator Fulbright. The Council considered the provisions of the bill and reviewed the testimony. Chairman Martin expects to present on behalf of the Board of Governors in support of the proposed legislation. Fleming discloses that he will be permitted to testify on behalf of the Council, if the Council decides it is desirable.

Livingston questions whether there is sufficient difference between the Board's and the Council's position to justify President Fleming's appearance.

After some discussion, it was concluded that there is no significant difference between the Board and the Council's position.

The Council then adopted a resolution indorsing the proposed bill. The resolution was made part of the Confidential Memorandum which is included with these notes.

Livingston. How will the Council's position be communicated to the appropriate Congressional Committee?

Fleming. Mr. Miller, who is to testify for the A. B. A., could also present the Council's views. Under these circumstances the President of the Council need not appear.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION FROM NOW UNTIL LATE 1956? WHAT IS THE CURRENT SITUATION WITH RESPECT TO INVENTORY ACCUMULATIONS? TO WHAT EXTENT IS THERE A GRAY MARKET IN STEEL?

Fleming reads Item I and asks Ireland to comment.

Ireland. Business in the first district continues at a high rate with no evidence of a decline. On the contrary there are certain seasonal factors in the offing which usually bring some upturn in business. The paper industry is good, while shoes have had their biggest first quarter in history. Textiles are having problems but this is being more than replaced by an expansion in electronics and various research programs. Building permits, both residential and industrial, are at record levels. The volume of public works is large. Employment is full. Textile and agriculture are weak spots, although the latter is not too important in the district. He sees no weakness within the next six to nine months. There is some inventory accumulation in automobiles and steel but no gray market so far as he knows. The accumulation of steel, incidentally, seems to be against orders. There has been some involuntary accumulation of inventories in retail trade. Most other inventory accumulations, however, have been voluntary. Savings are at a high level, with no indication that consumers' buying power has diminished.

Massie. Production and income are near the high levels of 1955, although automobiles and textile production have been cut. The labor dispute at Republic Aviation and Westinghouse adversely affected production. Construction, however, is particularly high, being stimulated by the St. Lawrence Seaway development, as many companies are moving to the lake areas. This has tended to offset any decline elsewhere in the district. Personal income is at a record level, with non-farm employment near the peak reached in December, 1955. Retail sales are off, although savings have increased substantially. This suggests that the people have buying power but are limiting their purchases. There is some local unemployment, the result, in part, of the work stoppages mentioned earlier. The sale of new cars has been slow. Department store sales are down to their

lowest level since last summer. Inventories of steel and metal products have increased but probably could be worked off in thirty to sixty days. There is no gray market in steel, probably because the items in short supply, namely, structural steel, are custom made. The economy seems to be balanced at the moment. A spotty situation may characterize the third quarter, with some forward movement expected in the last quarter of the year.

Mitchell. Business activity in the third district continues at the high levels reached last year, despite the falling off in housing starts, automobile and appliance sales, textiles and synthetics fiber prices. Strong spots are steel, metals, rubber, paper, chemicals, petroleum and building materials. Bituminous coal production has been showing continued increases, since the early months of 1955, reflecting the rising trend of consumption by the heavy industries and electric utilities. Industrial construction is expanding rapidly. Department store sales are generally good. Automobile sales are off 25 per cent to 30 per cent. Car loadings are very high. The employment situation is improving, although there is spotty unemployment. Wages have been rising and personal income increasing. Personal savings are holding their own. Business seems confident of a good year. Automobile inventories are high and are not moving. The inventories of household appliances are up. Department store inventories also have increased. There is considerable accumulation of steel, with some evidence of a gray market but not large enough to be important.

Fleming. Is the steel accumulation serious?

Mitchell. It is hard to say, but it probably could be worked off in thirty to sixty days.

Denton. (Off-the-record comments.) Business expenditures (for new plant and equipment and for increased inventories) are the only key segment of the economy that remains buoyantly strong, although public non-defense construction also continues to expand. The trend in automobile sales and production is downward, and so is the trend in residential construction. Dealers' stocks of new automobiles are high. They undoubtedly will be kept from increasing by cut-backs in factory production to whatever extent may be necessary. A great deal of the current output of steel is going into fabricators' inventories. Fabricators are willing to take the steel because of their expectations of a price increase or a strike or both. Less pronounced increases in inventories are taking place in other parts of the economy. Inventory expansion tends to be self-limiting. By fall, or by early 1957 at the latest, businessmen generally will be trying to avoid further inventory expansion, if not actually trying to reduce inventories. When, and if, this happens, business in general will probably turn down; capital expenditures alone will not be able to keep the economy pointed upward. In fact, capital budgets, particularly of small and medium-size concerns, will almost certainly be trimmed back if general business falters. We probably are in the later stages of the present period of business expansion. Business sentiment, however, may continue optimistic for some months.

The extent to which fabricators are reselling steel at a premium rather than using it themselves is very limited and is confined mostly to structural shapes, plates and oil-country goods. There is a somewhat greater amount of steel being bought at a premium by fabricators from smaller steel makers in this country or from foreign sources.

Fleming. Business is down. Residential and non-residential construction have been offset by increases in public works. Automobile registrations are 3 per cent above a year ago. Department store sales are up. Coal production has increased sharply, with exports at a high level. Textile production has declined. Unemployment has increased, although not seriously.

Kimball. Agriculture is about stable. Textiles are doing poorly, with some marginal cotton plants closing. Consumer spending is high, although weaknesses are noted in automobile and furniture sales. As a consequence, there has been some inventory accumulation of these items. Residential construction awards are about at last year's high. Plant and equipment expenditures are the strong points in the business of the district. The balance of the economy is at a high level. Sales of new cars are off as much as 50 per cent. Department store inventories, however, do not appear excessive. There has been some accumulation of metal inventories but there is no evidence of a gray market in steel.

