A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, April 15, 1958, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mangels
Mr. Robertson
Mr. Shepardson
Mr. Szymczak

Messrs. Erickson, Allen, Johns, and Deming, Alternate Members of the Federal Open Market Committee

Messrs. Bopp and Leedy, Presidents of the Federal Reserve Banks of Philadelphia and Kansas City, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Hostetler, Marget, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Kenyon, Assistant Secretary, Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York

Messrs. Mitchell, Strothman, and Tow, Vice Presidents, Federal Reserve Banks of Chicago, Minneapolis, and Kansas City, respectively; Mr. Coombs, Assistant Vice President, Federal Reserve Bank of New York; Messrs. Willis and Anderson, Economic Advisers, Federal

Reserve Banks of Boston and Philadelphia, respectively; Mr. Meigs, Economist, Federal Reserve Bank of St. Louis; and Mr. Levin, Financial Economist, Federal Reserve Bank of Dallas

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 25, 1958, were approved.

Before this meeting there had been distributed to the members of the Committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period March 25 through April 9, 1958, and a supplemental report covering commitments executed April 10 through April 14, 1958. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Reporting on operations since the last meeting, Mr. Rouse said that reserve availability had been maintained and that average free reserves over the period amounted to around $535 million, slightly higher than the average of the preceding three-week period. He stated that during the first part of the period since the last meeting, the money market had been very easy but that some pressures had emerged during the latter part. Heavy lending and investing operations by the New York banks were important factors in producing the pressures that emerged, and the substantial concentration of over-all free reserves in country banks aggravated the problem. An accelerated rate of gold purchases by foreign central banks also contributed to such pressures as had developed in the money market. As regards the securities markets, Mr. Rouse stated that the new issue of 2-5/8 per cent

Treasury notes had been well received. Further, there had occurred an improvement in the market for longer-term obligations and the atmosphere in the capital market was better than it had been three weeks ago. He stated that in his view there was continued speculation in the bond market, and he noted that dealers appeared to be carrying relatively heavy positions.

Mr. Rouse recalled that at the Committee meeting on February 11, 1958, there had been discussed a Staff Committee report on the recommendations contained in a report by the New York Clearing House Association on Interrelations of the Money Market and the Government Securities Market. He noted that the latter report contained two minor suggestions, and that it had been recommended in the subcommittee report that these suggestions be adopted. One of them had to do with the establishment of a standing money market committee composed of representatives from the Federal Reserve Bank of New York and the Clearing House banks to study, on a more or less continuous basis, technical problems of the money market. The other suggestion concerned the daily publication of figures on reserves and borrowings of the New York Clearing House banks. Mr. Rouse indicated that the Federal Reserve Bank of New York was completing plans to implement these suggestions, which he understood to have been approved in principle at the Federal Open Market Committee meeting on February 11. With respect to the recommendation for establishment of a committee, he stated that after careful consideration it had been decided to include representatives of other

sectors of the New York financial community, including the Government security dealers, insurance companies, savings banks and stock exchanges, besides the Clearing House banks. With respect to the recommendation of the Clearing House concerning the reserve data, Mr. Rouse indicated that in the view of the New York Bank it would be desirable to include in the published data net purchases or sales of Federal funds by the Clearing House banks, and that the New York Bank would communicate this view to the Clearing House. The plan would be to give the data not only to the Clearing House banks but to make the figures more generally available by giving the information to the "broad tape" for the benefit of others who may be interested.

With reference to the plans outlined by Mr. Rouse, Chairman Martin suggested the desirability of keeping the Open Market Committee fully informed with regard to every step taken in a matter of this kind because of the importance of market relationships. He expressed the view that the Committee should be given a full opportunity to comment on such matters before any plans were actually put into operation.

Mr. Rouse stated that this was the purpose of his report, that what had been done thus far was in the nature of planning actions to be taken, and that this, therefore, seemed to be a good time to advise the Committee of the steps that were being considered. He also said that it was his understanding that the implementation by the Federal Reserve Bank of New York of both of these suggestions

was approved at the meeting of the Open Market Committee on February 11.

Chairman Martin then stated that he would personally have no objection but that he was just raising a point of order. He thought it was very important for the Open Market Committee to be informed concerning what was going on in the Account at every step. In other words, every member of the Committee should know what the Account was doing vis-a-vis the public. In connection with the report of the New York Clearing House Association, he suggested that perhaps the Committee itself ought to meet with the Clearing House Association for an exchange of views. The report was unsatisfactory and it seemed to him that no progress was being made in dealing with the problem of the money market. This was something for which the Committee had a real responsibility and which it should follow up at every opportunity.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 25 through April 14, 1958, were approved, ratified, and confirmed.

At Chairman Martin's request, Mr. Young made a statement on the economic situation supplementary to the staff memorandum distributed under date of April 11, 1958. His comments were substantially as follows:

The anomaly of recession in output, employment, and trade at high and even still advancing price levels has

continued to be one of the striking features of the economic panorama. Most recent data on recession are suggestive of some slowing down in the pace of decline for total output and employment, some leveling out in trade, and some developments of an expansive character in finance. With construction activity being maintained, the over-all picture domestically appears as one of more diversity or crosscurrent than earlier in the year.

At the same time, the over-all drift is still plainly downward. Indeed, current figures offer only slight basis for hope that the saucering-out phase of recession is at hand, and very little, if any, encouragement for hope that revival will be setting in within a score of weeks. When a more optimistic data showing becomes crystal clear, we will report it with emphasis.

As for highlight developments:

(1) Prices at wholesale and in consumer markets rose further to late March, putting the indexes a whole one per cent ahead of December's level. Higher prices for farm and food products account for the rise at wholesale, and at retail there was further rise in service prices as well. List prices for fabricated items at wholesale have continued to show little change, but market reports indicate growing concessions from list. Basic materials prices have declined further in recent weeks, following two or three months of little change. Recently, metal prices have been quite weak.

(2) The Board's index of industrial production for March was placed down 2 points further, bringing contraction in this sector of output to 12 per cent. Curtailments during the month were largest in petroleum, steel, autos, and industrial equipment. Output of nondurable goods was down only moderately. Preliminary April information is indicating further output curtailment, much along the lines of the March pattern but with the possibility of further slowing.

(3) Construction activity in March is estimated at holding close to record levels in value terms. Contract awards for all nonresidential building, however, were down 18 per cent from a year ago. Also, housing starts failed to show any recovery in March from the sharp February contraction. But VA appraisal requests and FHA applications were both up sharply further last month, which possibly augurs for revival in housing starts in coming months, especially considering the general improvement in the mortgage market.

(4) Retail trade, seasonally adjusted, was off another one per cent in March. It was off 2 per cent from a year ago, and 6 per cent from the late summer high. Sales of household

durables were little changed from February, and down 14 per cent for the year. Auto sales were above February by 4 per cent but 32 per cent under a year ago. April sales of domestic new cars are showing no improvement, but sales of foreign cars continue strong. Used car sales have been active in recent weeks, with the March sales rate up 9 per cent from February. Late model used car prices have strengthened appreciably in this period.

(5) Manufacturers' sales and orders have continued to show declines, with the fall-off much sharper in durable goods than nondurable goods lines.

(6) Business inventory liquidation in January and February, especially in durable manufacturing, was very sharp, and is believed to have continued in March, though it is hard to imagine that the rate of liquidation could have increased further.

(7) The labor market, after allowances for seasonal influences, has continued to show further weakening. With unemployment failing to recede seasonally, the unemployment rate rose to a high for this recession of 7 per cent. The increase in unemployed was again marked for men in the younger age bracket. Female unemployment, in contrast, declined more than seasonally. Manufacturing employment is now reduced to the lowest level since August 1950, with the declines largest in heavy manufacturing. Employment in nonmanufacturing lines, which leveled off or showed only modest reduction in the two preceding postwar recessions, has shown significant reduction over recent months. Construction employment, despite estimates of the value of construction activity continuing close to record levels, is off a quarter of a million or 9 per cent from a year ago.

