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, October 1, 1957, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Balderston
Mr. Bryan
Mr. Leedy
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman
Mr. Williams

Messrs. Fulton, Irons, Leach, and Mangels, Alternate Members of the Federal Open Market Committee

Messrs. Erickson, Johns, and Deming, Presidents of the Federal Reserve Banks of Boston, St. Louis, and Minneapolis, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Sherman, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Atkinson, Bopp, Marget, Mitchell, Roelse, Tow, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Koch, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York

Messrs. Abbott, Daane, Ellis, Hostetler, and Wheeler, Vice Presidents of the Federal Reserve Banks of St. Louis, Richmond, Boston, Cleveland, and San Francisco, respectively; Mr. Parsons, Director of Research, Federal Reserve Bank of

Minneapolis, and Mr. Walker, Economic Adviser, 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 September 10, 1957, 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 June 18 through September 25, 1957, and a supplementary report covering commitments executed September 26 through September 30, 1957. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse said that fortuitous developments in the market since the preceding meeting had affected the distribution and volume of reserves. During part of the period net borrowed reserves had been lower than some members of the Committee would have preferred, while during part of the period they had been higher than other members would have preferred, on the basis of the discussion on September 10.

Mr. Rouse also referred to the offering of Treasury securities announced on September 12, stating that the market had given a very good account of itself in connection with the securities. He felt that criticism that had appeared in the press regarding the amount of speculation in the offered securities had been somewhat overdone and that the behavior of the market confirmed this to have been the case.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period September 10 through September 30, 1957, were approved, ratified, and confirmed.

At Chairman Martin's request, Mr. Young presented a report on current economic activity substantially as follows:

An increasing number of business observers are disposed to the view that the momentum of major expansive factors on the demand side has now been spent, that the pressure of inflationary forces is in process of lessening and even dispersing, and that the prospective movement of activity and prices is to be downward. The emphasis of these observers is on the leveling out of business capital expenditures and of total product in real terms and on the prospect of future declines both in business capital investment and in military outlays of the Government. They also stress the declines in primary material prices over the recent months and in stock prices over recent weeks. And they discount, as a statistical illusion largely, recent strength indicated by measures of consumer spending. Finally, they point to a leveling out in productive activity and demand in important industrial countries abroad, to continuing pronounced inflationary trends in selected development countries, and to international liquidity crises and persisting lack of confidence in key international exchange values.

Obviously, this diagnosis reads with a bearish bias the statistical record of current economic adjustment at a high level and still (for the consumer area at least) inflating prices. While it is possible that prices and activity generally are at a crest and that the next broad movement of prices and activity will be downward, the recent figures are far from clear that such a development is becoming an actuality. That important realignment of activities, commodity prices, and investment values is taking, or has taken, place, is not to be denied. In fact, such realignments together with a dampening expansion of aggregate demand would appear to be a necessary precondition to reformation of expansive forces without creeping inflation.

That over-all inflationary pressures in the recent past have been very strong is confirmed by the third quarter GNP figures. These show the annual rate of GNP in current dollars up another $5 billion, or over 1 per cent, above the second quarter. However, in real terms--in deflated dollars, that is--GNP in this quarter showed no gain; indeed, there has been little, if any, real gain in total product now for three quarters, while the dollar rise over this period has amounted to $13 billion, or 3 per cent.

The most significant development since the first quarter has been a pronounced rise in consumer takings, especially of nondurable goods and services but to some extent also of durables, notably automobiles. This rise implies that further increase in consumer incomes caught up last spring with the consumer price level and that further rise in consumer prices since has had full support of expanding consumer demand.

Various business observers have expressed skepticism about this indicated rise in consumer buying because the beginning of rising retail sales figures coincides with a substantial revision in the information collection methods for the retail sector. There is independent evidence of a marked rise in consumer purchases since the first quarter, however. About the most that can be said about the statistical issue is that, while the rise in takings may not have been as much as the figures indicate, it was still substantial. Although nondurable goods sales to consumers have been off in recent weeks, perhaps due to unfavorable shopping weather, it is not without interest in this connection that new automobile purchases in the first 20 days of September ran 8 per cent ahead of the same period for August and 16 per cent above a year ago. Used car sales also showed strength at fairly firm prices, though less strength than did new cars where price concessions were a sales attraction. Also relevant here are reports of more active consumer demand in the new and used housing market. Cessation of decline in new housing starts and some apparent pick up in the past two months are said to reflect somewhat better demand conditions.