Livingston. Business in the seventh district is at a high level, despite the decline in automobile production, which has resulted in spotty unemployment. The farm machinery business is off, reflecting the decline in agricultural income. The meat packers are doing very well, as are the railroads. Recent rail rate increases have about offset the increases in wages. The second half of the year, however, is apt to be less favorable than the first half of 1956, as a result of the accumulation of inventories, especially steel. As a consequence of this accumulation, the steel people expect a poor third quarter as consumers of steel use up the supplies they have on hand. There is no evidence of a gray market in steel in the district.

Miller. Business conditions are at a high level. Department store sales are good, and increases in industrial construction have offset the declines in residential building. The automobile dealers seem to be holding their own. Some steel inventories have accumulated; presumably these inventories are against orders. Miller expects business in the eighth district to continue at present levels. A kind of cautious optimism prevails. Inventory accumulations have not been excessive. He knows of no gray market in steel. Public works expenditures, especially for roads have been large.

Baird reports that farm income in his district is down 1 per cent, an increase in crops offsetting the decline in prices. Industry generally is in a healthy condition. The iron ore people expect their second biggest year. Paper and wood pulp plants are doing well, as are the packers. Light industry is doing amazingly well. The decline in residential housing is offset by expanded public works and industrial construction. Department store inventories are up 12.4 per cent over last year while sales have increased only 3 per cent. Steel inventories are accumulating. There is some gray market in plates, shapes and structural steel, but not extensive. Inventories of farm machinery and autos are high. Baird believes the economy in the district will tend to move sidewise in the period ahead.

Kemper reports that drought is plaguing his district and that the crop outlook depends on moisture in the weeks ahead. The government has reduced its orders from some of the aircraft plants in the district resulting in spotty unemployment. The automobile dealers are accumulating inventories and are not making money. The sale of farm implements has dropped considerably. Housing

starts are off. Department store sales are about the same as last year. The recent rise in agricultural prices has been helpful. Deposits are off and the demand for funds active. Kemper reports no evidence of a gray market in steel. He does not expect the second half to be as good as the first. If the crops are good, the economy may hold its own.

Matkin reports that business in his district is very good, although the farmer, cattleman, and auto dealer are in trouble. Department store sales are steady. Automobile registrations in the top four cities in the district are off 19 per cent. Contract awards for residential housing are up 21 per cent, while awards for other construction are up 44 per cent, the latter comprising 55 per cent of total awards. Drought conditions prevail in the western part of the district. Agricultural prices are off. Department store stocks are up 10 per cent over a year ago. Inventories are concentrated at the manufacturers' level, especially in durable goods. He has seen no evidence of a gray market, although he has heard reports of some in the district. Matkin expects the economy in the district to move sidewise for the balance of the year. He does not believe the inventory accumulation is serious.

Kemper asks about the inventory of gasoline and price wars as there have been some in his district.

Matkin states that there have been no price wars in his district.

King reports that employment in his district is high. The airplane companies have plenty of work and report shortages of engineers and skilled technicians. Retail sales are above a year ago as are inventories. The motion picture companies are active. Housing is weaker in California than in the rest of the U. S. although demand for housing in the district is spotty. New car sales of all manufacturers are down as much as 50 per cent. There has been some improvement in the consumer credit terms. King does not believe the inventory accumulations are serious. He knows of no gray market in steel.

Fleming. All districts report a highly satisfactory level of business so far in 1956 despite the soft spots in automobiles, farm equipment and residential housing. The outlook for the future is mixed with some districts anticipating a modest increase in business; some expecting the economy to move sidewise with the balance expecting some decline in activity. The members of the Council express concern over the inventory accumulations of automobiles, some types of steel, furniture, farm equipment, and agricultural commodities. It is believed that the accumulation of steel is partly in anticipation of the wage negotiations that are soon to begin as the negotiations may result in a strike and/or price increases. Some districts report evidence of a gray market in certain steel items. The situation, however, has not developed to any important degree.

ITEM II

(a) WHAT IS THE CURRENT SITUATION WITH RESPECT TO DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS? (b) WHAT IS THE OUTLOOK FOR SUCH DEMANDS DURING APPROXIMATELY THE NEXT SIX MONTHS? IS THERE LIKELY TO BE AN INCREASED DEMAND AROUND THE MIDDLE OF JUNE SIMILAR TO THAT SHOWN IN MARCH? (c) IS DEMAND FOR CONSUMER CREDIT INCREASING OR LEVELING OFF? (d) WHAT IS THE CURRENT AND PROSPECTIVE SITUATION WITH RESPECT TO MORTGAGE LOAN DEMAND, AND ARE MORTGAGE LENDERS IN A POSITION TO TAKE CARE OF CREDIT DEMANDS?

Fleming reads Item II and states that in view of the discussions which have already taken place, the Council's answers to these questions are fairly clear. He outlines these as follows: (a) All districts report a continued heavy demand for commercial and industrial loans. (b) All districts expect a continued heavy demand for loans during the next six months. It is the opinion of the Council that there will be a demand for funds around the middle of June similar to that experienced in March. (c) The Council believes that consumer credit is leveling off and declining in some district. (d) Mortgage loan demand, in the opinion of the Council, is outrunning the supply of savings available for investment and mortgages, and there is little prospect for any early change in this situation. Construction money is very tight and rates on mortgages have increased. In the present situation, the Council does not believe mortgage lenders are in a position to take care of all of the demands made on them for mortgage credit.

The Council concurred generally with the reply outlined above. It was then suggested that Item VII on the Agenda be considered.

ITEM VII

HAVE RISING INTEREST RATES SERIOUSLY AFFECTED THE DEMAND FOR MONEY?

After a brief discussion the Council concluded that aside from a postponement of certain public projects, the increase in interest rates has not seriously altered the demand for money.

At this point it was decided to delete Item IX from the Agenda and to consider Item VIII as part of Item IV.

ITEM III

WHAT ARE THE VIEWS OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE CREDIT POLICIES THAT SHOULD BE FOLLOWED BY THE SYSTEM OVER THE NEXT SIX MONTHS?

Fleming. Following some brief preliminary discussion, Fleming suggests that the Council state that the regulation of the supply and the demand for credit is one of delicate balance. Further tightening of credit is not desirable, but the situation should be carefully watched and should any serious weakening appear, that the Board take prompt action.

