MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

1963

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MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

February 18-19, 1963

May 20-21, 1963

September 16-17, 1963

November 18-19, 1963

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OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1963

OFFICERS:

President, George A. Murphy
Vice President, Robert B. Hobbs
Director, Howard C. Petersen
Director, J. Finley McRae
Director, Kenneth V. Zwiener
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

George A. Murphy
Robert B. Hobbs
Howard C. Petersen
J. Finley McRae
Kenneth V. Zwiener

MEMBERS:

Lawrence H. Martin	District No. 1
George A. Murphy	District No. 2
Howard C. Petersen	District No. 3
L. A. Stoner	District No. 4
Robert B. Hobbs	District No. 5
J. Finley McRae	District No. 6
Kenneth V. Zwiener	District No. 7
Sidney Maestre	District No. 8
John A. Moorhead	District No. 9
Maurice L. Breidenthal	District No. 10
James W. Aston	District No. 11
Elliott McAllister	District No. 12

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BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

The Officers of this Council shall be a President, Vice President, three Directors, and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President, and the three Directors.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with its regulations and promulgations, and to communicate the same to the members of the Council, and to suggest to the Council, from time to time, special matters of consideration.

The Executive Committee shall have the power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum, and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September, and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

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ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 18, 1963

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REPORT OF THE SECRETARY

OF THE

FEDERAL ADVISORY COUNCIL

FOR THE YEAR ENDED DECEMBER 31, 1962

Balance on hand, December 31, 1961	$ 8,712.52	Salaries	$ 5,000.00
Assessments – 12 Federal Reserve Banks	5,400.00	Printing & Stationery	619.60
		Balance on hand, December 31, 1962	8,492.92
	$14,112.52		$14,112.52

Chicago, Illinois
February 1, 1963

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1962, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO

(Signed) J. Carl Sommer, Auditor

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MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1963

The first and organizational meeting of the Federal Advisory Council for the year 1963 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on February 18, 1963, at 9:30 A.M.

Present:

Lawrence H. Martin	District No. 1
George A. Murphy	District No. 2
Howard C. Petersen	District No. 3
L. A. Stoner	District No. 4
Robert B. Hobbs	District No. 5
J. Finley McRae	District No. 6
Kenneth V. Zwiener	District No. 7
Sidney Maestre	District No. 8
John A. Moorhead	District No. 9
Maurice L. Breidenthal	District No. 10
James W. Aston	District No. 11
Elliott McAllister	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

Mr. George A. Murphy was elected Chairman *pro tem* and Mr. William J. Korsvik was elected Secretary *pro tem*.

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1963.

The following officers were nominated and unanimously elected:

George A. Murphy, President
Robert B. Hobbs, Vice President
Howard C. Petersen, Director
J. Finley McRae, Director
Kenneth V. Zwiener, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion duly made and seconded, the salary of the Secretary was fixed at $3,000 annually, and that of the Assistant Secretary at $2,000 annually.

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The Secretary presented his financial report for the year 1962, which had been audited by Mr. J. Carl Sommer, Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings of the Council held on February 19-20, 1962, April 3-4, 1962, April 30-May 1, 1962, September 17-18, 1962, November 19-20, 1962, and the mimeographed notes of the meeting held November 19-20, 1962, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve bank to contribute $450.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1963 and to draw upon them for that purpose.

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 9, 10 and 11.

The meeting adjourned at 12:35 P.M.

HERBERT V. PROCHNOW
Secretary
WILLIAM J. KORSVIK
Assistant Secretary

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MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1963

At 2:30 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Mr. George A. Murphy, President; Messrs. Lawrence H. Martin, Howard C. Petersen, L. A. Stoner, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, Sidney Maestre, John A. Moorhead, Maurice L. Breidenthal, James W. Aston, and Elliott McAllister.

Members of the Board's Division of Research and Statistics participated in an audio-visual presentation on the current economic situation.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

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MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1963

At 9:40 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. George A. Murphy, President; Messrs. Lawrence H. Martin, Howard C. Petersen, L. A. Stoner, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, Sidney Maestre, John A. Moorhead, Maurice L. Briedenthal, James W. Aston, Elliott McAllister, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

The Council reviewed its conclusions regarding the items on the agenda, and sent to the office of the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 9, 10 and 11, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 11:45 P.M. on February 18, 1963.

