A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System on Tuesday, July 21, 1953, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Erickson
Mr. Mills
Mr. Johns, Alternate for Mr. Sproul
Mr. Szymczak, Alternate for Mr. Evans

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. R. F. Leach, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Tilford C. Gaines, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on July 7, 1953 were approved.

Before this meeting there had been sent to the members of the committee a report prepared at the Federal Reserve Bank of New York covering operations in the System open market account from July 7 to July 17, 1953, inclusive, and at this meeting Mr. Rouse presented a supplementary report covering commitments on July 20, 1953. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period July 7 to July 20, 1953, inclusive, were approved, ratified, and confirmed.

At Chairman Martin's request Mr. Young summarized current economic and financial conditions, concerning which a staff memorandum dated July 15, 1953 had been distributed to the members of the committee before this meeting. Mr. Young noted that prices of a number of commodities had risen within the past two weeks including a recovery of cattle prices. Personal incomes as well as corporate profits have risen further during the past three months. Industrial production continues at a high level although, because of inadequate seasonal adjustments for vacation cut-backs, the Board's industrial production index may decline around 10 points for the month of July. New automobile sales were at a somewhat slower rate during June and the first half of July, with the result that dealers' inventories of new cars probably increased, but sales of used automobiles were improved. Inventories of other consumer durable goods which had been accumulating in the spring months are no longer increasing at the manufacturer level, and prices of some appliances have been marked up recently. In response to a question, Mr. Young stated that new orders by manufacturers have leveled off in recent weeks. He also noted that housing starts declined further in June, although actual construction remained at a high level. Construction costs have advanced further and there is considerable complaint about availability of mortgage money although available information indicates that total home mortgage lending in the first six months of 1953 continued close to a record level.

During Mr. Young's statement Mr. Vardaman joined the meeting.

Mr. Thomas commented on the credit situation, noting that it was difficult to analyze the situation until the results of the recent Treasury financing as it affected banks became more clearly evident--a development which will take two to three weeks. Banks were allotted approximately three-fourths of the Treasury issue of tax-anticipation certificates due in March 1954, which totalled slightly less than $6 billion. Payment for these allotments was made through tax and loan accounts with a resulting increase in bank deposits. Some reduction in other deposits representing payments for the new Treasury securities by nonbank depositors occurred during July, and total reserve requirements did not increase as much as had been anticipated prior to the Treasury offering.

Mr. Thomas said that the efficacy of current System policies would be tested in coming weeks as the Treasury drew upon its balances and as seasonal demands for business loans at banks increased. Last year, in a similar situation, banks were heavily in debt and sold Government securities to meet tax and loan account withdrawals and business loan demands. The volume of member bank borrowing is now much smaller than a year ago and the question is whether banks will be under the same inducement to liquidate securities as loans increase. Should banks show the same increase in loans this fall as in the corresponding period last year and at the same time retain their holdings of Governments, the monetary expansion would be larger than necessary. A reconsideration of projected demands for reserves presented by the staff at the last meeting of the executive committee indicates that normal seasonal and growth trends in deposits and currency would require little additional Reserve Bank credit in the third quarter (less than previously estimated, although the projections for the last half of the year as a whole are unchanged). If actual developments do not exceed the projected trends, member bank borrowings would not be above excess reserves of member banks at any time between now and October, and the money market situation would be relatively easy during that period.

In response to a question by Chairman Martin, Mr. Thomas said that the Treasury is still borrowing $200 million from the stabilization fund although its balance with the Federal Reserve Banks has increased more rapidly than had been anticipated.

Mr. Rouse commented that he understood the Treasury planned to repay $100 million of the funds borrowed from the stabilization fund today and that it might repay the other $100 million on July 27. Mr. Rouse also said that he had emphasized in discussions with representatives of the Treasury the desirability of repaying borrowings from the stabilization fund and of handling such borrowings as a separate matter not related to changes in the Treasury balance with the Reserve Banks.

Chairman Martin stated that he felt it desirable for the Treasury to repay its borrowings from the stabilization fund, that the Treasury should not put funds into the market as an offset to such repayment, that the Treasury should not consciously operate to increase or decrease the supply of reserves in the market since use of the stabilization fund for that purpose impinged on the credit field. He added that he expected to present that point of view in informal conversations with Treasury representatives. Chairman Martin also noted that there was an impression in some areas that the money market currently was quite easy, and he suggested that if the Treasury were to offset repayment of the stabilization fund borrowings by putting funds into the market otherwise, the committee might wish to consider letting some of its bills run off.