Livingston suggests the inclusion of the statement that the present situation underscores the necessity for making the discount window continuously available.

ITEM V

AT THE MEETING OF THE COUNCIL WITH THE BOARD IN FEBRUARY, REFERENCE WAS MADE TO THE STUDY OF CONSUMER CREDIT REQUESTED BY THE PRESIDENT. THE BOARD HAS UNDERTAKEN A STUDY OF THIS SUBJECT AND, IF DESIRED, WOULD BE GLAD TO DISCUSS THE STUDY WITH THE COUNCIL.

Fleming. The Council may advise that it will be most interested in discussing the consumer credit study requested by the President and undertaken by the Board of Governors.

ITEM IV

DOES THE RECENTLY RELEASED STANDARD FACTORS ANALYSIS ACCORD WITH THE OBSERVATIONS OF THE MEMBERS OF THE COUNCIL AS TO THE INCIDENCE BY SIZE OF BORROWER OF TIGHTER CREDIT AVAILABILITY? IF A DIFFERENTIAL EFFECT HAS RESULTED, HOW WOULD YOU DEAL WITH IT?

Miller states that the quality of the credit determines who receives funds.

Fleming. After some brief discussion, the President of the Council paraphrased the following reply:

The Standard Factors analysis does not accord with the experience of the members of the Council in their respective institutions, or in banks with which they are familiar.

ITEM VI

THE BOARD WOULD APPRECIATE HAVING THE VIEWS OF THE COUNCIL ON THE DRAFT REVISION OF THE BOARD'S REGULATION K, "CORPORATIONS DOING FOREIGN BANKING OR OTHER FOREIGN FINANCING UNDER THE FEDERAL RESERVE ACT."

Ireland reports that he visited with The First of Boston regarding the revision of Regulation K. They had some technical objections which they have already presented to the Board of Governors. In view of the nature of their objections, he feels a discussion by the Council is not necessary.

Fleming states that he has received a copy of a long letter that the Bank of America has sent on to the Board of Governors in which are outlined the Bank of America's reaction to the draft revision of Regulation K. Fleming reports that it also is a highly technical discussion.

Massie states that he visited with the First National City, Chase Manhattan, and J. P. Morgan & Co. All of them had a number of technical comments to offer that Massie feels are too complicated for the Council to consider. He states, however, that Morgan was disturbed because they feared they would be obliged to reorganize their Paris office as an Edge Act Corporation under the revised Regulation K should it become effective. Presently, a special agreement between Morgan and the Board of Governors covers its operation.

Fleming. The Council may state that some of the members of the Council have discussed the draft revision of Regulation K with a few of the principal

institutions affected by the regulation. It is the Council's understanding that these institutions have presented their views to the Board. As a consequence, it is felt that this may be sufficient pending discussions with the Board.

The meeting adjourned at 6:15 P.M.

* * * * * * * * *

The next meeting of the Council will be held September 16-18, 1956.

THE COUNCIL RECONVENED AT 10:00 A.M. ON MAY 21, 1956
IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C.
ALL MEMBERS OF THE COUNCIL WERE PRESENT.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on May 22, 1956. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors, at 12:35 P.M. on May 21, 1956. It will be noted that each item of the Agenda is listed together with the comments of the Council.

The meeting adjourned at 12:00 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 22, 1956

(Non-agenda item) At the February meeting the Council, considering certain bills that had been introduced concerning the subject of bank mergers and consolidations expressed itself as follows:

> The Council unanimously believes that the power to deal with all bank mergers and consolidations, whether accomplished by purchase of stock, acquisition of assets, or otherwise, should be vested solely in the appropriate bank supervisory agencies.

At its meeting on May 20, 1956, the Council was apprised of a proposed bill on this subject presented by the Treasury Department and shortly to be introduced. After consideration of the provisions of such bills, the Council adopted the following resolution:

> WHEREAS, the Council believes that the power to deal with all bank mergers and consolidations, whether accomplished by purchase of stock, acquisition of assets, or otherwise, should be vested solely in the appropriate bank supervisory agencies.
>
> BE IT RESOLVED that the members of the Federal Advisory Council hereby unanimously endorse the provisions of the bill presented by the Treasury Department and that the appropriate Congressional Committees be so informed.

The Council understands that hearings on H.R. 9424, S. 3424, and S. 3341 (to the enactment of which the Council is opposed) will be held by Senator O'Mahoney's Antitrust and Monopoly Subcommittee of the Senate Judiciary Committee on Wednesday, May 23, 1956. The Council would like to discuss this matter with the Board of Governors.

1. What are the views of the Council with respect to the prospective business situation from now until late 1956? What is the current situation with respect to inventory accumulations? To what extent is there a gray market in steel?

All members of the Council report a highly satisfactory level of business so far in 1956 despite some soft spots. However, there are mixed views as to the business situation from now until late 1956. Two members expect a modest increase in business; six members anticipate a sidewise movement in the economy; and four members believe business may decline. Members from districts with a concentration of heavy industry are least optimistic. All members of the Council express concern about inventory accumulation in automobiles, some types of steel, farm equipment, consumer

durables, furniture and agricultural commodities. The accumulation of steel reflects in part the anticipation of a strike and also price increases which may result from the approaching wage negotiations. There is evidence in some districts of a gray market in certain steel items, but this situation has not developed to any important degree.

2. (a) What is the current situation with respect to demand for commercial and industrial loans?

All districts report a continued heavy demand for commercial and industrial loans.

2. (b) What is the outlook for such demands during approximately the next six months? Is there likely to be an increased demand around the middle of June similar to that shown in March?

Most districts expect these demands to continue in the next six months. An increased demand for funds around the middle of June, similar to that shown in March, is likely.

2. (c) Is demand for consumer credit increasing or leveling off?

The Council believes that consumer credit is leveling off.

2. (d) What is the current and prospective situation with respect to mortgage loan demand, and are mortgage lenders in a position to take care of credit demands?