Construction activity generally, reflective of continuing strength of aggregate investment demand, has remained at high levels, and data on contract awards suggest that, for the near term future, total construction will remain at or near current levels. All sections of the construction area have been showing recent strength.

Industrial production has been holding at the June-August level but some uncertainties exist as to future trends. Output of nondurable goods has been rising and improved tendencies have also characterized consumer durable goods output. But output of producers and military equipment has generally, though with some exceptions, been showing moderate declines and output of primary metals and materials has been significantly reduced, with some accumulation of stocks of particular basic items (e.g., copper, newsprint, lumber, and petroleum products). Figures for primary metals suggest a consumption of materials by secondary fabricators in excess of metals output, with important inventory decumulation occurring in these secondary industries. Pick up in automobile output, after new model introduction, is another uncertain factor for steel and other metal markets. With large stocks of 1957 models on hand and with tight money affecting instalment credit supplies, automobile producers are evidently holding back in placing fall orders for sheet and metal parts to produce new models. Petroleum output seems clearly subject to probable cutback ahead since stocks have reached levels much in excess of industry schedules.

Reflecting continuing high levels of activity generally, nonfarm employment since June has remained at record levels through August, with declines in manufacturing employment offset by gains in trade and local government employment. Labor market information is sketchy for September, but initial claims for unemployment compensation have risen fairly sharply, a development associated with temporary layoffs for automobile model changeover and some reductions in employment, again possibly temporary, in aircraft, lumber, and steel industries. Defense cutbacks in the months ahead are expected to contribute to manpower availability, but these effects will probably be felt only gradually.

Average prices at wholesale have declined 1/2 per cent since the end of August, mainly reflecting significant declines in prices of basic or sensitive commodities, especially materials, and of agricultural products, notably meats and livestock. With important inventory and downward price adjustments over the past year for such materials as copper, zinc, lumber, and rubber, and for major farm products, prices of basic commodities appear much less vulnerable to recession in demand than earlier this year or at other postwar points of potential business crest.

Average consumer prices at mid-August showed further modest rise, reflecting especially further increases in prices of foods and services and in rents. Some further rise in the consumer price index is expected to mid-September. It is interesting to note that, with weekly earnings of factory workers about stable since the beginning of the year, the rise in consumer prices has reduced real weekly earnings by about 2 per cent.

The liquidity crisis abroad, confined though it is to a few countries that did not contain their inflationary pressures, will doubtless have contractive repercussions on U. S. exports in the months ahead. The countries involved have been important importers from the U. S. and the dampening of excess demand, which can no longer be postponed, can be expected to reduce temporarily export demands.

In conclusion, we do not report a picture of a settling or declining economy. Rather it is one showing diverse tendencies in significant value indexes and little change in physical output and resource availability. Business sentiment is much more cautious about prospects than for some months, but business sentiment has shown pronounced gyrations over the past two years, being at times more optimistic than the figures and portents, at other times less optimistic. The latter mood seems to characterize the present situation. While inflationary clouds may be breaking up, it would be altogether premature to conclude that they have now scattered.

Mr. Thomas next made the following statement concerning recent credit developments:

Perhaps the most significant financial development in recent weeks has been the leveling out of interest rates at the high level reached early in August. Relative steadiness in interest rates, following earlier rising tendencies, has persisted notwithstanding a number of developments that would be expected to work toward higher rates. These include the raising of Federal Reserve discount rates, the continuation of member bank borrowing at a fairly high level, the large volumes of new issues of securities offered by business corporations, State and local Governments, Federal credit agencies, and the Treasury, and finally the dramatic increase in the Bank of England discount rate from 5 to 7 per cent.

The next most significant development has been the sharp decline in prices of common stocks. This decline and the steadiness of bond yields at the advanced level are no doubt related. Investors appear to be shifting their preferences in some degree from stocks to bonds. This is one channel through which high interest rates have an impact upon investment decisions and general economic conditions.