The meeting adjourned at 10:50 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

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MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON FEBRUARY 19, 1963

1. What are the observations of the Council regarding (a) recent domestic economic developments, and (b) the business outlook for the first half of 1963 and the year as a whole? (c) Do the members of the Council believe that the improvements in business psychology reported at the November meeting with Board has strengthened further since that time, remained about the same, or receded?

a) Recent domestic economic developments indicate a continuation of the mixed trends that have prevailed the past several months. While the spending behavior of consumers, as evidenced by retail sales and in particular by the volume of new model automobiles sold, has been encouraging, the decline in new orders for durable goods, the failure of industrial production to rise, and the uncertainty created by the Budget Message, together with the discussion of a possible tax cut, have clouded the immediate outlook.

b) Despite these imponderables, however, the Council anticipates that business in the first half of 1963 will continue to show the moderate improvement that characterized the last six months of 1962. The outlook for the last half of 1963 is less certain.

c) The Council believes that the improvement in business psychology reported at the November meeting has receded somewhat since that time. Developments in Europe, Canada and Cuba, together with the problems associated with the balance of payments, budget deficits, and especially the proposed tax legislation, have lessened the favorable sentiment in the business community.

2. In the opinion of the Council, what factors in the current economic picture suggest the most strength or encouragement? Conversely, what factors appear to be of greatest concern?

In the opinion of the Council, the persistent strength of consumer buying is a major source of encouragement in the current economic picture. This factor and the absence of growth in inventories suggest that new orders and production will probably rise, resulting in some improvement in employment, income, and over-all economic activity. A build-up of inventories by steel users in anticipation of a strike could also con-

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tribute to a rise in business in the months immediately ahead.

Excess productive capacity, the lack of vigor in capital expenditures, the relatively high level of unemployment, and recent developments in labor negotiations, such as the newspaper strikes and the departure from the guidelines in the dock strike settlement, are currently matters of economic concern.

3. What are the prospects for loan demand at banks during the next several months, including demand in various loan categories? Is the liquidity of the banking system considered ample to accommodate the present and forseeable volume of credit demands?

The members of the Council anticipate a moderate increase in loan demand during the next several months. Some increase in loans is likely to occur in the durable goods sector, especially if steel users add to their inventories because of the possible reopening of the steel labor contract. The members of the Council believe that the liquidity of the banking system is adequate to accommodate the present and forseeable volume of credit demands.

4. Does the Council detect any symptoms of deterioration in lending standards, particularly in the field of real estate credit?

The Council has observed some deterioration in lending standards, particularly in the field of real estate credit. There has also been some pressure to lengthen the maturities of term loans. However, lending standards generally are consistent with sound banking practices.

5. (a) The Board would appreciate comments with respect to developments in the area of time and savings deposits, including the trend of such deposits, the cost burden of higher interest rate levels, and whether the uses made by banks of funds represented by such deposits have been consistent with accepted standards of bank liquidity and asset quality.
(b) Does the Council believe that competitive abuses are likely to arise from the rapidly expanding use of negotiable corporate certificates of deposit or that unsound banking conditions might arise from widespread reliance on deposits of this type? How would the Council regard an increase to 3-1/2 per cent in the maximum permissible interest rate payable under Regulation Q on time deposits having a maturity of less than six months?

(a) Although time and savings deposits continue to expand, the rate of increase has slowed considerably and is substantially less than it was a year ago. Furthermore, because of shifts in the distribution of bank assets that were effected last year, the squeeze on bank profits currently is less than it was a year ago. Accordingly, the pressure to expand maturities and to buy higher yielding assets has lessened somewhat. As the Council has observed, there has been some liberalization in credit stanards, but in general, the lending and investment policies have been consistent with accepted standards of bank liquidity and asset quality.

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b) The Council does not believe that significant competitive abuses have arisen from the rapidly expanding use of negotiable corporate certificates of deposit or that unsound banking conditions have arisen from widespread reliance on deposits of this type. However, the growth of negotiable corporate certificates of deposit has resulted in important shifts in the types of bank assets. A continuing expansion in the use of these certificates of deposit will tend to lessen the liquidity of the banking system because of the pressure to use these funds profitably.