The Council believes that mortgage loan demand is outrunning the supply of savings available for investment in mortgages and that there is little prospect for any early change in this situation. Construction money is very tight and rates on mortgages have increased. The Council does not believe mortgage lenders are presently in a position to take care of the demands made on them for mortgage credit.

3. What are the views of the members of the Council with respect to the credit policies that should be followed by the System over the next six months?

The members of the Council approve the credit policies presently being pursued by the System. In view of the mixed business outlook the current degree of restraint should be maintained but not increased. However, additional reserves may be required for the June tax needs, Federal fiscal requirements in the early summer months and other seasonal factors. Should indications of a general slowing down in the economy appear, the Council believes action to lessen credit restraints would be necessary. The present situation underscores the necessity for keeping the discount window continuously available.

4. Have rising interest rates seriously affected the demand for money?

Aside from some postponement of certain public projects, the Council believes the recent rise in interest rates has not seriously affected the demand for money.

5. Does the recently released Standard Factors analysis accord with the observations of the members of the Council as to the incidence by size of borrower of tighter credit availability? If a differential effect has resulted, how would you deal with it?

The analysis reported certainly does not accord with the experience of the members of the Council in their respective institutions or in banks with which they are familiar. Regardless of the condition of the money supply at any time, credit is extended to borrowers upon the basis of credit worthiness and not upon the basis of size.

6. At the meeting of the Council with the Board in February, reference was made to the study of consumer credit requested by the President. The Board has undertaken a study of this subject and, if desired, would be glad to discuss the study with the Council.

The Council will be most interested to discuss the study with the Board.

7. The Board would appreciate having the views of the Council on the draft revision of the Board's Regulation K, "Corporations Doing Foreign Banking Or Other Foreign Financing Under the Federal Reserve Act."

Some members of the Council have discussed the draft revision of Regulation K with a few of the principal institutions affected by the Regulation. It is the Council's understanding that these institutions have presented their views to the Board. If the Board desires comments in addition to those already presented, the Council will be pleased to consider the Regulation further after discussing it with the Board.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C., AT 2:20 P.M. ON MAY 21, 1956. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. MILLER WHO WAS VISITING SENATOR CAPEHART ABOUT CERTAIN LEGISLATION OF INTEREST TO THE COUNCIL AND THE A.B.A.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, Dr. Ralph A. Young, Director of Division of Research and Statistics, and Dr. Frank R. Garfield, Advisor on Economic Research, Division of Research and Statistics, assisted by other members of the Board Staff presented an audio-visual report on "Credit Expansion and High Level Business Activity".

A brief resume' of the conclusions of the presentation is outlined below:

Although the world-wide situation continues to be one of over-all advance, total output in the United States seems to be leveling off at close to capacity. Gradual price rises have accounted for much of the recent rise in many of the business indices which are expressed in dollars. Over-all credit demand remains strong. The demand for funds in excess of available savings is pressing against a bank credit supply which is subject to Federal Reserve limitation.

Money rates rose sharply in March and April, although recently rates have declined somewhat from their peaks.

Principal developments that have occurred in the economy in recent months appear to be (1) a decline in output of consumer durable goods and housing which is in marked contrast to (2) a continued rapid growth in the output of business plant and equipment.

Farm equipment expenditures are lower, reflecting reduced levels of farm income. The decline in auto sales, together with the protective buying of steel, may be resulting in excessive inventory holdings of these items.

While various counter trends are evident, as is usually the case when the economy is operating at high levels, direct and indirect indices of business attitudes suggest that confidence in economic prospects continues strong. Although production has leveled off since last Autumn and while consumers have been increasing their debts less rapidly than before, business borrowing this Spring has been in unusually large volume. The reasons for the recent sudden expansion in business borrowings are not wholly clear. Apparently some of the funds set aside for taxes had previously been used to finance the large capital expansion programs and further additions to inventory. Presumably loan demands arose from the need to pay taxes, and perhaps also from the efforts of business to assure adequate funds for future needs under prospective tight credit conditions. Under these circumstances, some strengthening of Federal Reserve pressure on the credit brake was believed to be appropriate.

As the economy approaches the period of seasonal uphill climb, additional reserves may be needed to provide essential credit. While a somewhat faster rate of increase in total output would be consistent with the objective of sustained economic growth, there would be more assurance of sustainability if business inventory growth were kept in accord with sales, and if the

advance in prices were to cease. What progress is made in effecting these adjustments in the face of the momentum still evident in the economy, will determine the degree of credit restraint that may be called for in supplying forthcoming credit needs.

The meeting adjourned at 3:30 P.M.

ON MAY 22, 1956, AT 10:30 A.M. THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN AND VICE CHAIRMAN BALDERSTON; GOVERNORS SZYMCZAK, MILLS, ROBERTSON AND SHEPARDSON. MR. CARPENTER, SECRETARY AND MR. SHERMAN, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS WERE ALSO PRESENT. THE MINUTES OF THE JOINT MEETING OF THE COUNCIL AND THE BOARD, WHICH FOLLOW BELOW, WERE WRITTEN IN THE OFFICE OF THE SECRETARY OF THE BOARD. THEIR CONTENT AGREES GENERALLY WITH THE NOTES OF THE ACTING SECRETARY OF THE COUNCIL.

President Fleming stated that, following a discussion which he had had with Chairman Martin at the time of the meeting of the Council in February, the members of the Council had indicated agreement with a suggestion that the minutes of the joint meetings of the Council and the Board be written in the Office of the Secretary of the Board and when in a form acceptable to Secretaries of both groups they be sent to the members of the Board and the Council, and when approved they become the official minutes of the joint meeting. Chairman Martin stated that such an arrangement would be acceptable to the Board.

Before this meeting there had been sent to the members of the Board a memorandum prepared by the Federal Advisory Council regarding topics that had been placed on the agenda for the joint meeting. The memorandum also included a statement with respect to one topic not previously on the agenda. The agenda items, the comments by the Council, and the discussion of the respective items are set forth below:

(Non-agenda item) At the February meeting the Council, considering certain bills that had been introduced concerning the subject of bank mergers and consolidations expressed itself as follows:

The Council unanimously believes that the power to deal with all bank mergers and consolidations, whether accomplished by purchase of stock, acquisition of assets, or otherwise, should be vested solely in the appropriate bank supervisory agencies.