Changes in bank loans have conformed fairly closely to the usual seasonal pattern. Reflecting the gradual but pronounced decline in the liquidity of business corporations during the past two years and the increase in tax liabilities due in mid-September, business borrowing at banks for tax purposes was a little larger than a year ago. In the latest week, however, there has been an unusually large decline in business loans. Loans to usual seasonal borrowers have shown about the same increase as a year ago. Some of the recourse to banks was represented by a temporary shifting of sales finance company financing to banks from corporations.

The net result for the four weeks of September (based on partial figures for the last week) has been a slightly smaller increase in business loans than in most previous years. Other types of loans in the aggregate also increased less than in the two previous years. In the same period bank holdings of Government securities showed a somewhat smaller decrease than in 1955 and 1956, with the result that total loans and investments rose by about the same moderate amount in each year. There was also little net change in demand deposits adjusted in September, both this year and last, but time deposits increased more this year. The money supply may have shown a less than seasonal growth in recent weeks. Turnover seasonally adjusted has also shown little or no increase in recent months but continues higher than last year.

New corporate capital issues continued close to $1 billion in September, corresponding to the monthly average for the past 12 months, and it appears that this figure may again be reached in October. State and local government issues were only slightly below the recent monthly average of $500 million in September but are scheduled to equal about $600 million in October. The Treasury offering of about $3.5 billion was successfully floated, although the premiums evident during the subscription period disappeared when subscribers offered the securities in the market. Although Treasury cash holdings are now at a relatively high level and somewhat larger than had been earlier estimated, additional funds will be needed in October and more in subsequent months. The projected British drawing on the Export-Import Bank credit adds to previous estimates of needs. Attempts to curtail defense expenditures are not expected to bring the fiscal year total down to the figure budgeted. To keep within the statutory debt limit, some of the Treasury's cash needs will have to be supplied other than through public debt offerings--such as an issue of FNMA securities and perhaps also the use of the Treasury's free gold.

Member bank reserve needs have been somewhat less than had been projected three weeks ago, owing primarily to a smaller increase in required reserves than was assumed. This reflects the moderate growth in bank credit and deposits. Reserves have been absorbed during the past three statement weeks by reductions in the System portfolio but are being supplied by purchases this week. Net borrowed reserves, which were close to $400 million early in the month, declined to about $260 million in the middle week of September. Owing, however, to substantial liquidity requirements of banks and customers in this period and to the continuation of heavy borrowings by central reserve and reserve city member banks, the money market generally continued to show signs of tightness. Subsequently net borrowed reserves have risen to around $500 million. System purchases will be needed to keep net borrowed reserves from exceeding $700 million during most of October and the first half of November. With the higher discount rate and reduced liquidity of banks and corporations, adequate restraint should be exerted by a lower level of member bank borrowing than was appropriate during the summer.

Banking developments, it appears, have kept fairly well within the limits envisaged by recent policies of credit restraint. There is a possibility that interest rates in the capital markets have reached a level appropriate to the maintenance of equilibrium. Investment demands throughout the world seem still to be fully adequate to absorb all of the lendable funds available at current rates. Under the circumstances there would seem to be no need for relaxation of restraints, nor would any tightening of restrictive measures be appropriate.

Mr. Hayes concurred in the general substance of the comments that Messrs. Young and Thomas had made regarding the economic situation and credit developments. He then presented the following statement of his views:

Business activity remains on the high plateau that has prevailed for the past several months. In the aggregate, demands remain strong, with the best showing perhaps in retail sales--although the rate of gain over last year apparently is more modest than had been thought previously, since part of the increase is attributed to a statistical adjustment in the retail sales series. While declines in capital expenditures and Federal spending--and perhaps in net exports--are now clearly foreshadowed, they have not yet actually occurred, and there is no reason to expect a pronounced downward drift in business activity as a whole in the near future. At the same time, business sentiment is cautious and there is a notable absence of the strong upward pressures which were giving us concern early in the year. The structure of demand and the level of inventories are such that any prospective changes seem likely to take place gradually, giving us time for a continuous reappraisal over the coming months.