The Council believes that bankers generally would not presently favor an increase to 3–1/2 per cent in the maximum permissable interest rate possible under Regulation Q on time deposits having a maturity of less than six months.

6. Has the Council noted any tendency toward the heightened concern on the part of the business and financial community with respect to U.S. balance of payments developments? Are the difficult negotiations going on within the European Economic Community a factor to be taken into account and a subject of concern to bank customers.

The Council has noticed increasing concern on the part of the business and financial community with respect to the U.S. balance of payments. Customers who have international investment and/or trade interests are particularly concerned not only with balance of payments developments, but also with the difficult negotiations going on within the European Economic Community.

7. The Board would appreciate the Council's comments on effects observed thus far from the depreciation and tax credit provisions adopted in 1962.

With the exception of certain industries, the Council has observed few effects that it would attribute to the depreciation and tax credit provisions adopted in 1962.

8. What are the Council's views regarding the impact of monetary and credit policy under current conditions?

The Council believes that current monetary and credit policy has had a generally favorable impact on the economy. This policy has been a constructive factor in the domestic economy and at the same time has been helpful to the balance of payments.

* * * * * *

The Council favors the revision of Regulation M intended to carry out the purposes of P. L. 87–588, "To improve the usefulness of national bank branches in foreign countries." In considering the Board's proposed revision, members of the Council have reviewed the comments of certain national banks with branches abroad. The Council believes that their suggestions merit consideration by the Board.

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

February 19, 1963

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 J. L. Robertson and Chas N. Shepardson; also Mr. Merritt Sherman, Secretary, and Mr. Kenneth A. Kenyon, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. George A. Murphy, President; Messrs. Lawrence H. Martin, Howard C. Petersen, L. A. Stoner, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, Sidney Maestre, John A. Moorhead, Maurice L. Breidenthal, James W. Aston, Elliott McAllister, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

President Murphy read the first item on the Agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* as printed on pages 9, 10 and 11 of these minutes. An extended discussion on the business outlook followed in which the members of the Council outlined developments and conditions in their particular districts. Their was general agreement that business in the first half of 1963 would continue to improve moderately. Several members of the Council said that the rejection of the British bid for entry into the Common Market had had an unsettling effect on the psychology of the business community.

The President then read the second item and the conclusions of the Council. A brief discussion followed.

President Murphy read the third item and the conclusions of the Council. The remarks that followed included a discussion regarding the status of the secondary market for negotiable certificates of deposit. Several members suggested that the secondary market for certificates had improved.

The President then read the fourth item on the Agenda. During the general discussion that followed, some members acknowledged that a deterioration of lending standards had occurred. They suggested that the intense competition for loans, the continuation over an extended period of a relatively easy monetary policy, and the necessity for earnings to provide for interest payments on a larger volume of time deposits, had contributed to this development. Other members of the Council were less disposed to

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use the word deterioration and argued that there had been, instead, changes in lending practices. In many instances, these met community needs and reflected favorably on the banking system.

Several members said they were disturbed by reports of auto loans running 42 months to maturity.

President Murphy read the fifth item on the Agenda and the conclusions of the Council. He added that there was some difference of opinion within the Council as to the desirability of an increase to 3–1/2 per cent in the maximum interest rate payable on time deposits having a maturity of less than six months. While some members would like to see the regulation eliminated entirely, the majority of bankers would favor the retention of Regulation Q and the present maximum permissible rates.

Chairman Martin, in reply to an inquiry from a member of the Council, stated that there was no great pressure at the moment to change the regulation. The item had been placed on the Agenda for the purpose of discussion. He suggested, however, that increases in Regulation Q maximum rates were related to the deficit in the balance of payments and to the movement of short-term funds. The Chairman added that he did not look with favor on the separation of domestic and foreign time deposits when discussing interest rate limitations.

President Murphy read the sixth item and the conclusions of the Council.

Chairman Martin questioned whether the domestic economy should be stimulated by a further easing of money. A related question, he continued, involved the extent to which the balance of payments was affected by interest rate differences. The Chairman added that it was his view that domestic and international problems could not be separated. The Council members reported that they had no evidence that legitimate demands for credit were unsatisfied. Chairman Martin noted that although loan demand had been good during the past year, the conventionally-defined money supply had begun to contract again recently. As a result, there were those who maintained that the Federal Reserve had followed a too restrictive monetary policy. The members of the Council indicated they did not agree.