At its meeting on May 20, 1956, the Council was apprised of a proposed bill on this subject presented by the Treasury Department and shortly to be introduced. After consideration of the provisions of such bills, the Council adopted the following resolution:

WHEREAS, the Council believes that the power to deal with all bank mergers and consolidations, whether accomplished by purchase of stock, acquisition of assets, or otherwise, should be vested solely in the appropriate bank supervisory agencies,

the appropriate Congressional Committees be so informed.

The Council understands that hearings on H.R. 9424, S.3424, and S. 3341 (to the enactment of which the Council is opposed) will be held by Senator O'Mahoney's Antitrust and Monopoly Subcommittee of the Senate Judiciary Committee on Wednesday, May 23, 1956. The Council would like to discuss this matter with the Board of Governors.

President Fleming said that he had read a draft of the proposed statement to be made by Chairman Martin when he appeared before a subcommittee of the Senate Judiciary Committee on Wednesday, May 23, 1956, in response to Senator O'Mahoney's request that he testify on H.R. 9424, S. 3424, and S. 3341. He said that he had found no variance between the views that Chairman Martin planned to express and those held by the members of the Council. He also said that he understood a bill reflecting the views expressed in Chairman Martin's statement regarding bank mergers was to be introduced by Senator Fulbright, Chairman of the Senate Banking and Currency Committee, at the request of the Treasury Department, perhaps this afternoon. In this connection, he referred to a letter which Senator Fulbright had sent under date of May 16, 1956, as Chairman of the Senate Banking and Currency Committee, to Senator O'Mahoney calling attention to the jurisdiction, under the Senate Rules, of the Committee on Banking and Currency over legislation relating to banking. President Fleming went on to say that he had offered to appear before Senator Fulbright's Committee to present the Council's views on the proposed legislation if that seemed desirable. On the other hand, the views of the Council could be made known to the Senate Banking and the Currency Committee through presentation of the resolution set forth above.

Chairman Martin stated that he would be glad to refer to the Council's resolution at the time he appeared before Senator Fulbright's Committee, and President Fleming responded that under these circumstances he would not appear before the Committee.

1. What are the views of the Council with respect to the prospective business situation from now until late 1956? What is the current situation with respect to inventory accumulations? To what extent is there a gray market in steel?

All members of the Council report a highly satisfactory level of business so far in 1956 despite some soft spots. However, there are mixed views as to the business situation from now until late 1956. Two members expect a modest increase in business; six members anticipate a sidewise movement in the economy; and four members believe business may decline. Members from districts with a concentration of heavy industry are least optimistic. All members of the Council express concern about inventory accumulation in automobiles, some types of steel, farm equipment, consumer durables, furniture and agricultural commodities. The accumulation of steel reflects in part the anticipation of a strike and also price increases which may result from the approaching wage negotiations. There is evidence in some districts of a gray market in certain steel items, but this situation has not developed to any important degree.

President Fleming commented that the bottom had dropped out of the automobile market in April and the Studebaker-Packard Corporation was in serious financial trouble, both of which were factors currently important in the business outlook.

Chairman Martin stated that he would be interested in hearing from any of the members of the Council who felt there would be a modest increase in business between now and the latter part of 1956.

Mr. Ireland said that he was one of the two members of the Council who felt that business might increase modestly later this year for the country as a whole and that he supposed this view reflected to some extent the conditions he was observing in the Boston District. In that District, conditions are as good as they ever have been, he said. The situation as to automobiles and accumulations of steel inventories is substantially the same as in other parts of the country, but he thought these were not especially serious factors and that they would be cleaned up within the next few months. Some involuntary accumulation of inventories in retail trade has taken place but that also did not seem particularly serious. Mr. Ireland expressed the view that there was a great impetus from industrial and other non-residential building with no important decline in the residential building picture in the immediate outlook. While he did not expect a large increase in business, he would anticipate some strengthening in the last quarter of this year. In response to a question from Chairman Martin, Mr. Ireland said that he knew of no rationing of credit in the First District. There were, of course, instances of borderline risks such as in the residential building field where applications for credit were being turned down, but these refusals were not primarily because of a shortage of credit. Mr. Ireland reiterated the view that New England has never had an over-all situation as good as it is now. The textile industry is not in good condition, partly because it is suffering from foreign competition, but that is more than offset by research and development in other fields such as electronics. Banks expect a continuous demand for money. Consumer credit is leveling off and mortgage money is tight, although it is still available at somewhat higher rates than prevailed earlier.

Mr. Massie said that business in the Second District is at a high level and he expects it to be at a high level for the rest of this year. He expected some decrease during the third quarter but the fourth quarter should be quite strong. He commented that at present there is an over-employment of productive resources and that any lessening of employment would simply be returning to a "full employment" situation. Mr. Massie cited the large volume of savings deposits at commercial and other banks and expressed the view that the public has money with which to make purchases even though it is now deferring some purchases of farm equipment, automobiles, and the like. The softening in the automobile market has been common knowledge since January, he said; the farm situation has been well known for some time, and the slight drop in residential building has not been surprising. Mr. Massie thought there was a fair chance that some increase in building might take place. There is no question but that mortgage money is tight but good financing is going forward at an increased rate of interest. Demand for credit is strong, and a large upsurge may be expected in June to take care of tax financing. Mr. Massie said that lip service was being paid to rationing of credit but that he observed very little actually taking place, and he described the conditions with which New York banks are confronted in receiving loan applications which for the most part are good risks of the type they wish to take care of. Banks have been talking that they were out of money and the sub-standard risks are simply not applying for loans to any great extent at this time. Mr. Massie also commented in response to a question from Governor Balderston that deposits of New York banks have declined to approximately the 1948 levels and are still tending down. Corporation treasuries have been taking advantage of improved money yields by placing funds in short-term paper. The declining tendency in deposits has been an important factor in the credit squeeze New York banks are experiencing.