(8) One result of the unusually high unemployment rate for male workers at younger age levels is a sharp decline in the marriage rate. The number of marriages has declined 44 per cent from a year ago, with an accompanying marked decline in the marriage rate per 1,000 population. This is the lowest marriage rate since 1933.

(9) Weekly hours in manufacturing in March were little changed from February, which may reflect technical adjustments in production schedules rather than in average hours worked per week over the month. Average weekly earnings were about 2 per cent under a year earlier but adjusted for the lower purchasing power of the consumer dollar, were off 5 per cent from that time.

(10) The spring McGraw-Hill survey of business plant and equipment expenditure plans, made in March, is due for release

later this week. It will show a projected cutback of 12 per cent for 1958 vs. 1957, compared with a 13 per cent cutback between the two years shown by the earlier Commerce-SEC survey. Since the McGraw-Hill survey is more heavily weighted with reports from large companies, this result may be interpreted as roughly the same as the Commerce-SEC survey. The McGraw-Hill survey obtains a preliminary projection of expenditure plans for 1959. These come out at 20 per cent under the 1957 level, or approximately the level that is indicated by these surveys to be reached by the fourth quarter.

(11) GNP for the first quarter is now estimated within Government to have been at an annual rate of $424 billion, down $8-1/2 billion from the fourth quarter and $16 billion from the third quarter. This makes a percentage decline since early fall of 3-1/2 per cent in value terms, but with prices higher the decline in physical terms is more nearly 4-1/2 per cent. In order of importance, the major factors in the contraction have been inventory liquidation, lower plant and equipment spending by business, reduced consumption, and reduced purchases of U. S. exports by foreigners.

(12) Exports for February, the latest month for which data are available, experienced a further sharp drop. The decline was again concentrated in steel, coal, and agricultural products and continued the earlier declines in exports to Western Europe.

(13) In Western Europe, stability in industrial production has continued to be the outstanding feature, but recent movements of the European indexes show mixed tendencies. In Japan, recession in output has been extended. In Canada, however, industrial output has turned about since December and edged up slightly.

(14) A closing observation about the unemployment figure, which has been receiving much attention as a business cycle index. The unemployment volume, while coincident in movement with general economic activity on the downside is a sluggish mover as revival sets in. This is attributable, on the one hand, to accretions to the labor supply that are constantly occurring and, on the other hand, to the increases in labor productivity that are particularly marked in recession periods and which, cnce gained, tend to be sustained during the revival.

A staff memorandum on the outlook for Treasury cash requirements and bank reserves had been sent to the members of the Committee under

date of April 11, 1958. With further reference to financial developments, Mr. Thomas made the following statement:

In the financial area, during recent weeks, total credit has apparently continued to expand, but in a manner that indicates enhanced liquidity of the economy. Savings of consumers held in financial form seem to be increasing, while consumer debt has been decreasing or not increasing as rapidly as in the past. Business loans at banks have increased less than at this time in other recent years, but corporate issues for new capital have continued at a high level, as have new issues of State and local governments. The Federal Government, which generally reduces debt in the early months of the year, has become a small net borrower with payment for the April financing today. Demand deposits of business and individuals have turned up, on a seasonally adjusted basis, and time deposits have continued to increase.

Existence of crosscurrents and adjustments within the structure of credit markets is indicated by variations in interest rates and by reserve shifts among banks. Short- and medium-term rates have generally declined further to the lowest levels since early 1955, while long-term rates have remained firm since January at levels above those prevailing prior to September 1956. The more sensitive short-term rates--for Treasury bills and Federal funds--have tended to fluctuate considerably.

These rate differences have reflected the varying impacts of market forces. When the margin between short-term market rates and Reserve Bank discount rates becomes wide, the market rates are likely to fluctuate more erratically in response to changes in market forces. Short-term rates normally respond more sensitively to temporary changes in market factors and on the longer swings move faster and farther than long-term rates. Important recent factors causing a continued wide margin have been the marked reduction in short-term borrowing from banks and the continued strong demands on capital markets. Although new capital issues in April may total somewhat less than in other recent months, they are by no means small. Some reductions in the volume of outstanding short-term issues of the Federal Government and additions to medium and longer-term obligations have also had some effect on the rate structure.

Wide variations in financing needs of securities dealers and shifts in the distribution of reserves among member banks have also influenced the sensitive open-market rates. Positions and borrowings of securities dealers have fluctuated widely and at various times have risen to record high levels.

Dealers have often been unable to obtain financing from usual sources at rates which permit them to carry their positions on favorable terms. They have frequently had to borrow from New York banks at penalty rates.

While the net amount of free reserves for all member banks has remained generally stable for a number of weeks at close to or above $500 million--a level ordinarily denoting an easy situation, banks in New York City and Chicago and probably in some other cities have shown wide changes in their reserve positions. Shifts in reserves have been greater than indicated by reserve balances and borrowings at Federal Reserve Banks, because frequently city banks have maintained their reserve positions by borrowing from other banks that had excess reserves. It may be said that to some extent the interest rate variations help to bring into use existing reserves that might otherwise remain idle. On the other hand, it is possible that some of the funds loaned might have found other uses were outlets through the Federal funds markets unavailable. The borrowing banks would have had to resort to the Reserve Banks for needed reserves or to liquidate assets. Any such pressures would tend to bring the bill rate close to the discount rate.

In the past week or ten days there are indications of some rise in bill rates above the very low levels reached around the turn of the month. At the same time rates on long-term U. S. securities have shown some tendency to decline. If present indications of a lower level of corporate borrowing in capital markets are borne out, a more general decline in long-term rates might be expected. Treasury borrowing needs for new money seem to have been covered until around the middle of July unless there is a sudden burst of expenditures before that time. Treasury refunding in June, however, might be expected to include a long-term option.

Analysis of bank credit developments since the latter part of February indicates that demand deposits, other than interbank, have increased at New York City banks while they declined at banks in other cities. In the same period last year these deposits showed a general decline. Time deposits have increased somewhat more outside New York, and interbank deposits have increased at outside banks while showing little change in New York; this appears to be a usual seasonal development. The net result shows that, after adjustment for the decreases in requirement percentages, required reserves have increased fairly substantially at New York banks and to a smaller extent at reserve city banks, while showing slight decreases at Chicago and at country banks. New York City banks have had to increase their borrowings from other banks to cover their reserve needs.

Total loans and investments at city banks have continued since February 26 to increase at a somewhat faster rate than

they did in the same periods of 1957 and 1956. Although the dollar amount of the increase was smaller in New York than in other leading cities, relative both to February levels and to increases in the same period of the two previous years, the recent growth in New York has been more rapid. This is due largely to the increase in loans to securities dealers by New York City banks.

Nearly $1 billion of reserves have been released by the reductions in reserve requirements since February 26, and an additional $250 million have been supplied through System open market operations through April 9. These additions to the reserve supply have been absorbed roughly as follows: Required reserves have increased by about $200 million as a result of a growth in deposits at a time when a seasonal decline is customary. Currency in circulation has increased by $200 million--also a greater than seasonal increase. Foreign operations--principally gold withdrawals--have accounted for a drain of over $400 million on reserves, and some $200 million have been absorbed by float and other factors. Finally, free reserves have increased by $230 million from $330 million to $560 million.

It appears likely that the gold drain, which is again close to $100 million in the current week, will continue at the rate of $100 million or more a month for the next two months, if not longer. Payment for the new Treasury issue through tax and loan accounts today will result in a sharp increase in required reserves, which will be gradually reduced, however, in the next two months as the tax and loan accounts are drawn down. Other demand deposits would ordinarily show only a moderate increase during the next two or three months, but under present circumstances a greater than seasonal growth would be desirable.

On balance, to maintain a condition of ease conducive to further credit and monetary expansion, which would probably require keeping free reserves at $500 million or more, some $300 million of additional reserves may need to be supplied in the next three weeks. Additional amounts might be needed at the end of May or early in June. Variations in money market pressures and in sensitive interest rates would probably be somewhat less erratic if discount rates or at least repurchase rates were lowered to nearer the market rates. Pressures on central money markets could be relieved by a reduction in reserve requirements at city banks. Country banks seem to be well supplied with reserves

for the present. Any reduction in reserve requirements of half a billion dollars or more would probably need to be offset in part by System sales of securities in order to prevent unduly easy money market conditions.