The price situation is decidedly mixed. On the one hand, important raw material prices have weakened further, and farm prices have turned down in recent weeks. However, prices for finished goods and services as a whole continue to inch ahead, despite the growing number of products which are characterized by buyers' markets. There is considerable talk and some evidence of a profit squeeze, but statistics on this point are still rather inconclusive.

Now that bank credit figures are available for most of the third quarter, it is interesting to observe that the rate of growth of total bank loans fell further behind that of a year earlier during the third quarter than in the second quarter. This was due primarily to further slackening in business loans, partly offset by somewhat greater growth in consumer and real estate loans. With relatively small changes occurring in the third quarter of either year in bank holdings of securities (except for the effect of last week's Treasury financing) total loans and investments showed a trend roughly similar to that of total loans. The money supply shows a gain of less than 1 per cent over a year ago. We would expect an even smaller year-to-year gain by the end of December, especially if the improved tone of the bond market continues to permit the Treasury to rely somewhat more on nonbank investors than was possible a few months ago and to enable business to finance its capital expenditures without recourse to bank credit.

It is not easy to determine the best credit policy at a time when industrial output has leveled off, plant capacity has been substantially increased, and world prices for many raw materials are notably weak, while at the same time retail prices and wage rates show continued signs of upward pressure. However, I feel that a policy of steady credit restraint should be maintained, even though it carries with it some risk of further pressure on profit margins, unless and until there is clear evidence that the economy has turned downward. We should, of course, provide reserves as needed for seasonal purposes. While target figures for total net borrowed reserves must always be qualified to allow for such items as geographical distribution of reserves, seasonal tensions and other factors affecting the actual tightness of the money and capital markets, it would seem appropriate to think roughly in terms of about the same general range of net borrowed reserves which has prevailed for the last two weeks. Current projections would suggest that a minimum of open market operations would be required in the next three weeks, except perhaps toward the end of the period, when the effects of the usual monthly bulge in float will be felt.

Although I feel strongly that steady credit restraint should be maintained under present conditions, I also believe that the System will have to be exceedingly alert during the next few months for conclusive signs of any break-out from the sideways movement now characteristic of business. Such a breakout might well call for a modification of our policies.

Mr. Erickson said that in New England nonagricultural employment continued at a high level but with slackening tendencies outweighing those for further expansion. August employment was up slightly over July but not as much as last year, and manufacturing weekly earnings also were ahead. Automobile sales continued to drag and new car registrations through July of this year were 7.7 per cent behind last year. A sampling of 27 commercial banks showed that the amount of consumer loans extended in August was 12 per cent ahead of last year and that outstandings at the end of the month were 15 per cent ahead. Department store sales which had been affected unfavorably a few weeks ago by the newspaper strike continued below a year ago, perhaps partly because of the excellent weather which had not been conducive to sales of winter goods. Preliminary figures of the vacation business this year indicated that it was 5 per cent ahead of the record 1953 volume. Mr. Erickson stated that at the meeting of the directors of the Boston Bank last week there was considerable discussion by the directors along the lines of Ralph Young's opening statement, but there was unanimous agreement that the present discount rate should be maintained. The discount window of the Bank had been used less in the last two weeks than for some time, discounts having averaged slightly more than $10 million. Mr. Erickson said he would favor a continuation of the policy of restraint, making no change in the Committee's directive and continuing open market operations along the lines followed during the past few weeks. He would make no change in the discount rate at this time.

Mr. Irons subscribed to the statements of Messrs. Young and Thomas. In the Dallas District, conditions continued about as he had reported at recent meetings. The petroleum industry was somewhat over-inventoried and production schedules had been reduced further. He did not anticipate much change in that industry over the next few months unless cool weather were to increase demand for fuel oil earlier than usual. In agriculture, crops were larger and income higher this year than in 1956. There had been good rains during the past ten days and these would help winter crops. Mr. Irons said that he would subscribe to what Mr. Hayes had said regarding credit policy for the next few weeks: hold steady with about the same degree of restraint that we have been experiencing.