Mr. Mitchell said that business activity in the Third District is still at high levels although there has been a general falling off in automobile and appliance sales and in residential building starts. There has also been a reduction in textiles and in synthetic fiber production in the Philadelphia District. Steel, chemicals, paper, and petroleum are all strong, and bituminous coal is still improving due to the demand from utilities. The sharp decline in private residential construction is being offset by the very strong industrial construction picture. Mr. Mitchell said that he could not see any end of the high level of economic activity this year. He felt it fortunate that there had been a drop off in the automobile industry since otherwise the inflationary pressures would be very serious with the strong industrial construction picture being added to the rest of the economy. He also thought that a drop in automobile sales from around 8,000,000 last year to an estimated 5,500,000 this year would allow consumer credit to level off and allow the public to accumulate a position so that they could come back in later this year. Most businessmen in the Philadelphia District are quite optimistic with respect to the rest of 1956, Mr. Mitchell said, although some bankers are less optimistic. There has been some accumulation of inventories at the retail level, but Mr. Mitchell did not seem to think that particularly serious. There has been a general accumulation of steel inventories and that may result in some falling off of production in the third quarter. But he did not think this a large factor and he felt the effects would disappear as soon as the price situation stabilizes in the steel industry. Demand for loans has been large and a further increase is anticipated through the rest of this year. Credit is generally tight; the loan-deposit ratio of the banks in the Philadelphia District is around 62 per cent, the highest of any District and well above the national average of 52 per cent. Borrowings at the Philadelphia Reserve Bank have been heavier for some weeks than at other Reserve Banks excepting Chicago. Mr. Mitchell commented on consumer credit and a discussion among lenders in Philadelphia last week, the net result of which was that lenders indicated with reluctance that they might try to do something to tighten up terms, although they did not wish to lose business if they could help it. Mortgage demand is strong and construction money is very tight.

Mr. Denton said that the Fourth District picture was less optimistic than the comments thus far indicated for other districts. He reviewed the growth in loans at banks stating that for 21 consecutive months loans of reporting member banks in the Cleveland District have increased each month and that the aggregate growth has been approximately 40 per cent. During the same period deposits have increased only 3 per cent. Loans have continued to increase during 1956 at about the same rate that they were increasing last year. Mr. Denton said that there had been no rationing of credit in the Fourth District and he described the loan portfolio at his bank which he felt indicated that small businesses were not being denied credit in favor of "large business". He also commented on orders that had been placed for steel, stating that the over-ordering was done intentionally and that to some extent steel inventories increased because these orders had been placed in such large volume. Mr. Denton said that, on the whole, he anticipated that economic activity in the second half of the year would be a little lower than most of the published forecasts indicated.

President Fleming said that economic activity in the Fifth District was moderately below the peak reached in 1955. He cited several local measures of activity which showed significant changes, noting particularly that textile activity is down and that unemployment has increased somewhat. Money is tight, he said, and this is particularly true of mortgage credit and construction loans in Maryland, the District of Columbia, and Virginia. In the Carolinas, money is very tight and the volume of loans is very high.

Mr. Kimball said that he believed that economic activity in the Atlanta District during the last half of this year would be moderately above that of the last half of 1955. He felt that nationally, activity would move sidewise. The Atlanta District is still predominantly agricultural, he noted, and he cited factors which he thought might result in farm income this year equaling that of last year. The textile business is rather poor and some of the marginal textile plants are closing down. Retail sales of furniture have declined recently but, on the whole, retail sales of non-durable goods are holding up well; and, with the exception of automobiles, sales of durable goods do not seem particularly soft. Business planning and building is strong. Mr. Kimball thought that non-residential construction would keep over-all industrial activity at a high level during the rest of this year. Further, there is some indication that residential building may be increasing. There has been no rationing of credit except in the case of speculative builders or other speculative businesses, but there has been a refusal of credit requests received from New York banks which wanted to farm out brokers' loans to banks in the Atlanta District. Mr.Kimball thought that demand for credit would continue strong. He noted that in the Atlanta District the loan-deposit ratio is only 40 per cent, compared with 62 per cent in Philadelphia and the national average of 52 per cent. In the city of Atlanta, however, the ratio is around 60 per cent.

Mr.Livingston said that he believed that business in the last half of this year would be somewhat under the first half of this year. In Chicago and in the District generally the meat packing business has been very good this year, the best in several years. Railroads have also done very well. Retail sales are losing some of their tone, Mr. Livingston said. He also referred to the automobile situation, expressing the view that while the steel, rubber, and glass industries are still very active, there is always a lag between a decline in consumption by the automobile industry and a dropping off in production of these supplier industries. He felt that the Seventh District was in that situation at the present time. Mr. Livingston described farming conditions as very poor and he noted the shutdown of one of the J. I. Case Company plants because of the reduced demand for farm implements. Unemployment in Chicago is no problem. A great deal of steel inventory had been accumulated in anticipation of price increases and a possible strike. Mr. Livingston cited an instance in which a steel user normally carried an inventory of $30 million but today had an inventory of $90 million. He also noted that bank loans to metal manufacturers are very substantially higher than a year ago. Inevitably there would be a dropping off of steel sales during the third quarter. Credit is extremely tight in the Chicago area, and Mr. Livingston commented on borrowings from the Federal Reserve Bank which, in some cases, had been on an almost continuous basis for some little time. Demand for credit seems to be insatiable, he said, but there is no rationing of credit although there is increased selectivity. He reported refusals of credit for building shopping centers and an instance where a bank has declined to increase lines of credit to finance companies or to take on new finance companies, even though the bank had been seeking such accounts in the past. Mr. Livingston also commented that there was no gray market in steel of any consequence,so far as he had been able to determine.

In response to a question from Governor Shepardson, Mr. Livingston said that the livestock situation currently is better than a few months ago, noting the sharp increase in hog prices from $11 a hundred last December to around $18 currently. The outlook for cattle producers also has improved, although they are not optimistic. In response to a question from Governor Balderston, Mr. Livingston said that one of the reasons for a relatively small increase in sales of Sears, Roebuck and Company in the first quarter of the current fiscal year appeared to be failure of heavy goods sales to keep pace with sales of other types of goods. He also said in response to a question from Governor

Shepardson that extensions of mortgage credit on farms reflected to a considerable extent either enlargements of existing farms or purchases of farms by or for members of families now in farming.