Mr. Hayes presented the following statement of his views with respect to the business outlook and credit policy:

With the release of various significant statistical data for March, it seems clear that the usual seasonal upturn in business activity has not yet occurred. The best that can be said of these figures as a whole is that there has been some slowing down in the recent rapid deterioration--but the economy is still headed downward, and even though there may be some signs warranting hope that business will level off within a few months, nevertheless there is little on the horizon to point toward a rapid or dynamic recovery.

On the unfavorable side may be mentioned the continuing poor performance of the steel and automobile industries, renewed pressure on metal prices (which may induce further inventory reduction), and slippage rather than strength in construction--besides additional evidence that economic expansion in Europe has virtually ceased. Among the few favorable developments has been some improvement in orders, especially in the producers' goods sector.

The longer the recession continues, the greater is the threat that layoffs, short hours, exhaustion of unemployment benefits, salary cuts for higher-paid personnel and adverse psychological factors in general may cause a serious setback in consumer spending. So far the latter has held up pretty well, in contrast with inventory and fixed capital investment, but retail sales figures declined slightly from February to March. February statistics on consumer credit indicate that, for the first time in several years, there was a drop in the amount of such credit outstanding.

Public policies continue to affect current business developments through expectations of a possible tax cut or possible large-scale increases in Federal expenditures rather than through any recent actual changes of significance. The housing act and highway bill are unlikely to have an important short-run effect on construction outlays or on the flow of consumer income, and in the meantime total Federal cash spending is not showing any material growth. Pressure

for prompt action by the Government in the fiscal area seems likely to increase in the absence of convincing signs that the recession--or at least its declining phase--has about run its course.

Despite a few recent price reductions by manufacturers designed to stimulate higher volume, there has been no widespread move as yet along these lines. There is, however, some ground for hope that a halt in the rise in the indexes of consumer and wholesale prices may be imminent. In the consumer index this would probably reflect primarily an expected more-than-seasonal drop in meat prices.

With the Treasury's highly successful cash financing out of the way, the prospect is for no further major Treasury operation until the refunding program scheduled for early June. For the time being the debt ceiling is of course ample, but perhaps it is not too early to have in mind the probable inadequacy of the ceiling to meet prospective cash needs in the July-December period. It is certainly to be hoped that we can avoid a repetition this year of last autumn's troublesome and embarrassing debt ceiling complications with respect to Treasury financing activities.

Comparisons of trends in total bank credit in the last four weeks with a year ago are rendered difficult by last year's sizeable Treasury financing operations. In the area of business loans, however, tax-period borrowing apparently fell short of last year's experience by about a third. It is interesting to note that the money supply at the end of March was still below the end-of-October level, on a seasonally adjusted basis, despite an increase of some $3 billion in total loans and investments of weekly reporting banks. The explanation lies principally in the rapid growth of time deposits, and the increase in combined money supply plus time deposits points to an encouraging improvement in over-all nonbank liquidity. The seasonally adjusted money supply has been growing in the last two months. It is also encouraging that the excess of total reserves and required reserves over a year earlier (after adjustment for changes in required reserve ratios) has widened from month to month during the first quarter.

I think that the prospect of a continued decline in business activity, with unemployment probably continuing for some months at socially unacceptable levels, suggests that antirecession measures going beyond those already adopted are needed. In the area of monetary policy this means maintenance of at least the degree of ease prevailing since the last meeting. While we should of course do our

share in meeting the problem, I am somewhat apprehensive over the tendency to place too much of the antirecession burden on credit policy as compared with fiscal and other measures. Perhaps the coming Congressional hearings will give System representatives a suitable occasion to point out publicly that the country does not seem to be sufficiently aware of the limitations of credit policy.

The last meeting's discussion brought out interesting differences of opinion as to the danger, on the one hand, of permitting too much illiquidity in the banking structure to inhibit lending activities which would be helpful to recovery, and the danger, on the other hand, of forcing interest rates to artifically low levels, inducing the banks to extend unsound credits, and creating excess liquidity which will be hard to cope with when inflationary pressures revive. While I think we must tread cautiously between these risks, my own judgment is that we have not moved too far or too fast, especially as there is little likelihood that the recovery process will be so rapid as to make it difficult to cope with excessive liquidity. I believe that our first thought should still be for the encouraging of greater readiness to lend on the part of the banks.

In terms of free reserves I would think that we should maintain a minimum target of $500 million, and I would not be at all concerned if the figure should rise at times to as much as $750 million, if this seemed necessary to prevent a tightening in the position of banks in the money centers, or to maintain an easy "feel" in the money market, or to induce a continued gradual widening in the spread of adjusted required reserves over last year's level. Current projections suggest that this may be accomplished in the next two weeks with a minimum of open market operations but that fairly sizeable purchases may be necessary early in May.

As for reserve requirements, I would hope that the Board of Governors might take advantage of any period when substantial additional reserves are needed to carry out a further reduction in reserve requirements, in accordance with the longer-run objective of attaining a more equitable level of required reserves. Such an opportunity may occur in late May or early June, when a reduction in requirements would be of immediate help to the Treasury in connection with the June refunding and would obviate the need for open market purchases which now seems likely to develop at that time. I would also hope that the next cut in requirements

would result in narrowing the spread between requirements at central reserve and reserve city banks.

With the Treasury financing out of the way, the question naturally arises whether a further cut in the discount rate is appropriate. While we speak a good deal of the wide discrepancy between the 2-1/4 per cent rate and market rates, this is much more pronounced in the case of the Treasury bill rate than as applied to other market rates. One argument for a reduction is that it might put additional pressure on the prime rate. On the other hand, it has been argued that the banks have already resisted such pressure and that another discount rate reduction would make little difference. As a matter of interest, the head of one of the largest New York banks expressed the view last week that if the prime rate were cut, it would be primarily because of the pressure induced by lower yields recently prevailing in the corporate bond market. My own inclination would be to recommend a reduction in the discount rate by 1/4 per cent to 2 per cent, but to try to hold the discount rate at that level, in the absence of further serious economic deterioration, in the interest of providing a benchmark for long-range encouragement of saving and investment.

Mr. Erickson said that business in the First District still continued to move downward. At the end of February nonagricultural employment was more than 3 per cent lower than in February a year ago; textiles were down 15 per cent and durables about 10 per cent, with the decline in durables attributable largely to nonelectrical machinery, primary metals, and fabricated metals. The figure for insured unemployment on March 22 was 40 per cent higher than the peak reached in 1954 but 30 per cent lower than the peak in 1949. He pointed out in this connection that when comparing 1949 and 1954 it must be realized that there were more people employed in textiles in 1949. Construction awards for the first two months of this year

followed the national average. Through April 5, retail sales for the year were even with last year but in the four weeks preceding Easter they were 6 per cent below last year as compared with the national average of 4 per cent. The collection ratio in February was slightly better than February a year ago. New car registrations for the first two months were 28 per cent below last year. The March poll of New England purchasing agents reflected the rather optimistic tone of the February poll and was quite optimistic in comparison with the polls in December and January. Outstanding business loans at reporting banks were down on April 9 by $8-1/2 million, this being the first decline for six weeks. The winter resort business was still very good.

Mr. Erickson stated that the Reserve Bank had conducted for three years a survey of plans for plant expenditures in Massachusetts and that this year the survey was expanded to include the other New England States, with respondents reflecting 40 per cent of manufacturing employment. The 1958 survey, which had just been completed, indicated a reduction this year of 24 per cent below 1957 compared with a reduction of 17 per cent indicated by the Commerce-SEC survey. However, in Massachusetts plant expenditures last year expanded 16 per cent as compared with a national average of 7 per cent, so that 1957 probably presented a rather high base for comparative purposes.