Mr. Mangels' impression was that West Coast business sentiment had deteriorated somewhat further, although sentiment often reacted more strongly on the up side or the down side than statistical evidence indicated that it should, he stated, and current statistical evidence indicated very little change in the underlying situation. Recent changes in bank loans and deposits, both time and demand, followed the national pattern. Requests for discounts at the San Francisco Bank had been quite moderate in recent weeks with no applications from San Francisco banks in the week ending September 25, but on September 26 borrowings rose to $37 million when Federal funds were difficult to obtain. Mr. Mangels said that he felt the Committee should continue the policy it had been following. He had in mind negative free reserves somewhere in the $400-$500 million range. He saw no occasion for changing the directive or the discount rate.

Mr. Deming saw no change in the over-all situation in the Ninth District during the past three weeks and no indication of an appreciable change in the near term outlook. There seemed to be a continuation of the sidewise movement that had been evident most of this year. However, somewhat wider diversity in the stronger and weaker tendencies was noted, he said. In Montana, the nonferrous mining and lumber industries had been quite weak for some time whereas the farm situation was stronger than usual. On balance this gave a somewhat better than average picture for Montana. This was true of the district as a whole, but business sentiment was cautious with the exception of the retail trade people who foresaw a strong fourth quarter this year. Mr. Deming said he could see no occasion for changing the Committee's policy over the next few weeks, and he would continue about the same level of net borrowed reserves for the present.

Mr. Allen said that he did not feel that there had been any basic change in the over-all business situation in the past three weeks. Business capital expenditures had been leveling off at a high level and seemed likely to decline in 1958. This was neither surprising nor disturbing to him in view of the very high level of such expenditures in the past two years. Retail sales have been strong and continue that way. Cash receipts from farm marketings continue to expand in the Seventh District somewhat faster than nationally, largely as a result of large harvests over most of the district. Shipments and retail sales of farm equipment have improved this year, and industry sources express confidence that a further rise is in prospect because of higher farm income. The automobile business is in between models, Mr. Allen noted, and at this time he had nothing to add to his comments at recent meetings except that there was a general belief in Detroit that automobile prices would advance only 2 to 4 per cent on 1958 models, which would be considerably less than the advances made last year.

Since the seasonal low at the end of July, business loans at Seventh District reporting banks had increased dollar-wise more than a year ago, Mr. Allen said, and nationally the increase was not far behind that of last year. Chicago money market banks had been under heavy pressure for the past three weeks and experienced their largest basic reserve deficit since May. Very few country banks had been borrowing in recent weeks.

Mr. Allen said that the concluding sentences used by Messrs. Young and Thomas in their statements expressed his feelings very well: while inflationary clouds might be breaking up, it would be altogether premature to conclude that they have now scattered, and he could see no occasion for an intensification of pressure at this time nor should there be an easing.

Mr. Leedy said that the most important thing that had happened in the Tenth District in the last few weeks had been the general and ample rains. Planting of winter wheat had progressed well and pasture conditions throughout virtually the entire district were most favorable. Mr. Leedy commented that last year when the time for planting winter wheat arrived acreage put in the soil bank came to the extremely large total of ten million acres. This year because of favorable moisture conditions up to mid-September only one and one-half million acres had been signed up and, while the time would not expire until October 4, it was expected that participation in the soil bank this year would be much less than last year.

Growth of business loans in the Tenth District as in the Chicago District had been different than nationally, Mr. Leedy said, in that there had been a larger increase since mid-year in the Tenth District than had occurred last year. Borrowings at the Reserve Bank recently had been the reverse of the reports of the Boston and San Francisco Districts in that discounting at Kansas City had risen quite sharply.

On balance, Mr. Leedy said that it seemed to him that at this juncture the System should be particularly cautious to make sure that seasonal requirements were met. The fact that there had been less expansion of loans and a most moderate increase in the money supply, along with the other indications that the situation was quite different from that with which the Committee had been dealing for a considerable period of time, should cause the Committee to be very cautious with respect to the degree of pressure that was applied. Mr. Leedy said he did not intend to suggest a change in policy; he believed the Committee should continue about the same level of pressure that it had been striving for recently but it should be quite cautious about overdoing the restraint.