Mr. Miller said that business in the Eighth District appeared to be moving sidewise at a fairly high level. Department store sales and personal incomes have been maintaining a high level and showing some increase. He was not apprehensive as to activity during the latter part of 1956. There was no evidence of a gray market in steel, although there had been some buying against anticipated price rises and some accumulations of inventory. Rationing of credit had taken place in the case of speculative builders or other speculative enterprises, but there was nothing that he would term "rationing" in the form of any refusal to lend to regular customers for legitimate credit purposes. Credit did not seem to be as tight in the St. Louis District as in some other sections. Mr. Miller thought loan demand would increase sharply in June in connection with tax payments. He noted that while housing starts were down, highway and other heavy construction continues very high and is increasing, and he expressed the view that any slackening in residential building would be more than taken up by other types of construction.

Mr. Baird said that he anticipated a sidewise movement in business during the next few months, both in the Minneapolis District and in the country as a whole. Minneapolis has not had the same degree of boom as other Districts. Noting that the Ninth District is predominatly agricultural, he said that weather conditions during the next 60 days were critical in determining what farm income would be this year. Farmers fared better last year in the Ninth District than in most other Districts and farm income was only about 1 per cent below that of the year before. The benefits of that good farm income were still being felt. The outlook for other industries is good, Mr. Baird said, noting that iron ore shipments are expected to be second only to the 1953 total and at least as large as last year and perhaps larger. Meat packing is very active and earnings are good. Other industries such as electronics are doing very well indeed. Housing starts have declined in the Ninth District, but commercial and other building has increased enough to offset that decline. Steel inventories are still accumulating and there is a little gray market activity, but not enough to be important price-wise. Department store inventories at the end of April were up more than 12 per cent over last year while sales were up only 2 per cent, indicating an accumulation of inventories. Country banks are not particularly hard pressed at this time, but in the cities credit is very tight; and Mr. Baird described in some detail the loan situation and demand for credit in Minneapolis. He noted that the pressure would be worse if it were not for the fact that some large Minneapolis banks are connected with holding companies and have been able to farm out some of their loans to participating banks in country areas.

Mr. Kemper said that he expected a downward movement in national economic activity, feeling that there were more unfavorable factors at this time than favorable, particularly since activity was currently at such a high level. He cited the automobile and farm implement industries, both large steel users, as experiencing depressed conditions at this time. The furniture, clothing, and textile industries also are in difficulty. As to credit, Mr. Kemper cited the restrictive policies being followed at finance companies and banks which he felt would slow purchases of various appliances. He also cited the possibility of strikes, noting that industries and businesses have been very prosperous, that labor knows of this, and that this is likely to result in work stoppages if wage demands are not met. All in all, Mr. Kemper thought that the unfavorable factors outweighed the favorable. The only factor which he saw as a sustaining force was public works and public construction plus some defense spending. There is considerable unemployment in the Tenth District, particularly in Kansas City and in other parts of Kansas where the aircraft industry has diminished its production.

Mr. Kemper suggested that there had been over-building, noting that many older houses are for sale and that builders of newer houses are having difficulty in disposing of them. The agricultural situation in the Tenth District has been seriously affected by drought and in some areas has not had a good rain for three years. If this does not change, heavy movement of cattle to market will take place later this year and cattle prices may be affected,although at the present time they are holding fairly steady. Credit is tight,deposits have contracted,and correspondent bank balances have decreased. There is a large, constant demand for credit at banks, but Mr. Kemper thought that legitimate requests for credit were being met. There is no rationing of credit in the Tenth District, although there has been a distinct tendency to cut down on loans for speculative building and not to increase lines of credit to finance companies, which in turn has affected the volume of consumer sales.

Mr. Matkin said that business in the Eleventh District has continued at a high level even though farmers and cattlemen are not getting along as well as they would like and dollar totals of their sales in the first four months of this year were less than a year earlier. New automobile registrations in the four principal cities of the Dallas District were 19 per cent lower during the first three months of this year than last. Department store sales have been about the same as last year but inventories are up about 10 per cent. Stocks of heating oils are down but gasoline stocks are the highest in history. Residential building, in contrast with other parts of the country, increased in the Eleventh District during the first three months of this year and other types of contracts awarded also rose. Mr.Matkin said he had heard of no gray market in steel in the Dallas District; he had been informed that there might be a limited amount in structural steel, but not in the case of other products. Demand for loans is very high, credit is tight,and banks are short of money. However, he had heard of no rationing of loans anywhere in the Dallas District and was sure that this had not taken place. Mr. Matkin said he felt that the economy was moving in a sidewise direction rather than either up or down.

Mr.King said that activity in the Twelfth District generally has followed the national pattern, but with some variations. Employment is full with shortages of engineers and skilled labor. Residential building is down 24 per cent but an increase in other building has more than offset that decline. New automobile sales have been down in the Twelfth District more than nationally, and he cited instances of some dealers whose sales have declined by as much as 50 per cent. The used-car market is strong and prices of used cars are strong. Airplane manufacture continues at a high level, motion picture producers are on the plus side, and the oil business is active with supply and demand in balance at a high level. Retail sales are good but inventories have increased somewhat. The electronics industry continues to grow in importance. There is no rationing of commercial and industrial loans in the Twelfth District, Mr. King said, but it is extremely difficult to get mortgage credit and the situation there could be considered as a rationing of money. He felt that the Twelfth District had made considerable progress in improving the quality of consumer loans, particularly loans for automobile purchases. There is no shortage of consumer credit money if the quality of the applicant is satisfactory.

2. (a) What is the current situation with respect to demand for commercial and industrial loans?

All districts report a continued heavy demand for commercial and industrial loans.

2. (b) What is the outlook for such demands during approximately the next six months? Is there likely to be an increased demand around the middle of June similar to that shown in March?

Most districts expect these demands to continue in the next six months. An increased demand for funds around the middle of June, similar to that shown in March, is likely.