Mr. Erickson went on to say that participants in the Reserve Bank's recent semiannual business roundup, including economists from banks, insurance companies, industry, and trade, estimated that gross national product in the last quarter of 1958 would be $7 billion higher than in the first quarter, that the index of industrial production would move down further but would stand at 133 in December, and that the unemployment figure in December would be about 4.5 million. At the Reserve Bank's annual professor-banker seminar held last week, the participants were asked when they thought an upturn in business would come and about one-half said they thought it would develop in the last quarter of this year. A few said the third quarter, and the remainder said that an upturn would not occur until the first or second quarter of next year.

As to policy, Mr. Erickson said that, with the economy still drifting downward, he would make no change in the directive. He would be inclined to favor a reduction in the discount rate to 2 per cent and he would like to see a $600 million minimum of free reserves rather than $500 million. If it would not prejudice the bill on reserve requirements recently introduced in Congress at the Board's request, he would go along with the views of Mr. Hayes regarding a further reduction in reserve requirements.

Mr. Irons said that, considering the fact that the country was in a recession, it seemed to him that the most recent developments had been mildly encouraging. He did not see signs that the

downward movement was feeding upon itself or accelerating; in fact, it might be slowing down a bit. This was reflected in conditions in the Eleventh District and in the state of mind and thinking of the people in the district. Of course, as he had reported previously, oil production was being cut back and a decision was being made this week on the number of days allowable for the next month. However, it seemed reasonably safe to say that the situation had about hit bottom, and he could not imagine that a decision would be made to go below an eight-day allowable basis. The agricultural outlook was quite favorable and available reports indicated that the people in agriculture were quite optimistic. There had been too much rain up to two or three weeks ago but in the last few weeks the weather had been very good and agriculture made much progress. Construction was holding up very well with quite a bit of major construction going on, including several major projects in the Dallas area. The Texas Highway Commission had issued a report stating that it planned $250 million in highway construction this year, a substantial increase over last year. Retail trade in the last two weeks was very good. Although the reports through April 5 needed some adjustment, they indicated that department store sales in three of the five major cities in the district were above a year ago. They were down in Houston, which was the ill spot in the district if there was really any such spot. As to the banking picture, loan demand continued strong, with loans running ahead of comparable

periods last year. The banks apparently were liquid and interest rates were holding well. Some bankers had indicated that they saw no need to reduce rates as long as the volume continued strong and rates could be held. The only borrowing from the Reserve Bank was by a few country banks for seasonal needs.

Summarizing, Mr. Irons said that the situation, while not booming and not moving up, seemed to be moving along at quite high levels. In general, the lack of pessimism was noticeable. At a joint directors' meeting held in Houston last week, the reports were quite optimistic and favorable. Excluding those affiliated with the oil industry, there was an absence of pessimism though a recognition that it would take a little time to work out of the present situation.

As to credit policy, Mr. Irons said that he would like to see the status quo maintained as nearly as possible, without further ease. The availability of reserves appeared to be adequate, a considerable degree of liquidity had been achieved, and the money supply was increasing. After the deposits created by the recent Treasury issue had gone through the banks, he supposed that they would show up within not too long a time in private deposits, with another substantial increase in the money supply as a result. Accordingly, he would prefer to let the situation move along with the present degree of ease and with free reserves at their current level. He would

prefer not to see any further action at this time on the discount rate or a reduction of reserve requirements. He would not favor any change in the directive at this time.

Mr. Mangels said that there was not a great deal to report in the way of changes in the economy of the Twelfth District. Final February employment data indicated moderate declines in California and Oregon but the other States reported relatively stable employment. In Southern California, auto assembly plants reduced workers by some 2400 in late March, and a Ford plant in the Bay area was planning to reduce employment by 400 later in April. At the beginning of April, unemployment in Oregon decreased by over 8,000 persons, with employment increases in lumber, construction, and agriculture due to favorable weather conditions, and farmers in the Northwest were in a good mental state. At the meeting of the Portland Branch directors last Thursday, the directors seemed somewhat more optimistic than they had been for some time. It was expected that conditions would improve definitely by mid-year and the sentiment of major retailers, while not optimistic, was reported to be far from pessimistic. Continuing rains in California had delayed the planting of early field crops, which would mean missing the first markets and premium prices. Cotton planting had also been delayed, so that when a dry spell came the farmers who do not operate in large units would be clamoring for labor and for the limited supply of rentable heavy farm equipment. Steel production in March was up 5 per cent from

February, with the mills running at an average rate of about 71 per cent, but in early April the rate was down to about 61 per cent due to a shutdown of some units for relocation of plant facilities. Some West Coast paper container manufacturers had cut prices as much as 10 per cent in the hope of stimulating sales. Department store sales for the week ended April 5 showed no change from a year ago because of certain large sales held in Portland during the comparable week last year. If Portland were disregarded, sales this year would have been up about 8 per cent for the week throughout the district. In the three weeks ending April 2, commercial and industrial loans were up $67 million, this being about a 13 per cent increase over the same period a year ago and contrary to the national pattern for the period. Demand deposits were down about $109 million while time deposits were up $111 million, an increase about 2-1/2 times that of a year ago. Borrowing from the Federal Reserve Bank was negligible and the Federal funds market was relatively quiet.

In summary, Mr. Mangels said that according to present indications the expected March seasonal upturn probably was not realized. When all the data were in, they would be somewhat disappointing, for there was no evidence at all of a seasonal upturn. However, interpretation of the data probably would be complicated a little by the unseasonal weather. Mr. Mangels did

not see any particular evidence of positive strength in the economy, except possibly in the field of residential construction. When March and April data became available, they probably would not show much more than a slowing down of the rate of decline.

On the basis of the factual situation, Mr. Mangels felt that a continued policy of ease was in order. This would be particularly pertinent if taxes were not going to be cut, for in that event monetary policy would have an even greater responsibility to be as helpful as possible. He would favor a range of $600-$700 million for free reserves, going a little higher if necessary, and he also would favor some reduction in the discount rate. At last week's directors' meeting the 2-1/4 per cent rate was continued, but with the understanding that next week there would be, if necessary, another meeting of the full board of directors to consider a change in the rate. Mr. Mangels felt that the present policy directive was entirely in order and that it was too soon to reduce reserve requirements again. However, in May or June a reduction probably would be appropriate.

Mr. Deming said that economic activity in the Ninth District was showing some seasonal pickup, but not as much as was hoped for nor as much as is usual. The district, however, continued to be less affected by economic downturn than the nation as a whole. The farm sections of the district were getting along fine; agricultural prices, particularly meat animal prices, were substantially

higher than a year ago and farm income was holding up very well. The winter had been exceptionally open and mild, moisture generally was adequate for spring planting, early prospects indicated a big increase in wheat acreage, and the general crop outlook, as of now, was excellent. As against a year ago, March bank deposits in country banks were up 7 per cent, bank debits and department store sales in farm areas both were up 8 per cent, and farm machinery sales were particularly good. A local newspaper recently had a headline reading "dealers report spring sales running strong" and went on to say that "there's no recession this spring in the Upper Midwest farm machinery business." The current business recession was neither "farn led" nor "farm fed"; in fact, the favorable farm picture gave a strong underpinning to the entire district economy. Residential building also continued to be a strong factor in the district--stronger than in the nation. As compared with a year ago, the number of dwelling units authorized by permits in the Ninth District was up 40 per cent in January and 45 per cent in February, and preliminary information indicated that the number authorized in March also was up. Twin City builders were optimistic for the first half of the building season.

The downturn in the Ninth District, Mr. Deming said, continued to reflect almost exclusively weakness in mining and manufacturing and thus its impact was mainly in the copper country of Montana and the iron ranges of Northern Minnesota, Wisconsin, and

Michigan, plus some impact in the Twin Cities. Virtually all of the above-normal employment was in these sections. Lumber activity seemed to be picking up a little, thus offsetting some--or at least not leading to more--unemployment in the areas where both mining and lumbering are important. Preliminary March figures on employment in Minnesota and Montana indicated that nonfarm employment continued to slide off in that month. In February, in Minnesota and in Montana, it was 4,500 and 5,700, respectively, under last year; in March the figures were 11,244 and 7,000, respectively, below a year earlier. The mining areas also posed the biggest questions about unemployment for the balance of 1958. Much of the current unemployment there was seasonal--perhaps two-thirds of it, but with expectations that iron ore shipments this season would not run more than 65 per cent of last year, the seasonal pickup in mine employment would be far weaker than usual and high unemployment was expected to continue in the iron country throughout the summer. In addition to unemployment, there was now, and probably would continue to be, considerable underemployment in iron mining. Copper, on the other hand, was not expected to get any weaker and hence copper mining unemployment should not grow.