Mr. Rouse said that conditions in the money market in New York had tightened noticeably during the past week. Federal funds are back at a rate practically equal to the discount rate, and balances of correspondent banks which had been built up quite substantially during the past several weeks of relative ease in the market were now being withdrawn by out-of-town banks. Yesterday morning, Mr. Rouse said, he received inquiries from dealers as to whether the New York Bank would be buying Treasury bills as well as inquiries regarding the availability of funds under repurchase agreements. In response to these inquiries, Mr. Rouse said that he indicated there seemed to be ample funds available at 2 per cent or less in the market. Mr. Rouse felt there would be some pressure for the System to make funds available under repurchase agreements, that it would take two to three weeks before the effects of the Treasury's recent financing were clear, but that he could not now see any need for outright purchases for the System open market account during the next two weeks.

Mr. Leach said that there had been a number of comments to the effect that the Federal Reserve had overplayed its hand in easing the situation in the money market since the period of tightness that developed in late May and early June and that there was some feeling that the System's actions were primarily for the purpose of meeting the Treasury's borrowing needs. There was also a feeling, he said, that it would be difficult to justify any further easing of the situation in the market, and Mr. Leach expressed the view that it would be fortunate if no purchases of securities for the System account were made during the next two weeks; in fact, it might be advisable to consider some run-off in bill holdings of the System open market account if the Treasury does not repay the $200 million to the stabilization fund.

Mr. Mills stated that he was in general agreement with the views expressed by Mr. Rouse. He felt that a false impression might be given to the market if bills were allowed to run off in that it would indicate official action to bring about a definite tightening of the situation. If any consideration were to be given to permitting bills to run off, Mr. Mills felt action should be deferred until around mid-August when the effects of the Treasury's recent financing of the 2-1/2 per cent tax anticipation certificates would be more apparent in the figures for commercial banks. In sum, Mr. Mills felt that the committee should follow a program of watchful waiting for the next ten days or two weeks, that it was probable it would not be necessary to make any token purchases of securities during this period, but that the committee should be prepared to make such purchases if there was an indication of marked tightening of conditions.

Mr. Erickson felt that during the immediate future it would be preferable for the System to buy no bills; if it should seem desirable to put funds into the market, that should be done through the use of repurchase agreements. Mr. Erickson would, however, leave the way open to the possibility of token purchases of securities if that seemed desirable.

Mr. Johns stated that he was not convinced that it would be desirable to permit System holdings of bills to run off as a means of counteracting borrowings by the Treasury from the stabilization fund. He said that he was quite sympathetic with the point of view expressed by Mr. Mills, adding the comment that, if a mistake were to be made, he would prefer to make it on the side of supplying reserves liberally to the market rather than on the other side.

Chairman Martin said that it seemed to be the sense of the meeting that operations should continue on about the same basis as during the past two weeks with emphasis on doing as little as possible in the way of supplying additional reserves to the market. At the same time, it would not be desirable to have the appearance of undue ease or tightness develop in the market.

There was a further brief discussion, including the prospective Treasury refundings of securities maturing in August and September, during which Mr. Rouse commented upon discussions which Mr. Burgess, Deputy to the Secretary of the Treasury, had with securities dealers in New York yesterday. Mr. Rouse felt it would be desirable to make the Treasury refundings of securities maturing in August as much of a routine operation as possible. This, in turn, suggested that operations for the System open market account should be at a minimum level during the immediate future. This would still leave the possibility of using repurchase agreements, Mr. Rouse noted, if that seemed desirable. Mr. Rouse also raised the question whether the executive committee would wish to authorize the New York Bank to operate in short-term securities other than Treasury bills at the time of the Treasury refundings, i.e., to carry on switching operations in short-term securities other than bills.

Chairman Martin stated that he would be completely opposed to giving such authority to the New York Bank. He also suggested that the next meeting of the executive committee be held at 10:30 a.m. on Tuesday, August 4, and there was agreement with this suggestion.

Mr. Rouse stated in response to a question from Chairman Martin that he would not suggest any change at this time in the limitations in the general directive to be issued by the executive committee to the Federal Reserve Bank of New York.

Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the executive 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 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 avoiding deflationary tendencies without encouraging a renewal of inflationary developments, and (c) to the practical administration of the account; provided that the total amount of securities in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date shall not be increased or decreased by more than $500 million;

(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.

Thereupon the meeting adjourned.

Winfield W Riefler
Secretary