Chairman Martin indicated that he believed a substantial portion of the growth of time and savings deposits over the past year might be regarded as virtually the equivalent of demand deposits.

Governor Balderston stated that prior to the change in Regulation Q, time and savings deposits had been growing at an annual rate of about 12 per cent. Subsequently they had grown at an annual rate of 18 per cent.

The President then read the 7th and 8th items on the Agenda and the conclusions of the Council. A very brief discussion followed.

The meeting adjourned at 1:00 P.M.

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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.

H.V.P.
W.J.K.

The Secretary's notes of the meeting of the Federal Advisory Council on February 18, 1963, at 9:30 A.M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

The Secretary provided each member with a list of all the members of the Council for the year 1963, officially elected in accordance with communications received from the Federal Reserve banks.

Mr. George A. Murphy was elected Chairman pro tem and Mr. William J. Korsvik was elected Secretary pro tem.

The following officers were nominated and unanimously elected:

George A. Murphy, President
Robert B. Hobbs, Vice President
Howard C. Petersen, Director
J. Finley McRae, Director
Kenneth V. Zwiener, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at $3,000 annually, and that of the Assistant Secretary at $2,000 annually.

The Secretary presented the financial report for the year 1962, which had been audited by Mr. J. Carl Sommer, Auditor of The First National Bank of Chicago. The report was approved and placed on file. It will be printed and included in the formal printed minutes.

A motion was adopted authorizing the Secretary to draw drafts for $450 upon each Federal Reserve Bank for the secretarial and incidental expenses of the Federal Advisory Council for the year 1963.

The by-laws were approved. The Council approved the Secretary's notes for the meeting of November 19-20, 1962. The printed minutes for all the 1962 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

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ITEM I

WHAT ARE THE OBSERVATIONS OF THE COUNCIL REGARDING (a) RECENT DOMESTIC ECONOMIC DEVELOPMENTS, AND (b) THE BUSINESS OUTLOOK FOR THE FIRST HALF OF 1963 AND THE YEAR AS A WHOLE? (c) DO THE MEMBERS OF THE COUNCIL BELIEVE THAT THE IMPROVEMENT IN BUSINESS PSYCHOLOGY REPORTED AT THE NOVEMBER MEETING WITH THE BOARD HAS STRENGTHENED FURTHER SINCE THAT TIME, REMAINED ABOUT THE SAME, OR RECEDED?

Murphy welcomed the new members to the Council. He then read Item I and invited each member to comment.

A general discussion on recent economic developments followed which suggested a continuation of the mixed trends that had prevailed in the previous several months. A number of members listed as encouraging the spending behavior of consumers as evidenced by retail sales and in particular by the volume of new automobiles sold. The decline in new orders for durable goods, the failure of industrial production to rise, and the uncertainty created by the Budget Message, together with the discussion of a possible tax cut, have clouded the immediate outlook.

Despite these developments, the members anticipate that business in the first half of 1963 will continue to show the moderate improvement that characterized the last six months of 1962. The outlook for the last half of 1963 is less certain.

There was fairly wide agreement that the improvement in business psychology reported at the November meeting had receded somewhat since that time. Several members cited as adverse factors recent events in Europe, Canada, and Cuba, the problems associated with the balance of payments and budget deficits, and the proposed tax legislation. In the opinion of most of the members of the Council, these developments have lessened the favorable sentiment in the business community.

ITEM II

IN THE OPINION OF THE COUNCIL, WHAT FACTORS IN THE CURRENT ECONOMIC PICTURE SUGGEST THE MOST STRENGTH OR ENCOURAGEMENT? CONVERSELY, WHAT FACTORS APPEAR TO BE OF GREATEST CONCERN?

Murphy read Item II and observed that many factors bearing on this subject had been considered in the preceding discussion. Accordingly, the comments that followed were rather brief.

It was generally agreed that the persistent strength of consumer buying is the major source of encouragement in the current economic picture. A number of members noted that the absence of growth in inventories suggested that new orders and production will probably rise, resulting in some improvement in employment, income and over-all economic activity. A possible build-up of inventories by steel users in anticipation of a strike could also contribute to a rise in business in the months immediately ahead.