In further comments, Mr. Deming discussed public reaction to economic conditions. Like the rest of the country, the Ninth District was going through "think up" and "buy now" campaigns, without any conspicuous success. Sales, price concessions, and real selling campaigns,

however, gave some indications that consumer buying could be maintained and increased if a real effort was made, particularly along price-cutting lines. Savings continued to grow, apparently at a faster rate than last year, and purchasing power seemed to be maintained reasonably well. Even in the iron country, unemployment compensation plus company payments plus part-time work was holding up purchasing power pretty well--from 50 to 65 per cent of normal. Mr. Deming then summarized the results of a State-wide public opinion poll on business conditions which was taken by a Minneapolis newspaper in the last week in March. In general, the poll indicated considerable optimism about the state of business for the balance of 1958, little anticipated change in personal financial conditions over the next 12 months, and expectation of the same or higher prices. A large percentage of the respondents appeared not to be affected directly by the recession.

With reference to credit policy, Mr. Deming said that he wished to associate himself completely with the position taken by Mr. Hayes regarding open market operations and reserve requirements. He would differ with Mr. Hayes, however, in regard to his thinking on the discount rate. The Minneapolis Board of Directors met last week and, while the existing rate was not changed after a rather thorough discussion, he felt sure that the directors would like to reduce the rate by 1/2 per cent very quickly, thus putting the discount rate in closer touch with the bill market. Although one

cannot be completely logical on the matter of relationships, the directors were of the opinion that a rate of 1-3/4 per cent would be more logical than 2 per cent and far more logical than 2-1/4 per cent.

Mr. Allen stated that where comparable data were available, it appeared that in March and thus far in April Seventh District States, Iowa excepted, continued to experience greater declines proportionately than the nation as a whole. That situation was, of course, directly related to the emphasis upon machinery and automobiles in the district. The impact of rising defense contracts in the area was not yet of importance, inventory reductions and capital cutbacks continued to dominate the picture, and retail trade was significantly slower in February and March. Amidst the general atmosphere of deterioration, however, there were reports from individual firms that new models meeting with customer approval were doing well and were "on allocation" in some instances. Examples were to be found in the appliances and in camera and office machinery lines. The most encouraging spot in the general picture was evidence that inventories in some lines were on a hand-to-mouth basis, and that sales were being lost as a result of restrictive inventory policies. Sears, Roebuck officials, for example, were said to be receiving complaints from local outlets that stocks of certain goods were inadequate. It seemed apparent that the ratio of <u>total</u> stocks

to <u>total</u> sales did not tell the whole story.

Mr. Allen went on to say that total construction awards in the district, as tabulated by F. W. Dodge, trailed 1957 by 10 per cent in the United States and 32 per cent in the Midwest during the first two months of the year. Contract awards in the area had been less favorable than for the nation in all major categories. Public works projects, particularly road building, which had helped maintain contract awards totals in the United States as a whole, had been the weakest link in the Midwest. Reports on potential home building activity in the area were mixed, both pessimistic and optimistic reports having been received. The true picture appeared to be that builders and lenders were proceeding cautiously, awaiting the acceptance of new models. It was apparent in the Chicago area that builder emphasis had shifted to lower-priced brackets as compared with other recent years. Reports from consumer credit lenders indicated that delinquencies and repossession rates on consumer credit contracts were rising significantly; meanwhile, there was some evidence that instalment credit terms eased further in February. Reports from one sales finance corporation showed an increase during February in the proportion of paper acquired with low percentage downpayments on farm equipment and trucks. Although Midwest bank lenders reporting automobile credit activity generally showed no reduction in downpayments in

February, most of them did report an increased proportion of contracts with maturities of over 30 months. For the entire district the proportion of loans at more than 30-month maturity rose from 22 to 24 per cent between January and February. In Chicago, where no loans of over 30 months were reported as recently as last October, the rise was from 7 to 10 per cent. Business borrowing from major Midwest banks in the two March tax borrowing weeks rose 77 million, about 35 per cent of last year's increase during this period, but by April 2 net repayments had offset half of this growth. Loan demand appeared to be much lighter relatively in the Seventh District than for the United States as a whole. In the four weeks ended April 2, Seventh District banks accounted for only about 7 per cent of the national business loan growth, compared with roughly 20 per cent in the same period last year.

Mr. Allen said that according to the quarterly interest rate survey, covering business loans made by large district banks during the first half of March, the average interest rate on loans with less than one-year maturity was 4.42 per cent, compared with an average of 4.84 per cent last December. This decline, of course, reflected the reduction of the prime rate from 4-1/2 to 4 per cent in January. The decline in the rate was greatest on the largest loans, which commonly are made at the prime rate. On loans under $10,000, the average rate dropped only 28 basis points--from 5.88

to 5.60 per cent. The effects of the April 1 Cook County tax situation had been pretty well washed out by now. The reserve drain on the leading Chicago banks due to the decline in deposits over April 1 was about the same as last year--close to $500 million on a reserve week average basis. That drain, however, was more than offset by declines in required reserves and earning assets, and an inflow of correspondent balances. Bill holdings and borrowings reached a peak on March 26, but a smaller increase in indebtedness accompanied the buildup of bill inventories this year than in 1957, and most of the borrowed funds were obtained in the Federal funds market. It appeared that in the current circumstances the banks were not liquidating their bill portfolios as rapidly as they did a year ago.

After commenting on the wage negotiations in the automobile industry, Mr. Allen turned to System policy and expressed the view that the situation called for further action. As far as free reserves were concerned, he agreed with Mr. Irons that it would be suitable to maintain the range of $500-$600 million. On the discount rate, he was inclined to agree with the views expressed by Mr. Hayes and Mr. Erickson, and he would favor a reduction to 2 per cent. He said that bankers in the Seventh District seemed to agree that the prime rate was tottering--in fact, a good many loans were being made at less than the prime rate. He was pleased to see the developments with respect to time deposits and felt that the

rate structure undoubtedly was having an effect in that respect, but that might also be tottering. At any rate, he would be inclined to recommend a discount rate of 2 per cent at the next meeting of the Bank's directors.

Mr. Leedy stated that the situation in the Tenth District showed little change since his report at the last meeting of the Committee. There had been some delay in planting due to a backward spring and an excess of moisture, but things were now going ahead. With reference to previous comments about farm machinery, there had been some discussion at the directors' meeting last week based on observations at the last meeting of the Omaha Branch directors. It appeared that as far as used farm machinery was concerned, dealers' stocks were practically depleted, but that the picture with regard to new farm machinery was not quite comparable. There were a few additional minus notes in the district, further curtailment of oil production being one. Also, there had been some temporary shutdowns in automobile assembly plants which affected the employment situation. However, the strength generally of agriculture and livestock prices affected to a very significant extent the economy of the district.

Mr. Leedy said that to him both a reduction in reserve requirements and a reduction of the discount rate were called for, but that he was troubled about the question of timing. To take

both of these actions virtually simultaneously seemed to him to involve some risk from the standpoint of public psychology. However, as Mr. Thomas had said, the System would have to supply $300 million of additional reserves in the next three weeks to maintain approximately the level of free reserves that had prevailed over the past three weeks, and he subscribed to not reducing the present level of free reserves. If anything, he would favor increasing that level moderately, and he felt that a range of $500-$700 million would not be inappropriate. To handle the operation through the System Account would tend to reduce further the limited supply of short-term obligations. Therefore, if it could be done, his preference would be to have first a reduction of reserve requirements, followed a little later by a reduction in the discount rate. As to the reduction in reserve requirements, he suggested that the Board of Governors might now be in a better position than previously to do something for the central reserve city banks for several reasons which he mentioned. It was in the central reserve cities that added reserves appeared to be most needed, and it seemed to him that the Board could make a case for doing something now for the banks in those cities, particularly in view of the change that had occurred over the years in the position of central reserve cities as centers for the concentration of bank deposits. On the discount rate, it was his view that anything less than a reduction

of 1/2 per cent might be regarded as an indication that the System was not moving as rapidly as it should in the light of the current economic situation. Therefore, as he saw it, reductions in reserve requirements and in the discount rate were quite important and both actions should be taken as quickly as possible. However, as he had said before, the timing of these actions was the element that was disturbing to him.