2. (c) Is demand for consumer credit increasing or leveling off?

The Council believes that consumer credit is leveling off.

2. (d) What is the current and prospective situation with respect to mortgage loan demand, and are mortgage lenders in a position to take care of credit demands?

The Council believes that mortgage loan demand is outrunning the supply of savings available for investment in mortgages and that there is little prospect for any early change in this situation. Construction money is very tight and rates on mortgages have increased. The Council does not believe mortgage lenders are presently in a position to take care of the demands made on them for mortgage credit.

There was no discussion of topics 2a, 2b, 2c, or 2d, other than the comments that had been made in connection with topic 1.

3. What are the views of the members of the Council with respect to the credit policies that should be followed by the System over the next six months?

The members of the Council approve the credit policies presently being pursued by the System. In view of the mixed business outlook the current degree of restraint should be maintained but not increased. However, additional reserves may be required for the June tax needs, Federal fiscal requirements in the early summer months and other seasonal factors. Should indications of a general slowing down in the economy appear, the Council believes action to lessen credit restraints would be necessary. The present situation underscores the necessity for keeping the discount window continuously available.

President Fleming said that Chairman Martin's talk before the Pennsylvania Bankers' Association on May 4 seemed to have gone as far as the Chairman could go in attempting to give an atmosphere of confidence. He commented on the prospective surplus of the Treasury. He also said

that the Council approved what the System was doing in the credit field, and he indicated that the demand for credit in June in connection with tax payments would be heavy.

There followed a brief discussion of the timing and volume of the demand for loans for meeting tax payments during June, different members of the Council indicating that demand for such loans would start in some cases soon after June 1, continuing until around June 20, with perhaps a peak around June 10.

In response to a question from Governor Mills as to what banks might do to prepare themselves in advance to take care of the demand for credit during the tax period, President Fleming said there was not much preparation that they could make.

Mr. Livingston said that one of the reasons for the anticipated heavy demand for credit to meet taxes in June was that many corporations had used funds to accumulate inventories this spring. For this reason, it would be necessary for the Federal Reserve to provide more money than it did in March to take care of the demand.

Mr. Denton commented on mortgage commitments of insurance companies, stating that many banks now are carrying mortgage loans against commitments of insurance companies which may not be taken up for some time.

4. Have rising interest rates seriously affected the demand for money?

Aside from some postponement of certain public projects, the Council believes the recent rise in interest rates has not seriously affected the demand for money.

President Fleming said that none of the members of the Council had received any complaints regarding increased interest rates, nor had the higher rates retarded the demand for credit.

5. Does the recently released Standard Factors analysis accord with the observations of the members of the Council as to the incidence by size of borrower of tighter credit availability? If a differential effect has resulted, how would you deal with it?

The analysis reported certainly does not accord with the experience of the members of the Council in their respective institutions or in banks with which they are familiar. Regardless of the condition of the money supply at any time, credit is extended to borrowers upon the basis of credit worthiness and not upon the basis of size.

President Fleming commented that complaints of this sort had been going on ever since 1933. Most of the complaints came from people who wanted more capital in their businesses but who were not eligible for additional bank credit.

Mr. Denton stated that he would be happy to have those who were critizing banks for not making loans to small businesses visit his bank for the purpose of reviewing the actual record of credits extended to small as well as large businesses, and President Fleming said he was sure all members of the Council would be glad to follow a similar procedure.

Chairman Martin remarked that the question was placed on the agenda partly because of its public relations aspects and because he felt it well for all of us to realize that the subject is getting attention. Part of the problem, he said, is that a "good big man is preferred to a good little man."

President Fleming stated that the American Bankers Association is alive to this problem.

6. At the meeting of the Council with the Board in February, reference was made to the study of consumer credit requested by the President. The Board has undertaken a study of this subject and, if desired, would be glad to discuss the study with the Council.

The Council will be most interested to discuss the study with the Board.

At Chairman Martin's request, Governor Mills commented on the consumer credit study, stating that the origin of the study was a request from the President of the United States through the Council of Economic Advisers. It was to be a comprehensive study of the field of consumer credit and it was hoped that it might be completed around the end of this year. Governor Mills referred to the four sectors of the study, noting the agencies or individuals who had been selected to make these parts of the study in terms of preparation of a final report which would be an unbiased and expertly prepared document.

President Fleming suggested that the Council would be glad to receive copies of the study well in advance of a meeting at which it might be discussed, and Governor Mills responded that the report would, of course, have to be submitted by the Board to the Council of Economic Advisors, and at this stage it was not possible to state just when or how the report would be distributed.

7. The Board would appreciate having the views of the Council on the draft revision of the Board's Regulation K, "Corporations Doing Foreign Banking Or Other Foreign Financing Under the Federal Reserve Act."

Some members of the Council have discussed the draft revision of Regulation K with a few of the principal institutions affected by the Regulation. It is the Council's understanding that these institutions have presented their views to the Board. If the Board desires comments in addition to those already presented, the Council will be pleased to consider the Regulation further after discussing it with the Board.

Mr. Massie commented upon a discussion he had had with three interested banks in New York regarding the proposed amendment to Regulation K; Mr. Ireland commented on a similar discussion with a bank in Boston; and Mr. Denton commented on the proposed revision of the Regulation because of the interest he had in the subject through the American Overseas Finance Corporation. The gist of the comments was that interested persons either had submitted their views directly to the Board, or would do so, and the Council as such did not have a position to take concerning the proposed revision of the Regulation.

Governor Szymczak commented briefly on the purpose of publishing a proposed draft of Regulation K in the Federal Register, noting that this was a first step looking toward revision of the Regulation. The Chairman noted that the final date for submitting comments to the Board on the draft of Regulation K published in the Federal Register was May 25, 1956.

President Fleming stated that in the absence of objection on the part of the Board, the next meeting of the Federal Advisory Council would be held on September 16, 1956, and that the Council would plan to meet with the Board on Tuesday, September 18. Chairman Martin indicated that this would be satisfactory to the members of the Board.

Thereupon, the meeting adjourned.