Excess productive capacity, the lack of vigor in capital spending, the relatively high level of unemployment, recent developments in labor negotiations, such as the newspaper strikes, and the departure from the guidelines in the dock strike settlement, are currently matters of economic concern.

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ITEM III

WHAT ARE THE PROSPECTS FOR LOAN DEMAND AT BANKS DURING THE NEXT SEVERAL MONTHS, INCLUDING DEMAND IN VARIOUS LOAN CATEGORIES? IS THE LIQUIDITY OF THE BANKING SYSTEM CONSIDERED AMPLE TO ACCOMMODATE THE PRESENT AND FORESEEABLE VOLUME OF CREDIT DEMANDS?

Murphy read Item III and invited comment from members. The ensuing discussion disclosed that the members of the Council anticipate a moderate increase in loan demand during the next several months. An increase in the durable goods sector is likely if steel users add to their inventories because of the possible reopening of the steel labor contract.

The members of the Council believe that the liquidity of the banking system is adequate to accommodate the present and foreseeable volume of credit demands. Several members observed, however, that a vigorous expansion in the economy could quickly tighten bank credit.

ITEM IV

DOES THE COUNCIL DETECT ANY SYMPTOMS OF DETERIORATION IN LENDING STANDARDS, PARTICULARLY IN THE FIELD OF REAL ESTATE CREDIT?

Murphy read Item IV. The Council concluded that there was some deterioration in lending standards, particularly in the field of real estate credit. Several members reported pressure on the part of borrowers for longer maturities of term loans. Despite these developments, however, the Council believes that lending standards generally are consistent with sound banking practices.

ITEM V

(a) THE BOARD WOULD APPRECIATE COMMENTS WITH RESPECT TO DEVELOPMENTS IN THE AREA OF TIME AND SAVINGS DEPOSITS, INCLUDING THE TREND OF SUCH DEPOSITS, THE COST BURDEN OF HIGHER INTEREST RATE LEVELS, AND WHETHER THE USES MADE BY BANKS OF FUNDS REPRESENTED BY SUCH DEPOSITS HAVE BEEN CONSISTENT WITH ACCEPTED STANDARDS OF BANK LIQUIDITY AND ASSET QUALITY. (b) DOES THE COUNCIL BELIEVE THAT COMPETITIVE ABUSES ARE LIKELY TO ARISE FROM THE RAPIDLY EXPANDING USE OF NEGOTIABLE CORPORATE CERTIFICATES OF DEPOSIT OR THAT UNSOUND BANKING CONDITIONS MIGHT ARISE FROM WIDESPREAD RELIANCE ON DEPOSITS OF THIS TYPE? HOW WOULD THE COUNCIL REGARD AN INCREASE TO 3-1/2 PER CENT IN THE MAXIMUM PERMISSIBLE INTEREST RATE PAYABLE UNDER REGULATION Q ON TIME DEPOSITS HAVING A MATURITY OF LESS THAN SIX MONTHS?

Murphy read Item V. In the discussion which followed, the members of the Council agreed that while time and savings deposits continue to expand, the rate of increase has slowed considerably and that it is substantially less than it was a year ago. Most members believe that the squeeze on bank profits currently is less than it was a year ago because of the shifts in the distribution of bank assets that were effected last year. In these circumstances, the pressure to extend maturities and to buy higher yielding assets has lessened somewhat. While the members acknowledged the liberalization in credit standards, there was fairly wide agreement that the lending and investment policies have been consistent with accepted standards of bank liquidity and asset quality.

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The Council does not believe that significant competitive abuses have arisen from the rapidly expanding use of negotiable corporate certificates of deposit or that unsound banking conditions have arisen from the widespread reliance on deposits of this type. A number of members observed, however, that a continuing expansion of the use of these certificates of deposit would tend to lessen the liquidity of the banking system because of the pressure to use these funds profitably.

In the discussion on the possible increase to 3-1/2 per cent in the maximum permissible rate payable under Regulation Q on time deposits having a maturity of less than six months, it was observed that bankers generally would not favor an increase. A number of members of the Council added that they personally would favor greater flexibility in the rates which banks may pay.