Mr. Leach stated that the principal industries of the Fifth District continued to show downward changes. In the textile industry many weaving mills were on a 4-day week, some were on a 3-day week, and fewer and fewer were operating 6 days a week. Furniture factories showed further cutbacks in operations as orders ran substantially under the first part of 1957, and there was still no sign of the improvement in the lumber market which traditionally comes in the spring. The output of bituminous coal was currently running about 25 per cent behind the corresponding period last year, and insured unemployment in West Virginia had reached 12.4 per cent, a level exceeded by only three other States. With respect to prices, there seemed to be continued rigidities resulting in part from cost rigidities and in part from mental rigidities that had developed in periods of expanded markets. A spokesman for one of the big three aluminum companies stated in Richmond recently that under the "new economics" price competition within an industry is of no importance compared to research and adaptation of product to new uses. Other companies

seemed to hold similar views. Nevertheless, there had been a scattered weakening of prices--some apparent, some hidden. Like other producers, Reynolds Metals Company of Richmond had reduced the price of aluminum two cents a pound. A spokesman for the coal producers in West Virginia said that prices remained firm, but a survey of large consumers and sales organizations in the Richmond area revealed price concessions ranging from ten to forty cents a ton. A Baltimore manufacturer had reduced prices on portable electric tools and fertilizer manufacturers reported reductions in prices of about $1.50 a ton. Reports from Southern Virginia and the eastern part of the Carolinas, regions in which there was a tremendous decline last year in cash receipts from crops, indicated that the impact on the farmers themselves was softened considerably by soil bank payments and lower production expenses. There lower expenses were a depressing influence, however, since they represented smaller payments to labor and merchants in agricultural areas, particularly those selling fertilizer and other farm supplies.

With respect to System policy, Mr. Leach said he believed that the degree of ease appropriate under current conditions had been achieved. While it was a difficult matter to judge, he thought the point had been reached where further additions to liquidity would have little, if any, beneficial economic effect. There

appeared to be little reason for putting additional downward pressure on short-term rates. He recommended, therefore, that the directive be renewed without change and that the Manager of the Account be requested to maintain substantially the same degree of ease that had prevailed during most of the past three weeks. He would not care to see net free reserves average above $600 million. Another reduction in reserve requirements would be desirable at this time when substantial amounts of additional reserves are needed.

Mr. Robertson said he had a very definite feeling that the economy was getting ready to start upward. The change in weather would bring about a big psychological change and it appeared that price cutting was going on at the moment, which would help to stimulate buying. Consequently, he was firmly convinced that this would be about the last clear opportunity to move downward policywise and thus be in a position to start back up again. Therefore, it was his view that the Board ought to consider reducing reserve requirements. In his opinion it should reduce reserve requirements at central reserve city banks by 1 per cent and requirements for reserve city banks by 1/2 per cent, thus making available additional free reserves to the extent of about $450 million. The country banks appeared to have ample reserves at the moment and he would, therefore, not reduce the requirements applicable to them at this

time. The action on reserve requirements would offset the gold drain which Mr. Thomas had mentioned and, if necessary, partially offsetting actions could be taken. At the same time it would be possible to operate within a range of free reserves between $500 and $700 million. On the mechanics of the change in reserve requirements, he would favor first a 1/2 percentage point reduction for central reserve city banks and then in a week a 1/2 percentage point reduction for both central reserve and reserve city banks. He would hope that the discount rate could then be reduced from 2-1/4 per cent to 1-3/4 per cent as soon as possible.

Mr. Robertson suggested that these actions would be appropriate no matter what developments might occur in the economy. If the downward trend continued they would be suitable, while if conditions turned upward they would likewise be appropriate for the reasons he had mentioned. He saw no reason to change the Committee's policy directive at this time and would favor continuing the present language.

Mr. Shepardson said he would agree with Mr. Robertson to the extent of feeling that the weather inevitably would have some effect. The country had been through a hard winter season and the prospects of good spring weather were bound to have some effect psychologically. On the other hand, he was not quite ready to agree that a turn in the economic situation was as imminent as Mr. Robertson seemed to think.

Neither, however, was he inclined to be as pessimistic in his thinking as some of the expressions that were heard. He felt that the System was in a good position to wait and observe developments for the present.

With reference to a comment by Mr. Hayes, Mr. Shepardson said he had a little different idea about the future trend in meat prices in that he would expect not to see as much as the usual price change. In any event, he felt that meat prices would stay relatively high for some time. The effect on food prices resulting from damage to the fruit and vegetable crops due to weather conditions appeared to him to be something that would work out reasonably soon, with the result that there would be some change in food prices to help the general price index.

With regard to policy, Mr. Shepardson expressed the view that a range of $500-$600 million of net free reserves was reasonable and appropriate, for he thought that there was now the desired degree of ease in the market. He was inclined to agree with Mr. Hayes that a 2 per cent discount rate would be appropriate and would maintain some base for a savings rate that still needed to be encouraged. He was not prepared to say specifically what should be done on reserve requirements although he thought that a further reduction might be appropriate as a means of meeting the pending need for additional reserves.

Mr. Fulton said that in the Fourth District unemployment was continuing to edge up, although at not quite as high a rate of increase as in the latter part of last year and the early part of this year. In all, 22 areas in the district were now designated as substantial labor surplus areas and 8 were considered major labor surplus areas. The steel industry was working at only about 40 per cent of the rate that prevailed last year and there was nothing in the offing to turn that around. The industry was hopeful for an upturn in the fourth quarter but even that would depend somewhat on developments in the automobile industry. Unless there was some change in the acceptance of new models, estimates of the use of steel in automobiles would have to be revised. Since nonresidential building and residential construction contracts were down 20 per cent and 32 per cent, respectively, it was the consensus of the builders to proceed carefully, and the bankers were proceeding just as carefully with them. Retail trade was lower at present than it had been for a number of years throughout the whole district. The only bright spot was in Lexington, Kentucky, where a joint directors' meeting was held last week. In this predominantly agricultural section, retail sales were 3 per cent above last year and the area was not feeling much of the current recession. Directors of the Bank representing steel and aluminum made the observation about prices that although they had heard of reductions and under-the-counter

concessions being made, as basic producers of these commodities they felt strongly that price reductions would have a depressing effect on the economy because people would wait until further concessions were given. The industry also would inaugurate new retrenchment moves which would have an undesirable effect on the economy. The steel wage contract was to come up in July and it appeared that there would be an increase of about 20 cents an hour. In those circumstances, it was the feeling that a price increase was inevitable and in fact quite appropriate. How well this price philosophy would be held in the face of declining orders was another matter, Mr. Fulton said. He then reported inquiries from some of the smaller banks about the possibility of a reduction in the maximum permissible rate of interest on savings accounts, but he said that he had given the inquirers little comfort on that score.

As to policy, Mr. Fulton expressed the view that the System must take a posture and have it known that it was doing everything possible and reasonable to establish the basis for a turnaround in the economy. He felt that a level of free reserves of about $600 million would be more appropriate than $500 million. Anything less than a reduction of 1/2 per cent in the discount rate would in his opinion be temporizing with the situation, and he felt that the reduction should be made as quickly as possible. He reported it to be the consensus of the Bank's directors that, with the Treasury

financing out of the way, the discount rate change could be made quite quickly. As to reserve requirements, it was his opinion that they should be reduced in order to supply through that means the reserves that quite obviously were going to be necessary. He did not agree with Mr. Leedy that a series of System policy actions in quick succession might have a bad effect psychologically. People were looking for moves from the central bank in this kind of a situation and nothing that the System could do on the side of assisting business by making credit available would create apprehension. In fact, in his opinion such moves would be of comfort to the people and the more quickly they were accomplished the better would be the System's position.

Mr. Bopp reported that developments in the Third District were quite similar to those reported for the nation as a whole. Unemployment was rising in the district a little more rapidly and continued unemployment claims had risen to a new high for 1958. A special survey of 50 automobile dealers revealed a continuation of the gloom permeating that industry.

Mr. Bopp said that he had been experiencing some difficulty in interpreting the price indices. He gathered that roughly three-fourths of the cost-of-living increase was represented by food and services, and he was wondering whether that part was factual; that is, whether the "market basket" had been changed to reflect changes

in the quality of goods and services included in the index. As examples, he pointed out that the repair of an automobile, the operation of a doctor's office, and the repair of a television set involve services of a different and more complicated nature than in years past. Therefore, he wondered whether what had happened to the price index was more apparent than real; in other words, whether the increase in the price index was greater than the realities that had taken place. Unfortunately, he said, escalator clauses are written in terms of the index. He went on to say that a director had commented at the last meeting of the Bank's board that although a manufacturer may not quote a lower price it is not always impossible to use methods such as changing the specifications a little, which meant that in fact prices might be a little weaker than they appeared to be in the index. In construction, a number of people had mentioned that they were able to make contracts at significantly lower prices than they had anticipated, in part because construction men wished to keep their crews together. While this could not be done many times, the present seemed to be a time when some were able to get real bargains in the building area. With all of these developments, Mr. Bopp said, it was difficult to be sure exactly what was happening in the area of prices.

With regard to policy, Mr. Bopp referred to the comparative risks involved in different courses of action and expressed the view

that the risks being faced by the System were quite unequal at this point. He would favor reducing the discount rate by 1/2 per cent because a lesser reduction would, as Mr. Fulton had said, seem to be temporizing with the situation. He saw no need for a change in the directive, he would avoid any semblance of tightness in the money market, and he would be favorably inclined toward a reduction of the differential between reserve requirements for central reserve and reserve city banks.

Mr. Johns said that there was little in the economic situation in the Eighth District which differed sufficiently from the national picture to merit much comment. As noted by others, there had been a retarded spring season. In the northern parts of the district the moisture was much better than it had been for years, while in the southern part of the district farmers were plagued by problems of excess moisture which damaged the cotton crop so much last year.

As far as policy was concerned, he wished to associate himself completely with those who had said that the discount rate should be reduced promptly by 1/2 per cent. At the meeting of the Bank's directors last Thursday, there was extensive discussion of this matter and it was the consensus that a reduction of 1/2 per cent should be made as promptly as possible. The action was deferred only because of a feeling that it would not be prudent to change the rate in the midst of the Treasury financing operation which was then

in progress. In view of this consensus there would be no disappointment on the part of any of the directors if, despite the Bank's general policy that action to change the discount rate shall be taken only at a meeting of the full Board of Directors, the executive committee at its meeting next week should propose lowering the rate to 1-3/4 per cent. On the matter of free reserves, Mr. Johns said that he would be diligent not to go below $500 million and that he would be in favor of broadening the range to an upper limit of $700 or $750 million and letting free reserves go to that point either on a daily or weekly average basis. He would be glad to see a further reduction in reserve requirements, but as to timing and the effect of such a reduction on the proposed reserve requirement legislation he would, of course, defer to the judgment of the Board of Governors.

Mr. Szymczak said he still felt that the System had done all that it could through monetary policy but that it should continue to do what was being done at the present time. Open market operations should continue to provide a tone in the market indicating ease and whether this meant free reserves of $400, $500, or $600 million would depend on the situation in the market. He thought that part of the necessary reserves could be supplied through a reduction in reserve requirements and part through open market operations, with the relationship depending on the timing of the action taken on

reserve requirements. It would be his suggestion that any change in reserve requirements take into account adjustment of the reserve positions of central reserve and reserve city banks. A change in the discount rate seemed evident, but whether that should precede or follow a change in reserve requirements would depend on the situation in the money market at the time. If a change in the discount rate were effected, he felt that it should be not less than 1/2 per cent.

Mr. Balderston said that he favored the suggestion of Mr. Robertson but for different reasons. He saw no evidence yet of a bottoming out of the economic decline, but there undoubtedly were changes below the surface which were not visible in the indices. He would favor immediate reduction of the discount rate by 1/2 per cent and he would favor a change in reserve requirements so timed as to take care of the necessity for furnishing reserves to the market. Unlike Mr. Robertson, he would favor changing reserve requirements in one move rather than two, for he felt that the latter procedure might be somewhat confusing to the public.

Chairman Martin said that he was much more optimistic than he had been, although he could assign no specific reason for this feeling except perhaps the change in weather conditions. After having given considerable thought to System policy, he was inclined to agree with those who felt that if the System was going to move in the area of monetary policy it should try, if possible, to move

in such a way as to wind up what monetary policy could do at this juncture and thus dispose of it as an issue. This appeared to him to be an appropriate time to make those moves although, as Mr. Bopp had suggested, there were risks on both sides. No one could say for certain whether an upturn was taking place, or whether it would, but personally he was inclined to think that there would be a spring upturn at least. The real test for monetary policy would in his opinion come later and not at the present time. He could not say that he subscribed entirely to Mr. Robertson's philosophy, and he did not subscribe to the view that the discount rate should be set in terms of its being a savings rate. However meritorious the reasoning on that point, he felt that the difficulties of such a course would outweigh the advantages derived. Instead, the System should look at the market and the reactions.

Chairman Martin went on to say that he saw no great harm at the present time in a split discount rate. This matter, he noted, had not been discussed by the Board of Governors, and no one at this meeting should feel bound by anything that was said in terms of making final decisions. However, in his own thinking the rate question at the moment had become largely academic. Some types of reasoning, he realized, would indicate that it was currently important, but in his opinion that line of reasoning was a bit tortured. He did not see much logic in a 2-1/4 per cent rate under present conditions,

and he was not particularly enthusiastic about going into the market at this point to buy bills to provide reserves. He recognized the limitations of monetary policy but he thought posture was terribly important. If he were deciding policy on his own, therefore, he would favor a consolidated action to put monetary policy in the posture of doing everything possible to assist the recovery of the economy. At this juncture he did not think that one was in too good a position to worry about the development of a sloppy market which would make more difficult the System's problems at a later stage. In the circumstances--and perhaps for different reasons than those held by others--he aligned himself with the philosophy that it would be desirable to take the two actions now and eliminate, for the time being at least, the question of where monetary policy stood. That, he felt, was the proper posture for the System.

The Chairman said that, as he understood it, there was no desire to change the directive. There seemed to be a split of opinion between a discount rate of 1-3/4 or 2 per cent, and also a difference of opinion as to timing. There was some general thinking that free reserves ought to be kept at $500 million and up, with a disposition, on the part of Mr. Irons at least, to hold the gap to as low a margin as possible. Others, starting with Mr. Hayes, would go to $700 or $750 million if need be. Actually, if action should be taken in the near future on both reserve requirements and the discount rate,

there would be no need to worry too much about whether the level of free reserves was $500 million or $600 million, as long as the reserve position did not tighten so drastically that it would appear as though the System was reversing direction. Accordingly, the question of the level of free reserves would also become somewhat academic if these other actions should be taken.

Chairman Martin continued by saying that System policy decisions would have a real test once a recovery was really under way and money was being put to use in a way that would impair the purchasing power of the dollar--a development which might take place rapidly. Then it would be important for the System to have the courage and fortitude to take action, and very difficult judgments would be involved. He thought, however, that the general tenor of this meeting would indicate that in the minds of the great majority of those present the right policy was being pursued at this time. In essence, it was a matter of implementing that policy in the most effective way. While there were hazards in taking a bold course, the advantages of taking it seemed to outweigh the hazards, provided one kept in mind that the System would have to be prepared to reverse the policy at some point and not get into a really easy money position and stay there. The tendency, he noted, is always to stay in a position of status quo.