Mr. Leach said that on balance it appeared that the seasonal upturn in business activity in the Fifth District during the past month had been somewhat weaker than in past years. In the important textile industry market interest remained concentrated on immediate and nearby delivery. Orders for future delivery were lagging behind the usual rate for this time of year, and the long awaited improvement in the industry was still around the corner. On the other hand, the furniture industries in North Carolina and Virginia seemed to be running slightly ahead of the year-ago production rate.

Marketings of the 1957 crop of flue-cured tobacco currently was under way in three of the four belts of the district, Mr. Leach said. Assuming no price changes during the rest of the marketing season, it was estimated that growers income this year would be down 25 to 30 per cent from last year which would mean a loss in income of $175 to $200 million. Employment gains in tobacco stemming and redrying plants in Virginia in August were smaller than usual possibly due to the reduced volume of flue-cured tobacco resulting from the drought and acreage cuts. In contrast, cigarette production in the district for the first seven months of this year was 7 per cent ahead of last year.

Business loans of weekly reporting banks in the Fifth District increased 3.4 per cent in the three weeks ended September 18, Mr. Leach said, a little faster than for the country as a whole. Borrowings from the Richmond Bank had averaged less than $30 million in September, compared with $50 million in August and $40 million in September a year ago.

As to policy, Mr. Leach said it seemed appropriate that the Committee should continue for the immediate future the same degree of tightness that it had been achieving. In his judgment, it was not yet time for any easing and the Committee should be careful not to ease too soon. At the same time, he thought the Committee should be careful not to be any more restrictive. In short, he thought the degree of pressure in recent weeks had been just about right and should be continued, but the Committee should be on guard to refrain from becoming too inflexible on the tight side as some of our friends feared.

Mr. Vardaman said that even if he had contrary ideas he would hesitate to express them in the face of the views expressed by Messrs. Young and Thomas and the eight Presidents of the Reserve Banks who had reported thus far. It seemed obvious, he said, that the Committee should continue just about as at present and that it should pay particular attention to the point made by Mr. Leedy about taking care of seasonal needs. Mr. Vardaman would take care of these needs even cordially, and he felt that commercial banks should be encouraged to take care of the seasonal needs of their customers. He would continue the Committee's directive and general policy without change.

Mr. Mills said that his views of credit policy followed those that had been expressed in favor for the present of exerting about the same degree of pressure in evidence since the last meeting of the Committee. He hoped that this would promote a redistribution of the securities that were acquired by the commercial banks during the Treasury's recent financing operation, and in so doing make the reserves then supplied available to support the prospective seasonal expansion of bank credit.

Mr. Mills then referred to reports of a sluggish reception and distribution of new securities offerings by various Federal agencies. These offerings were largely of a short-term nature and presumably found a market in the same investment area that was usually attracted to Treasury bills and certificates. It had occurred to him that the present active demand for Treasury bills might indicate a strong liquidity preference on the part of investors that was being reflected in the investment market for intermediate-term securities by the cool reception given the Federal agency offerings.

Mr. Mills suspicioned that an early offering of a substantial issue of FNMA securities and likewise a successful refunding in December of the Treasury's issue of 3-5/8 per cent certificates might be handicapped by the influence of the relatively slow market for Federal agency securities. Inasmuch as the FNMA issue is in effect a substitute for a direct offering by the Treasury, he believed that the Committee should especially consider what responsibility the System had within the limits of appropriate credit policy for facilitating this financing operation. He hoped that Mr. Rouse would discuss this subject later in the meeting.

Mr. Robertson said that, for the first time in a long time, it seemed to him that the Committee's restrictive policy was beginning to bite. He was of the opinion that the degree of restraint had been inadequate for a long period and therefore slow in taking hold, but he believed that it was now beginning to work. Hence, he believed the System should adopt the position of waiting and watching. System policy should not be made more restrictive at this time, but it certainly should not be relaxed.

Mr. Shepardson reported that in recent weeks he had visited a considerable part of the agricultural sections of the Northwest. He could not recall when he had seen better conditions over those areas as judged by current crop and range conditions, the condition of livestock, the attitude of the people in the areas, and the indications of well-being as judged by the appearance of houses, barns, outbuildings, and so on. The condition of agriculture in this rather large section was a pleasant surprise and furnished an indication of good economic conditions generally. Most persons with whom he had talked who were actively engaged in the farming business were feeling quite optimistic.