ITEM VI

HAS THE COUNCIL NOTED ANY TENDENCY TOWARD HEIGHTENED CONCERN ON THE PART OF THE BUSINESS AND FINANCIAL COMMUNITY WITH RESPECT TO U. S. BALANCE OF PAYMENTS DEVELOPMENTS? ARE THE DIFFICULT NEGOTIATIONS GOING ON WITHIN THE EUROPEAN ECONOMIC COMMUNITY A FACTOR TO BE TAKEN INTO ACCOUNT AND A SUBJECT OF CONCERN TO BANK CUSTOMERS?

Murphy read Item VI. The members reported increasing concern on the part of the business and financial community with respect to the U. S. balance of payments. This is particularly true of customers with international investment and/or trade interests. The difficult negotiations going on within the European Economic Community also are being closely followed.

ITEM VII

THE BOARD WOULD APPRECIATE THE COUNCIL'S COMMENTS ON EFFECTS OBSERVED THUS FAR FROM THE DEPRECIATION AND TAX CREDIT PROVISIONS ADOPTED IN 1962.

Murphy read Item VII. With the exception of certain industries, of which railroads are an outstanding example, the members of the Council have observed few effects that they would attribute to the depreciation and tax credit provisions adopted in 1962.

ITEM VIII

WHAT ARE THE COUNCIL'S VIEWS REGARDING THE IMPACT OF MONETARY AND CREDIT POLICY UNDER CURRENT CONDITIONS?

Murphy read Item VIII and added that the Council's customary reply to this question was probably appropriate. This was agreed with the suggestion that the Council also should note that the policy has been a constructive factor in the domestic economy and at the same time has been helpful to the balance of payments.

* * * *

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There was a brief discussion of the Board's proposed revision of Regulation M, copies of which had been previously forwarded to the members of the Council. The Council decided to indicate its approval of a revision of the Regulation with the suggestion that the comments of certain national banks with branches abroad should be carefully considered before the revision is finally published.

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The meeting adjourned at 12:35 P.M.

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THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M. ON FEBRUARY 18, 1963.

Members of the Board's Division of Research and Statistics participated in an audio-visual presentation on the current economic situation.

Copies of the presentation are to be made available to the members of the Council by the Board's staff.

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THE COUNCIL RECONVENED AT 9:40 P.M. ON FEBRUARY 18, 1963, IN ROOM 932 OF THE MAYFLOWER HOTEL. 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 February 19, 1963. The Memorandum was delivered to the Federal Reserve Building at 11:45 P.M. on February 18.

The meeting adjourned at 10:50 P.M.

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CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 19, 1963

1. What are the observations of the Council regarding (a) recent domestic economic developments, and (b) the business outlook for the first half of 1963 and the year as a whole? (c) Do the members of the Council believe that the improvements in business psychology reported at the November meeting with the Board has strengthened further since that time, remained about the same, or receded?

a) Recent domestic economic developments indicate a continuation of the mixed trends that have prevailed the past several months. While the spending behavior of consumers, as evidenced by retail sales and in particular by the volume of new model automobiles sold, has been encouraging, the decline in new orders for durable goods, the failure of industrial production to rise, and the uncertainty created by the Budget Message, together with the discussion of a possible tax cut, have clouded the immediate outlook.

b) Despite these imponderables, however, the Council anticipates that business in the first half of 1963 will continue to show the moderate improvement that characterized the last six months of 1962. The outlook for the last half of 1963 is less certain.

c) The Council believes that the improvement in business psychology reported at the November meeting has receded somewhat since that time. Developments in Europe, Canada and Cuba, together with the problems associated with the balance of payments, budget deficits, and especially the proposed tax legislation, have lessened the favorable sentiment in the business community.

2. In the opinion of the Council, what factors in the current economic picture suggest the most strength or encouragement? Conversely, what factors appear to be of greatest concern?

In the opinion of the Council, the persistent strength of consumer buying is a major source of encouragement in the current economic picture. This factor and the absence of growth in inventories suggest that new orders and production will probably rise, resulting in some improvement in employment, income, and over-all economic activity. A build-up of inventories by steel users in anticipation of a strike could also contribute to a rise in business in the months immediately ahead.

Excess productive capacity, the lack of vigor in capital expenditures, the relatively high level of unemployment, and recent developments

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in labor negotiations, such as the newspaper strikes and the departure from the guidelines in the dock strike settlement, are currently matters of economic concern.

3. What are the prospects for loan demand at banks during the next several months, including demand in various loan categories? Is the liquidity of the banking system considered ample to accommodate the present and foreseeable volume of credit demands?