Summarizing the meeting, Chairman Martin said there was no contention for a change in the directive; as to free reserves, no

one would want to see a drastic reduction; a reduction of the discount rate to either 1-3/4 or 2 per cent was favored; and a reduction in reserve requirements was seen as a possibility to take the place of supplying the $300 or $400 million of reserves that would otherwise have to be supplied by open market operations in order to maintain the present level of free reserves over the period of the next three or four weeks.

At the instance of the Chairman, there followed a discussion of the reserve position of central reserve city banks in relation to the position of other banks and the reasons which might be given for taking action to reduce the differential in reserve requirements between central reserve and reserve city banks. It was pointed out that, when vault cash holdings are added to present reserve requirements, the differentials are not as wide as the percentages of requirements taken alone indicated; the average spread between central reserve city and reserve city banks is about one percentage point and that between reserve city and country banks is less than 4 points. Thus, reductions of 1 point for central reserve city banks and 1/2 point for reserve city banks would leave an effective differential between these two classes of only 1/2 point.

At the conclusion of the discussion, attention was drawn to the fact that the nature of the items discussed at this meeting made it particularly important to guard against any leak of information.

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to contributing further by monetary ease to resumption of stable growth of the economy, and (c) to the practical administration of the Account; provided that the aggregate amount of of securities held in the System Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million.

Chairman Martin then referred to a memorandum from Mr. Roelse to Mr. Rouse dated April 11, 1958, copies of which had been distributed to the members of the Committee, commenting further on certain aspects of the problem of the rate on repurchase agreements, on which a decision had been deferred following discussion at the last meeting of the Committee.

The Chairman called for the views of the Committee and Mr. Robertson said that he had hoped to make available to the Committee a memorandum summarizing arguments against making repurchase agreements at a rate less than the discount rate but that he had not been able to complete it for this meeting. If the matter was urgent, he felt that the Committee should go ahead and make a decision, but if it was not considered urgent he would request that the matter be held over until the next meeting.

In view of the comments by Mr. Robertson, Chairman Martin called upon Mr. Rouse, who said that if reserves were put into the market, in line with the position of ease the Committee had taken, dealers would be finding money available at less than the discount rate, in which event there would be little occasion to put money in through repurchase agreements. However, if it were necessary to put money into the market, it would have to be on a permanent basis unless the Board should act to reduce reserve requirements. Such action on the part of the Board might, however, put more reserves into the market than the Committee would want to see kept in, and the Account might be in the position of having to sell bills to withdraw some of the reserves. Mr. Rouse also said that appropriate use could be made of repurchase agreements today and tomorrow.

Mr. Robertson then said that, admitting the usefulness of the repurchase agreement mechanism, the question was whether the

matter was sufficiently important to deviate from what he considered a sound position on the rate. While the Account Management had authority to go to a rate less than the discount rate, this authority had been given with the understanding that it would be used only sparingly.

The Chairman stated that in line with this discussion, perhaps the general question could be carried over until the next meeting. However, if the situation became so severe that the Account Management thought something ought to be done, he did not think that there would be any feeling that the existing authority should not be exercised.

Mr. Robertson commented at this point that although he did not concur in the thinking about the over-all problem relating to the use of a rate less than the discount rate, he thought that the course suggested by the Chairman was appropriate.

There ensued a discussion of anticipated conditions in the market in the next few days during which it was suggested that conditions might be such as to make the use of a lower rate helpful but not vital.

Mr. Hayes then asked Mr. Robertson about his feeling concerning the use of the lower rate authority on this occasion, stating that he thought it would be very helpful to utilize repurchase agreements and that the question was whether this would prejudice the longer-run decision.

Mr. Robertson replied that he thought use of a rate equal to the discount rate at this time would be sufficient, that he would go slow, that he thought it was the wrong time, but that the Committee would have to make the decision. If the situation was deemed urgent, the Account Management had the authority.

Mr. Rouse commented that if money could be put out at 2-1/4 per cent there was no problem, and that this would depend on movements of float and on developments in the market for Federal funds. It might be that a 2-1/4 per cent repurchase rate would get some money out over the next two days.

Reference then was made to a memorandum from Mr. Hackley dated April 3, 1958, with regard to a question raised at the Committee meeting on March 4, 1958, concerning whether the authority of the Chairman of the Committee to appoint a Federal Reserve Bank to operate the System Account in the event the New York Reserve Bank was unable to function extended to an Acting Chairman. The memorandum, which had been distributed to the members of the Committee, also dealt with the question whether the resolution providing for continued operation of the Committee during an emergency should contain any specific provision for the selection of a Chairman or Acting Chairman. Regarding the first question, the position was taken in the memorandum that the Vice Chairman would have authority, in the absence of the Chairman, to appoint a

Federal Reserve Bank to operate the Account and that, if both the Chairman and Vice Chairman should be unavailable, the Committee would have authority under its by-laws to fill the vacancies at any meeting of the Committee. With regard to the other question, it was suggested that the Interim Committee authorized by the Open Market Committee resolution would have the same authority to elect a Chairman and a Vice Chairman and to fill vacancies that the regular Committee has under its by-laws. Accordingly, no necessity was seen for a change in the resolution to provide for a Chairman or Acting Chairman.

There being no question raised, the memorandum from Mr. Hackley was accepted by the Committee.

At this point Mr. Marsh, Assistant Vice President of the Federal Reserve Bank of New York, was invited to join the meeting for discussion of a problem of emergency planning.

Mr. Marsh said that at this point emergency planning for System open market operations was focused almost entirely on the ability of the System to supply liquidity, if that was indicated as a national policy in an emergency, and on the responsibility of the System to take the leadership in reactivating the Government securities market, which was both a System and Treasury objective. Thus far, all of the planning had been internal as far as it related to open market operations and little had been done about including the Government securities dealers in the planning except to prepare

a list of dealers' offices and a list of key personnel. It had been recognized from the start that something more would have to be done with the dealers and that they would have to do more on their own account to fit into System planning and the over-all planning for the financial community. This planning, it was felt, should provide particularly for the System to obtain dealer aid in achieving the liquidity which the System presumably would be trying to bring about, and to get it as soon as possible after the emergency. This would apply also to getting the dealers' help in reactivating the Government securities market and completing unfinished business. The American Bankers Association had taken the leadership in developing an approach to planning for the commercial banks so it seemed important at this time to consider what should be done about extending the System's efforts and planning in the direction of the dealers, particularly in view of the fact that the Office of Defense Mobilization had issued a directive giving the System broad responsibility in the field of money and credit. It was not certain at this time what plans the dealers might have made, but a few may have arranged to keep duplicate records outside the city.

In the circumstances, Mr. Marsh said, the thought was to call a meeting of nonbank dealers, and probably representatives of the dealer departments of commercial banks also, in order to

have a unified approach. At such a meeting an effort would be made to try to get a good reception for the idea of planning in general and to get the dealers to appoint a committee which would work with the System in developing a coordinated planning approach. While there would be other possible approaches, this was the one that appeared best; it was thought preferable to an approach under which the System would do all the planning.

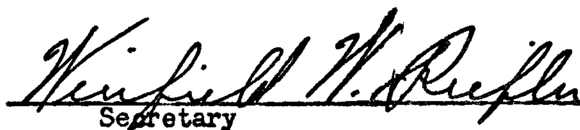
Mr. Marsh suggested that it would also be desirable to advise the Treasury what was in mind in general terms, ask for any suggestions, and inquire whether the Treasury wished to participate.

> Following a discussion of the plan outlined by Mr. Marsh, the Committee authorized proceeding along the lines indicated, with the understanding that Chairman Martin would discuss the matter with the Treasury. It was also understood that Mr. Allison, Special Consultant to the Board, would be invited to participate in the program as it developed and that Mr. Robertson would keep closely in touch with developments.

Chairman Martin then inquired whether anyone had suggestions for changes in open market operating procedures other than in connection with the question of the rate on repurchase agreements, which had been discussed earlier at this meeting, and no suggestions were heard.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, May 6, 1958, at 10:00 a.m.

Thereupon the meeting adjourned.



Secretary