Mr. Shepardson said that he was thoroughly in accord with the presentations made by Messrs. Young and Thomas and with most of the views expressed by others who had commented this morning. He would differ somewhat from views expressed by Messrs. Leedy and Vardaman in that, while he felt the System should meet seasonal needs for credit, he would meet those needs with some continuing degree of restraint rather than as freely as he understood their comments suggested. Mr. Shepardson thought that Committee policy was beginning to get some of the results that had been wanted and that it would be a mistake to indicate a change in policy just as these results were starting to appear.

Mr. Fulton said that the situation in the Fourth District was not quite as bright as had been indicated for some other districts, but it should be characterized as one of high level activity. Operations in the steel industry were a little higher than the national average. While orders from automobile manufacturers for steel had not come in as expected, orders for the fourth quarter for some components were quite satisfactory. Unemployment had increased somewhat because of layoffs connected with the changeover to new model automobiles. An indication of sentiment for future manufacturing expansion was to be found in inquiries for new business sites, Mr. Fulton said. He reported an active demand for such sites in the Fourth District in connection with programs for 1959 and 1960.

With respect to policy, Mr. Fulton said that while this was a period of some hesitancy and while sentiment on the down side seemed to be outrunning the statistics, he considered the over-all outlook for the future to be buoyant. He agreed with Mr. Shepardson that the Committee should not give a sign of relaxation. It should take care of seasonal needs, of course, but it should retain about the tightness of the past three weeks, which he felt had been quite appropriate.

Mr. Williams said that business developments in the Third District in general were not markedly different from those described for other districts. He then reported the views that had been expressed at a recent meeting of seventeen business economists from firms located in the Third District, summing up their comments with the statement that it was clear that the pessimistic evidences were weighted more heavily than other evidences in the expressions of those men. Mr. Williams said that there had not been significant changes in the banking figures recently although there had been some increase in borrowings at the Philadelphia Bank. In view of the cautious business sentiment that existed and the lack of evidence of a strong fall upturn, he believed the Committee should continue about the same degree of restraint that had existed recently, and he suggested that net borrowed reserves might continue in the $400-$500 million range.

Mr. Bryan said that conditions in the Sixth District for the most part reflected stability at a generally high level, with the exception of the State of Florida which continued to have sharp rises in activity. He found little or nothing in the comments or suggestions made by others at this meeting with which to disagree.

Mr. Johns agreed with the conclusion quite generally reported heretofore that there should be no change in policy either toward tightening or relaxing. Some of those with whom he discussed these problems were beginning to feel that the time might be near for discussing whether a change might be necessary in policy and in the Committee's directive. Mr. Johns said he would be quick to agree that the Committee's frequent meetings and procedures for determining policy for relatively short periods should not obscure for the Committee developments that should be in view. For the moment, however, he could see no need for changing the Committee's directive. In fact, he felt the wording of the directive was perhaps better in relation to current conditions than it had been at some previous periods.

Mr. Szymczak agreed that there should be no change in the policy now expressed in the Committee's directive, and he also agreed that there should be no change in discount rate at this time. However, he said that he leaned toward a milder restraint attitude than he thought had been expressed by most of the others who had commented thus far. There were mixed elements in the economic situation, and there were the Treasury's and seasonal needs to be considered. Because of these factors, at the present time he would lean toward negative free reserves in the $300-$400 million range rather than in the $400-$500 million range, he would not change the Committee's directive, would not change the discount rate, and would lean toward more ease in the policy of restraint.

Mr. Balderston noted that Mr. Johns had indicated some concern about the future. He also referred to Mr. Marget's report to the Board on the overspending in recent years by France, India, Japan, and other countries, which had added to upward price pressures on industrial materials and which had now brought those countries into exchange difficulties. Mr. Balderston said he mentioned this point because, while he saw nothing that the Open Market Committee should do at the moment because of the clouds that were appearing beyond the ocean, it seemed quite obvious that our future export trade would be affected adversely. There may be anticipated appeals from abroad for help by our Government that, if granted, would add to the spending here.