The members of the Council anticipate a moderate increase in loan demand during the next several months. Some increase in loans is likely to occur in the durable goods sector, especially if steel users add to their inventories because of the possible reopening of the steel labor contract. The members of the Council believe that the liquidity of the banking system is adequate to accommodate the present and foreseeable volume of credit demands.

4. Does the Council detect any symptoms of deterioration in lending standards, particularly in the field of real estate credit?

The Council has observed some deterioration in lending standards, particularly in the field of real estate credit. There has also been some pressure to lengthen the maturities of term loans. However, lending standards generally are consistent with sound banking practices.

5. (a) The Board would appreciate comments with respect to developments in the area of time and savings deposits, including the trend of such deposits, the cost burden of higher interest rate levels, and whether the uses made by banks of funds represented by such deposits have been consistent with accepted standards of bank liquidity and asset quality.
(b) Does the Council believe that competitive abuses are likely to arise from the rapidly expanding use of negotiable corporate certificates of deposit or that unsound banking conditions might arise from widespread reliance on deposits of this type? How would the Council regard an increase to 3-1/2 per cent in the maximum permissible interest rate payable under Regulation Q on time deposits having a maturity of less than six months?

a) Although time and savings deposits continue to expand, the rate of increase has slowed considerably and is substantially less than it was a year ago. Furthermore, because of shifts in the distribution of bank assets that were effected last year, the squeeze on bank profits currently is less than it was a year ago. Accordingly, the pressure to extend maturities and to buy higher yielding assets has lessened somewhat.

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As the Council has observed, there has been some liberalization in credit standards, but in general, the lending and investment policies have been consistent with accepted standards of bank liquidity and asset quality.

b) The Council does not believe that significant competitive abuses have arisen from the rapidly expanding use of negotiable corporate certificates of deposit or that unsound banking conditions have arisen from widespread reliance on deposits of this type. However, the growth of negotiable corporate certificates of deposit has resulted in important shifts in the types of bank assets. A continuing expansion in the use of these certificates of deposit will tend to lessen the liquidity of the banking system because of the pressure to use these funds profitably.

The Council believes that bankers generally would not presently favor an increase to 3-1/2 per cent in the maximum permissible interest rate possible under Regulation Q on time deposits having a maturity of less than six months.

6. Has the Council noted any tendency toward heightened concern on the part of the business and financial community with respect to U. S. balance of payments developments? Are the difficult negotiations going on within the European Economic Community a factor to be taken into account and a subject of concern to bank customers.

The Council has noticed increasing concern on the part of the business and financial community with respect to the U. S. balance of payments. Customers who have international investment and/or trade interests are particularly concerned not only with balance of payments developments, but also with the difficult negotiations going on within the European Economic Community.

7. The Board would appreciate the Council's comments on effects observed thus far from the depreciation and tax credit provisions adopted in 1962.

With the exception of certain industries, the Council has observed few effects that it would attribute to the depreciation and tax credit provisions adopted in 1962.

8. What are the Council's views regarding the impact of monetary and credit policy under current conditions?

The Council believes that current monetary and credit policy has had a generally favorable impact on the economy. This policy has been a constructive factor in the domestic economy and at the same time has been helpful to the balance of payments.

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The Council favors the revision of Regulation M intended to carry out the purposes of P. L. 87-588, "To improve the usefulness of national bank branches in foreign countries." In considering the Board's proposed revision, members of the Council have reviewed the comments of certain national banks with branches abroad. The Council believes that their suggestions merit consideration by the Board.

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ON FEBRUARY 19, 1963, 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 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, VICE CHAIRMAN BALDERSTON, GOVERNORS ROBERTSON AND SHEPARDSON. MR. SHERMAN, SECRETARY, AND MR. KENYON, ASSISTANT SECRETARY, OF THE BOARD OF GOVERNORS ALSO WERE PRESENT.

The minutes of the joint meeting are being prepared in the office of the Secretary of the Board of Governors of the Federal Reserve System. Their content will be compared with the notes of the Secretary of the Council. Assuming they are in substantial agreement, they will be reproduced and distributed to the members of the Council.

The meeting adjourned at 1:00 P.M.

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The next meeting of the Council will be held on May 20-21, 1963.

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