Another concern was that next year when large employers negotiate wage contracts, they not abdicate and buy peace at a price that the economy can ill afford. Mr. Balderston said he felt that this time vigorous bargaining might bring a period of labor disputes and interference with production. However, he felt it important that developments should not lead either side to have unfounded expectations as to the future of business and as a result to press for wage advances in excess of productivity.

As for the present, Mr. Balderston said there seemed to be a continuance of pressures as had been indicated by the discussion. He raised a question about a remark Mr. Thomas had made to the effect that the diminished liquidity of the commercial banks would make a lower net borrowed reserve figure as effective a restraining factor as a higher figure previously had been. Mr. Balderston noted that a year ago he thought this to be true, but that the lower net borrowed reserve figure of last fall now seemed to have been a mistake. In view of last year's experience with net borrowed reserves of around $200 million, he urged that the Committee keep the $400 million level as the current guide.

Mr. Thomas, in response to Chairman Martin's invitation that he comment, said that he had nothing to add other than to say he agreed with the conclusion stated by Mr. Balderston. His suggestion was for a lower level of net borrowed reserves than the $500 million or more common during the spring and summer of this year, but not for a level of $200 million or less that prevailed during the late months of 1956 and early 1957.

Chairman Martin said that there was a surprising degree of unanimity today. He observed that he had visited with seven Ministers of Finance and six Governors of central banks at the annual meeting of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development during the past week. He was impressed with the unanimity of their views that inflation in each instance had gotten ahead of them, that it was the primary problem in their countries, and that there would be no way of coping with the inflation other than a little decline in business. The Chairman said that, with two minor exceptions, he found no apprehensions concerning that prospect, but there was a general view that the main problem was one of public relations in dealing with the feeling in some quarters that central banking policy was seeking a depression or was endeavoring to precipitate a decline in business. This was the problem faced in each of these countries, the Chairman said, and each of the individuals with whom he had talked was seeking ways of explaining the problem to the people. That problem was similar to the one presented to the Federal Reserve System, Chairman Martin said, adding that it was interesting to get this synthesis of views, with the same awareness on the part of each of the individuals of the inability of monetary policy to supply a magic solution. Chairman Martin said there was also an awareness that there would be pressure on the monetary authorities to reverse their policies in order to prevent an adjustment from taking place, and an equal awareness that they did not have a means for pulling the levers and avoiding a readjustment.

Chairman Martin then said that it appeared that the consensus clearly was that there should be no change in policy or in the Committee's directive at this time.

Mr. Robertson said that his understanding of this statement was that the Committee desired to follow the same policy during the next three weeks that had been followed during the past three weeks. While the Chairman had not mentioned the volume of net borrowed reserves, he (Mr. Robertson) would assume that the averages of net borrowed reserves that had been sought during the past three weeks would continue to be sought during the next three weeks.

Mr. Rouse stated that he understood the Committee's discussion and instructions to be principally in terms of degrees of pressure rather than net borrowed reserves, but he understood that the Committee intended no change in its net borrowed reserve objective.

Chairman Martin added that this would be with a view to seeking the same degree of restraint that had been sought before.

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 restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation, and (c) to the practical administration of the account; provided that the aggregate amount 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;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so

sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Mr. Rouse then referred to the comments Mr. Mills had made earlier in the meeting regarding new securities offerings by various Federal agencies. He said that during the past one and one-half years there had been a substantial increase in the volume of such issues, both in number and amount, and the spread between Treasury issues and agency issues had increased markedly in order to absorb this rise. Within the past few months the demand for the agency issues had not increased as rapidly as had the volume of such issues and the market was now faced with the possibility of a substantial FNMA issue. Mr. Rouse expressed the view that such an issue probably would have to be in the six to eight month maturity range, although there was the possibility of a fairly long issue if it was not in a very large volume.

Mr. Vardaman suggested that it might be of interest to the Committee members if the Board's Division of Research and Statistics would prepare a list showing the labor management negotiations that might take place during the calendar year 1958 as a result of expiration of existing contracts.

It was agreed that the next meeting of the Committee would be held at 10:00 o'clock on Tuesday, October 22, 1957.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary