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, November 24, 1959, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Deming
Mr. Erickson
Mr. Johns
Mr. King
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak

Messrs. Bopp, Bryan, Fulton, and Leedy, Alternate Members of the Federal Open Market Committee

Messrs. Leach, Irons, and Mangels, Presidents of the Federal Reserve Banks of Richmond, Dallas, and San Francisco, respectively

Mr. Riefler, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Jones, Mitchell, Parsons, Roosa, Willis, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Knipe, Consultant to the Chairman, Board of Governors

Messrs. Hostetler, Daane, and Tow, Vice Presidents of the Federal Reserve Bank of Cleveland, Richmond, and Kansas City, respectively
Mr. Einzig, Assistant Vice President, Federal Reserve Bank of San Francisco

Mr. Coldwell, Director of Research, Federal Reserve Bank of Dallas
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Holmes, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Brandt, Economist, Federal Reserve Bank of Atlanta

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on November 4, 1959, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period November 4 through November 18, 1959, and a supplementary report covering the period November 19 through November 23, 1959. Copies of both reports have been placed in the files of the Committee.

Supplementing the written reports, Mr. Rouse made the following comments on open market operations:

> Open market operations supplied only a small amount of reserves net to the market on a delivery basis during the period since the last meeting of the Committee. This small figure (about $13 million) would be quite misleading, however, as an indicator of Account activity over the past three weeks. During this period, for example, the Account bought $169 million Treasury bills and sold $28.1 million, while $234,350,000 new repurchase agreements were made and $375,700,000 agreements matured or were withdrawn. The heavy volume of repurchase agreements is of course a reflection of the need for reserves early in the period, a development that was reversed by midmonth market factors. The repurchase agreement was well suited for meeting such temporary reserve needs, and it also fitted in with the Treasury's refinancing operation. Now that we are in a period of growing seasonal pressure on reserves, Account operations will rely more heavily on outright purchases of bills.

The Government securities market showed somewhat mixed tendencies since the last meeting of the Committee. Developments in the steel situation--and the various interpretations placed on them--have made the market particularly sensitive to short-run supply and demand considerations. The Supreme Court decision on November 7 upholding the legality of the Taft-Hartley injunction resulted in a substantial price decline throughout the Government securities list on November 9 as the market was impressed by the possibility that resumption of steel production would result in the liquidation of Government securities by corporations and in intensified credit demands on banks which have been under continuous pressure for some time. The psychology was later reversed by the possibility that the steel unions might resume the strike after the 80-day cooling off period has ended. The sensitivity of the market to short-run developments was amply demonstrated on November 16 when a new high issuing rate of 4.332 per cent for 91-day Treasury bills was established in the auction--although bill rates subsequently declined 1/4 per cent. It all added up to a feeling of considerable market uncertainty about the trend of interest rates.

In general, the market responded satisfactorily to the Treasury's refunding operation completed early this month and, initially at least, to the cash financing and refunding of savings bonds announced last Thursday. The exchange early this month of $3 billion of maturing notes and certificates and of the 4 per cent notes of 1962 into the 4-7/8 per cent four-year notes represented a successful outcome of the Treasury's effort to extend debt maturity within the range the law allows. The market also took in stride the Treasury plans to raise $2 billion cash in an auction this afternoon of 320-day bills. Guesses as to rates range from 4.75 to 4.85 in the auction, with trading in the secondary market expected to start at around 4.90-4.95. The market has still not had time to assess fully the implications of the exchange into the marketable 4-3/4's offered holders of maturing F and G bonds, but there was no pronounced initial impact on the market for outstanding notes in this maturity range.

The market for corporate and municipal bonds received a decided lift from the successful marketing of the American Telephone and Telegraph debentures last week. Even though the reoffering yield to investors, at 5.22 per cent, was lower than some had expected, there was a good institutional response and an unusual volume of small investment demand has been reported. The impact of the issue on the corporate and municipal market bears a striking resemblance to that of the 5's on the Government securities market early last month.

In response to a question by Mr. Allen, Mr. Rouse said it was likely that the Treasury would offer securities at auction late in December, for payment early in January. There was the problem of meeting the maturity of $2 billion of bills on January 15, there would be a need for additional cash in the second half of January, and certificates maturing February 15 would have to be refunded.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period November 4 through November 23, 1959, were approved, ratified, and confirmed.

In supplementation of the staff memorandum distributed under date of November 20, 1959, Mr. Young presented the following statement with respect to economic developments:

With activity in the steel industry resumed after a four-month interruption, output is rebounding and employment strengthening. What this may mean in terms of further expansion from prestrike levels remains to be seen. Over-all, the cyclical stage would appear one of reduced pace of further expansion, so that, after recovery from the steel strike setback is completed by early next year, a slower rate of increase in aggregate output may well be encountered. Also, it seems possible that the stability of money supply and money velocity over recent months portends that monetary policy has attained a position of real bite as regards inflationary pressures and psychology.

If, in the high-level period ahead, more competitive markets prevail than in 1956-57--a prospect deriving from our strengthened industrial capacity, our accumulated stock of housing and consumer durable goods, and our large supplies of livestock and other farm products--the System may confront a domestic situation of relative equilibrium of prices and output, though externally basic disequilibrium in payments may persist. In these conditions, the economy's needs and demands for cash balances may expand with further growth in domestic output and money income. The dilemma will be that if the additional cash balances are not provided by the banking system, overly tight money may work to frustrate equilibrium, accentuate competitive price pressures, and hasten the arrival of cyclical climax and decline. If additional cash balances are provided too liberally, on the other hand, they may frustrate competitive price tendencies and intensify international disequilibrium.

The difficult problem of a desirable pace for further bank credit and monetary expansion is admittedly a future problem. But the future in which it will become an actual problem is not too far distant. Accordingly, it is important that the Committee begin now to plan such incremental change in the bank reserve base as may be appropriate for a period of advanced and delicately balanced cyclical expansion, accompanied in the typical pattern with various rolling adjustments.

With regard to the most recently reported statistical information, the following are the main highlights:

(1) Following reactivation of struck mills, steel production had climbed by last week to 80 per cent of capacity and this week may reach a 90 per cent rate. Rise in steel output together with output in steel-related industries, despite continued low production in steel-consuming lines, is expected to raise the total index for production by about two points in November. The December rise in the index could carry it back to the June high.

(2) Output of nondurable goods, which reached a new high in September, declined somewhat in October, with the decline accounted for by a moderate decrease in the production of textiles and rubber products.

(3) October output of household durables, apparently because of steel shortage, remained below the highs reached last summer, but retail sales of such goods continued at advanced rates through October.

(4) Auto output for November is currently estimated at about the August model change-over level of 240,000 units. Dealer deliveries early in the month were down about 10 per cent below the high rate of early October, but with output curtailed, dealer stocks dropped a further 50,000 units to 529,000. Meanwhile, used car sales in early November maintained a rate about 10 per cent higher than a year ago and used car prices were somewhat softer than in the late summer at levels about 11 per cent above last year.

(5) Manufacturers' orders for, and sales of, durable goods changed little in October according to preliminary estimates. The September-October level for sales was about 11 per cent under June and for new orders almost 8 per cent less. Altogether, showings in new order trends are consistent with those of the McGraw-Hill survey of business capital expenditure plans. These indicate a smaller further rise in the fourth quarter than earlier projected and also a smaller rise for 1960 than many forecasters were estimating.

(6) For the fourth successive month, the value of new construction has declined, though the October decline was probably associated with structural steel shortages. The October rate was a tenth below the June peak, and the October declines were in both public and private construction. The October level of construction volume, however, was the highest on record and slightly above a year ago.

(7) Also declining for several consecutive months, in fact five months, were private nonfarm housing starts. October starts, at 1,180,000 units, were 18 per cent below the spring high, 9 per cent under the starts volume of a year ago, and the smallest number in 15 months. Home mortgage credit conditions, earlier reported as tight, have become still tighter.

(8) The usual seasonal decline in unemployment from mid-September to mid-October was more than offset by steel strike layoffs. Since mid-October, unemployment claims have increased quite sharply, so that mid-November unemployment is likely to show a significant rise from mid-October. Auto layoffs and seasonal influences will be main factors in the increase. It is a matter of some interest that the State and local government sector is the only sector in which significant employment gains have been evident in recent months.

(9) Personal income in October is estimated at $382 billion, up over $2 billion from August. The rise recovered about one-half of the June-August decline. Wages and salary income changed little from August, so that the increase was concentrated in business and proprietors' income, in interest payments, and in transfer payments.

(10) Retail trade in October was up 3 per cent from September to the July record volume. The increase was concentrated at automotive outlets; sales at other stores showed little change. Sales at department stores early this month were running slightly ahead of the October volume.

(11) Preliminary data from the latest Quarterly Survey of Consumer Buying Intentions, taken in October and conducted

for the Board on an experimental basis by the Bureau of the Census, show an apparently strong demand for durable goods. The proportion of consumers planning to buy autos or household durables was the highest of the four experimental surveys so far conducted.

(12) Average wholesale prices have continued to show little change. On balance, the average of industrial materials prices probably continues to have an upward tilt. Among basic materials, prices of steel scrap, copper, natural rubber, and some textiles have risen further. On the other hand, prices of hides and leather have declined sharply; lumber and plywood are down, partly seasonally; and the price of copper scrap has fallen some. Wholesale prices of livestock and meat have recently declined about 7 per cent and are about 15 per cent under a year ago. Meat marketings over the past six weeks have been running about one-tenth above a year ago.

(13) In Western Europe, activity continues to surge upward. Advance has been especially marked in durable goods output and in construction, but all phases of activity are showing gains. In Canada, economic upswing has apparently been regaining momentum.

Mr. Thomas made the following statement with regard to the credit situation:

Pressures of credit demands have continued to show little or no further tightening, continuing the lull that developed in October. During the past week or two there has been some firming of bill rates, which may be a reflection of seasonal forces or anticipatory of an expected forthcoming increase in credit demands. With operations in steel so quickly restored to a high level, some upturn in private credit demands may be imminent. This upturn might coincide with usual post-Christmas declines in seasonal borrowing, and thus account for a smaller than usual contraction in the early months of the year.

Yields on Treasury bonds have generally been firm at levels below the September peaks. Notwithstanding further increases in the available supply of notes in the 4- to 5-year maturity area, yields on such issues have continued relatively steady, supported by market demands. Yields on State and local government securities have declined somewhat further. Market reception for the moderate volume of new issues being offered has been favorable, and in addition dealers have added to their own investment portfolios.

New issues of corporate securities have also been in moderate volume, even after including the $250 million A.T. & T. issue. Yields on outstanding high-grade corporate bonds have been steady, not showing the declines evident in other sectors of the bond market since September.

Common stock prices have fluctuated within a restricted range since the sharp drop in September--somewhat above the low point reached in that month. Volume of trading has increased. Stock market credit continued to decline in October.

Following the increase in bank holdings of Government securities at the time of the Treasury cash financing in the middle week of October, holdings of such securities by banks in leading cities have again been sharply reduced. Holdings of bills have declined sharply and holdings of notes and bonds maturing in one to five years have also declined, notwithstanding new issues of securities within this maturity range. Increases were shown in holdings of issues other than bills maturing within one year. City bank holdings of other securities have also declined.

Reductions in investments considerably more than offset a moderate--probably less than seasonal--increase in loans. As a consequence, total loans and investments of city banks have declined by nearly $800 million in the past four weeks.

Commercial and industrial loans increased by about $300 million, approximately the same as in the corresponding four weeks last year, but not half as much as in the same weeks of 1955 and 1956. Loans to sales finance companies have continued to show little change, but other nonbank financial institutions, probably mortgage lenders, increased their borrowings at banks somewhat in the past four weeks. Loans on real estate and consumer loans increased only moderately in the same period.

At country banks, total loans and investments continued to increase seasonally during October, in contrast to a decline at city banks. As compared with a year ago, country banks have shown an expansion of 5 per cent, compared with little over 2 per cent at reserve city banks and a decline for New York City banks. Nevertheless, the increases at country banks for October and also for the four months ending in October were smaller than those for the corresponding periods of other recent years, indicating, perhaps, a less than seasonal increase.

Demand deposits adjusted in October, as in the two previous months, showed less than the usual seasonal increase and have not risen on balance since March. Turnover of deposits has also been level since April, showing the influence of the moderate decline in over-all economic activity related to the steel strike.

U. S. Government deposits, which increased sharply in the middle of October at the time of the Treasury financing, declined for that month as a whole. Time deposits also declined, both at commercial banks and at mutual savings banks, no doubt reflecting withdrawals to purchase Treasury securities. Savings and loan associations showed a smaller increase in outstanding shares than in October 1958, reflecting a substantial increase in withdrawals.

In the first three weeks of November, demand deposits adjusted declined further, but some decline usually occurs in that period. U. S. Government deposits also declined.

Time deposits showed a decrease, as is usual at this season, reflecting shifts of funds from Christmas savings accounts.

In view of the smaller than seasonal deposit expansion, bank reserve needs have hardly equalled the usual seasonal amounts in recent weeks. The principal drain on reserves has grown out of the customary autumn currency demand. Diverse gold movements have largely offset each other, with little net change. System operations have supplied reserves on balance, and member bank borrowings have averaged less than $900 million, with net borrowed reserves generally below $500 million. The period of heaviest pre-Christmas reserve drains is now beginning, and approximately $700 million of reserves will need to be supplied in the next three weeks.

Probably the most important decision to be made by the Committee in the next month will be whether to adjust operations so as to facilitate a renewed growth in bank credit and the money supply--on a seasonally adjusted basis. It may be reasoned that the lack of growth in recent months has reflected the influence of the steel strike in holding down demands for credit and money, rather than the restraint of member bank borrowing on bank credit extensions. A resumption of credit demands in the period ahead with additional reserve needs will necessitate increased member bank borrowing, unless reserves are supplied by System operations. System policy might be directed toward anticipating the demands for reserves by supplying them through open market operations. Banks, however, might be willing to borrow to meet these needs and System operations might be withheld until the demands appear in pressures on the bill market that seem to be exerting undue restraint.

Maintenance of around half a billion dollars of net borrowed reserves might well prove to be the proper amount that would not unduly restrict the desired expansion but would still not promote unsound credit commitments for which demands are likely to arise in coming months. If increased reserve demands that develop are met by System operations so as to maintain such a level of borrowings, then some growth would be permitted.

Taking a broad view of System policy relative to the prospective economic situation, rebuilding of steel inventories, together with credit-financed consumer purchases of automobiles and other durable goods and the prospective growth in business capital expenditures, could inject into the economy a number of unsustainable elements of expansion and pressures for price increases in the months ahead. Continued wage increases, together with strong demands, will be a stimulus to higher prices for finished products. In view of the declining tendency in agricultural prices, the potential supplies of other basic raw materials that could dampen price rises in these areas, and the international competitive situation, continued increases in prices of finished products can lead to serious difficulties in the future. Such tendencies should not be facilitated by too-ready availability of credit.

Sustainable growth and the avoidance of a build-up of forces that will later bring about a serious downturn can probably best be assured by the continuation of some restraint on credit expansion during the months ahead. Yet some expansion may well be permitted.

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

Economic developments since the last meeting have been generally favorable, marked by an unexpectedly rapid rebound in steel production and by continuing evidence of underlying strength in the business situation, as suggested by over-all data on production, retail sales, and business investment plans. On the other hand, a balanced flow of all kinds of finished steel will not be available for several weeks, and some secondary effects of the strike may last even longer. Meanwhile, major uncertainty continues as to when and how the steel and other major labor disputes will ultimately be settled. Fears of a renewed walkout may induce some caution in business and consumer spending, and there is no way yet to gauge the effect of the final settlement on wages and prices generally. Since newly produced steel during the remainder of the year will probably be barely sufficient to cover current and minimum inventory demands of final users, there seems to be no immediate likelihood of a heavy build-up of steel inventories to be superimposed on the seasonal expansion of other inventories. If the steel conflict is settled before expiration of the 80-day injunction period, we may see a sharp upsurge in general economic activity early next year--but there is no clear evidence now that the rise will be excessively vigorous.

Results of the October McGraw-Hill survey of business capital spending intentions point to strength in this sector of the economy, although much of the expected increase in actual outlays in 1960 will be due to the postponement to 1960 of expenditures originally planned for 1959. Of course it is quite possible that spending targets will be substantially raised once the steel issue is definitely settled.

A recent spot survey conducted in our District confirmed the general impression that growing tightness in the mortgage market is exerting an appreciable effect on the volume of residential construction, particularly in the area of large housing developments. Yet, despite some decline, the level of residential construction is still high.

Such price data as have become available since the last meeting have been generally reassuring, with no indication that strike-engendered shortages have led to extensive price increases. Booming business abroad, however, may well exert gradual upward pressure on some commodity prices.

October witnessed a noticeable lull in the growth of bank credit, with combined loans and investments of all commercial banks showing the smallest gain for any October in at least a decade. The slackening was mainly in business loans, whereas consumer and real estate loans maintained a pronounced upward trend. Early November bank credit data are rather inconclusive, although they seem to point to a resumption of more substantial over-all loan growth. The money supply showed a gain of only 1 per cent to 1-1/2 per cent for the twelve months through October. In the last few weeks the banks as a whole have been under severe pressure, especially in the money centers. Despite the slackening loan growth in October, loan-deposit ratios reached record levels both in and outside of New York--and this, together with other measures of bank liquidity, showed so little leeway as to raise serious questions, at least in New York, concerning the capacity of commercial banks to provide credit (within the framework set by present rates of growth in the money supply) for a major further expansion of business, should that be on the way. I found the comments of Mr. Young and Mr. Thomas interesting, as they pointed out the difficult dilemmas for monetary policy that we will be encountering soon.

The Treasury's financing problems will be by no means over with the completion of today's cash offering. An additional cash offering and a rollover of twelve-month bills are scheduled for the first half of January, followed by a very large refunding in February. In the next few weeks financial markets will be subject to the usual special pressures of the season, including corporate tax and dividend requirements, besides fairly heavy offerings of new corporate and municipal issues. Beyond this there are some fears in the market of diminishing corporate interest in Government securities as business spending gathers momentum.

Facing this period of Treasury and seasonal pressures, I think the recent degree of credit restraint is appropriate and should be neither intensified nor relaxed. The banks' reserve position is well under control, so that we are in a position to move decisively in either direction at some later date if that should appear desirable. It seems to me that stability in the feel of the market is our best criterion. This probably would imply, in the absence of decisive new developments, that the general level of interest rates would not change appreciably. It would seem to me that the Manager should have even more than the usual degree of leeway in this year-end period of rapid changes and cross-currents. I see no present need for a change in the directive or in discount rates.

Mr. Johns stated that this year's large cotton crop had come to market earlier and more rapidly than the crops in recent years. Also, as the result of changes this year in the Government cotton price support program, the cotton produced on more than 80 per cent of the planted acreage was being purchased outright by Commodity Credit Corporation. This was the so-called "A" cotton produced by growers who had elected to plant only their allotted acres. Under the present procedure Commodity Credit Corporation was drawing checks on the Treasury and became the outright owner of this substantial portion of the crop. As a result the banks had come into funds as their production loans were paid off; in contrast to other years, they did not acquire earning assets in the form of Commodity Credit Corporation certificates of interest. Funds had flowed in large volume to the city correspondent banks, although it seemed not unreasonable to expect that in time the country banks might get around to investing some of the money. For the time being, however, the country banks were quite liquid and the situation at the Memphis banks, at least until recently, was quite different from what one might expect at this season of the year. The cotton owned by Commodity Credit Corporation was being continuously offered for resale at a price less than the support price for "A" cotton, i.e., 80 per cent of parity. While the price was subject to upward adjustment each month, everyone knew where the cotton was and at what price it could be obtained for months in the future. Thus, there was no incentive for cotton merchants to lay in inventories, and perhaps only a minimum incentive for cotton mills to lay in inventories. The appearance of Memphis banks at this time of year generally is one of great demand and considerable pressure, leading them to lay off to correspondent banks large volumes of cotton paper and to go to the discount window for considerable amounts of funds. This year, until recently, those banks had not been behaving in the customary manner, but there had now been some turnabout in the situation as far as cotton loan demand was concerned. Whereas in the early stages of the harvest, mills and processors were not buying the current crop, they were now buying and in some volume. Whether this was hand-to-mouth buying or buying for inventory purposes was not clear, but in any event the pressure of cotton loan demand on the Memphis banks had turned upward and at least two of them were beginning to look as they used to look at this time of year. The situation as it developed this year represented a new experience for the Reserve Bank and, at least thus far, had rendered considerably easier the job of administration of the discount window.

Turning to policy, Mr. Johns recalled that for a long time he had taken a rather dim view of setting a reserve target as a means of instructing the Desk and expressing policy. While he had endeavored recently to avoid laboring the point, it occurred to him that an attempt at this juncture to maintain a reserve target could bring about results that the Committee did not really want. Although even the short-run future was far from clear, he thought it not unreasonable to anticipate that the resumption of steel production, and developments associated therewith, might lead to a considerable increase in the demand for bank credit. In the circumstances, he felt that the Committee ought to be cautious about supplying reserves. If a reserve target--either $500 million of net borrowed reserves or any other target--was adopted and such a demand came to pass, this might permit a greater expansion of deposits and of the money supply than he would deem appropriate at this time. On the other hand, if loan demand failed to develop, he would not be concerned about some marked easing in reserve positions. This, he thought, probably would indicate a cyclical change that would suggest a revision of the policy of restraint that the Committee had been following, or some modification thereof. Hence, he would be inclined to suggest that for the few weeks ahead, while the drain on reserves accompanying an outflow of currency was present, the Committee might gear its sights to supplying the reserves needed to offset that drain. While he had some question as to whether the System should supply reserves to offset any drain accompanying an outflow of gold, if such an outflow should come to pass, he felt the System should offset seasonal losses of reserves, with perhaps some additional reasonable allowance for growth in the money supply. Because it was his guess that the weeks ahead were going to show a tendency toward expansion, conceivably at an unsustainable rate, he also felt that the System should allow a part of the reserves to be obtained at the discount window rather than to supply them through outright injections in the form of open market operations. He would not be too concerned about fluctuations in the level of negative free reserves or about any changes in the money market resulting therefrom. He felt that the System must be quite flexible, but for the time being he would lean in the direction of being careful to maintain no less than the current degree of restraint. If things should develop on the expansionary side, perhaps there should be some slight intensification of restraint. He would not favor a change in the discount rate or the policy directive at this time.

Mr. Bryan, who had returned recently from an advisory mission to Peru, said that during the period since he last attended a meeting of the Committee the figures and charts for the Sixth District showed exactly what one would expect. The economic situation had deteriorated rather markedly. Nearly every series was down on a month-to-month basis and down substantially from the 1959 peak.

With regard to policy, Mr. Bryan said it seemed to him that the Committee found itself in a peculiarly difficult situation. The outlook seemed quite hazy regardless of whether the steel strike was settled or whether it resumed. In considering policy at the moment, he had tended to look at the trend of total reserves rather than negative free reserves or even the money supply. From the charts it could be seen that total reserves had declined irregularly since early spring and that they were now right on the long-run trend line. Unless there was a resumption of some growth factor in those reserves, they would fall slowly below the trend line, a development that would be regrettable if it were allowed to proceed very far. His inclination, therefore, would be to proceed with extreme care not to overdo the degree of tightness at this time.

Mr. Bopp made substantially the following comments with respect to Third District developments and with regard to monetary policy:

The rebound in steel production has been much faster than anticipated. Steel mill operations in the Philadelphia region jumped from 12 per cent of capacity when the strike ended to 92 per cent in the latest week--considerably above the 79 per cent rate nationally. The large Fairless plant, which suffered little damage to its furnaces, is reported to be operating at 95 per cent of capacity. About three-fourths of the workers idled by the strike in Pennsylvania have been called back to work. All but about 4,000 of the 166,000 steel workers had been called back to work by November 20, and nearly one-third of the non-steel workers idled by the strike have returned to work, most of the returnees being in mining and railroads. It is encouraging that in the week ending November 20 secondary unemployment increased in only three industries--ordnance, paper, and textiles--and the increases in these industries were insignificant.

The steel shortage in this area has been most severe in sheets, structural shapes, and more recently in bars. Steel fabricators have made a variety of adjustments to keep operating despite the shortage of steel-shifting to aluminum, readjusting production lines, and turning to foreign sources of supply. It is reported that some companies are making arrangements to import regularly a certain proportion of their steel requirements in view of the recurring strikes in the steel industry.

One of our directors, who is president of an oil company, reported that the industry expects the union to open negotiations for a new wage agreement early next year, and that the companies expect to resist strongly a wage increase that would result in higher labor costs. Surplus stocks and competition would make it very difficult to pass increased labor costs along in the form of high product prices.

There was a slight decrease in District manufacturing employment from September to October, according to preliminary data. Employment decreases in strike-affected industries were almost entirely offset by increases in other industries. October employment was about 1/2 per cent above a year ago. New unemployment claims in

Pennsylvania were off slightly in the latest week, but changes in the past three weeks have been minor.

Changes in department store sales in the past two weeks have been somewhat erratic because sales promotions did not fall in the same week as last year. Sales for the past four weeks were 1 per cent above and for the year to date 4 per cent above a year ago. October sales of automobiles in Philadelphia County were about one-fourth more than September and nearly one-half more than October of last year. Freight car loadings rose sharply with the resumption of steel production.

There was little change in total credit of District reporting banks in the three weeks ending November 18. A moderate increase in loans was nearly offset by a reduction in holdings of securities. Business loans, which have declined in most of the weeks since mid-September, were unchanged.

The basic reserve position of the large Philadelphia banks was considerably easier during the past three statement weeks. In the next-to-latest week, the Philadelphia banks had a small average basic excess--the first since mid-January. Their daily average borrowing from the Reserve Bank was considerably lower, ranging from $8 million to $12 million. District banks were net sellers of Federal funds in the past three weeks, but the daily average was quite small in the latest week. Total borrowing from the Reserve Bank by District member banks dropped to a daily average of $18 million in the latest week--2.1 per cent of the System total.

I believe we should maintain about the same degree of restraint for the next three weeks, not only because of the current Treasury financing but also because it seems appropriate to the business and financial situation. In my opinion the Manager of the Account should strive to maintain about the same degree of pressure, as reflected by the tone and feel of the market. As long as market rates are at approximately current levels, I would favor meeting seasonal reserve needs mainly through open market operations. I do not favor a change in the discount rate or in the directive.

Mr. Fulton reported that the steel situation continued to be the subject of principal interest in the Fourth District. The steel companies had made another offer which contemplated referring the work-rule problems to a committee for review and report later and also improved the economic package. However, the unions rejected this offer and thus far had made no move to compromise the original demand, which was a package of 45 cents per hour spread over a three-year period. The attitude of the steel workers was reported to be cooperative. While the union had instructed them not to work overtime or to accept benefits offered by the steel companies, the workers were said to be working overtime and accepting the benefits offered. One steel mill claimed that the workers would vote to accept the package offered by the industry, and the companies were attempting to explain that the work-rule requirements proposed by the companies would not result in laying off any of the senior workers or in disturbing the relationships of the workers with the mills. The companies looked for no settlement before the end of the period within which a vote must be taken. However, pressure would now be on the union leadership and the companies, and it was generally expected that some settlement would be arranged. In aluminum, the industry appeared vulnerable because Kaiser, which had already signed an agreement with the steel workers, controls about 27 per cent of the capacity of the aluminum industry. The copper industry had just signed an agreement containing what appeared at first to be a very large package. On further analysis, however, it appeared that the copper workers were just catching up with the steel workers and were not obtaining preferential benefits.

Mr. Fulton said that the start-up of Fourth District steel production had been faster than expected and that production was expected to be up to about 90 per cent of capacity this week. There had been no further large shutdowns because of steel shortages, but it would take some time to obtain certain types of steel. Chrysler was laying off additional people, General Motors was flat, and Ford was putting back some workers in parts manufacturing. It was reported that General Motors would not be able to make deliveries of new cars to dealers until late December. The steel mills were being selective and were shipping first to those customers who were in bad shape; it appeared that no steel was likely to be shipped for inventory rebuilding until the first quarter of 1960. Outbound freight shipments last week were the highest during the past four-month period and inbound shipments were the second highest during those four months. Electric power output had moved up sharply.

Mr. Fulton reported that unemployment in the district still presented a problem, with considerable secondary unemployment. The situation in the Youngstown and Pittsburgh areas was particularly bad. However, department store sales continued good, with the cumulative figure 6 per cent ahead of last year. Member bank loans increased slightly during the past two weeks and the banks had come to the discount window somewhat more heavily. While borrowings had been running around 5 or 6 per cent of the System total, in the past week they ran around 10 per cent.

As to policy, Mr. Fulton said that in the present circumstances he would maintain approximately the same degree of pressure as had been maintained during the past few weeks, giving the Manager of the Account adequate latitude. He would not favor changing the discount rate or the directive at this time.

Mr. King also expressed the view that there should be no change in the directive or the discount rate. He felt that this was a time when the Desk must have more leeway than usual in responding to the feel of the market and in supplying seasonal demands. Of prime importance, as he saw it, was the supplying of enough reserves to permit the proper amount of growth and development to continue, even though this might run the risk of some possible price increases. In this connection, he suggested that it was primarily the responsibility of industry to fight off wage and price increases. He was encouraged to hear Mr. Bopp's report that one of his directors, who is president of an oil company, was prepared to resist wage increases that would result in higher costs. If the System should attempt to base its policy on price levels alone, he felt that it would be proceeding in the wrong direction. He repeated that he would favor giving greater leeway to the Desk than usual during what he sensed would be a difficult and uncertain period.

Mr. Shepardson said it was encouraging if management was providing more resistance to wage demands. On the other hand, each settlement that had been made seemed to contain some wage increases. Looking ahead, he felt that the most likely prospect was an upturn in activity as steel got rolling. It seemed to him that although industry had a responsibility to face up to, that did not relieve the System of responsibility for exercising such influence as it could in trying to maintain stability of prices and a psychological atmosphere that would tend toward better adjustment of the foreign trade situation. Therefore, while he would not favor increasing the degree of restraint currently being maintained, it seemed to him that the System must be continually alert to the major threat, although recognizing the possibility of a turn in the other direction. As he said at the November 4 Committee meeting, his observations had led him to conclude that it is always easier to relax than to take a tighter hold. At present he would not favor any easing. He would provide the necessary reserves for seasonal needs, but he would try to continue the existing degree of restraint, at least until the situation became more clear than it was at the moment.

Mr. Robertson said he felt sure that Mr. Shepardson was right. Although there was the possibility of a downturn, he did not believe that that would be the direction. The probability was that in the not too distant future there were going to be price changes that would make one squirm and say that monetary policy could not do anything about them. Consequently, although some segments of the economy, such as agriculture, were in a less favorable position than other parts of the economy and were under pressure at the moment, he would consider it unwise not to maintain the degree of restraint that had been built up. In one respect he would go a little beyond Mr. Shepardson. He was in accord with the view that for the next three weeks some of the demand for reserves ought to be provided through the discount window rather than through open market operations. The discount facility was designed as an automatic safety valve and the present appears to be the kind of situation where the discount window could be utilized effectively.

In summary, Mr. Robertson said that he would try to maintain the same degree of restraint as maintained up to this point, and that he would watch the trends carefully. He would not favor a change in the discount rate or the directive at this time.

Mr. Mills commented that the Board's research staff had just issued two memoranda, one on economic and financial developments in the United States and abroad and the other on banking and monetary developments in October. Careful analysis of those documents in conjunction with Mr. Young's evaluation of the economic situation and prospects led him to caution the Committee even more strongly than in earlier months about maintaining a degree of tightness in the money market that would be adverse to economic development and stability. It seemed particularly significant that the banking system had not experienced the normal seasonal expansion of credit, and in his opinion a good reason could be found in the earlier impact of a System policy of credit restraint and the shrinkage that had taken place in the money supply. The shrinkage, if he understood Mr. Bryan's reasoning correctly, would suggest that the System should be forewarned about permitting a further development in that direction.

Mr. Mills said that the Committee had before it a useful demonstration of the effects of System policy and a reminder of what it had been told by studies in economic journals and observations of the System's own research experts. From the statement week ended September 23 through the statement week ended November 18, the level of negative free reserves had dropped measurably below $500 million. At the same time, the rate for Federal funds had held at 4 per cent and there had been a distinct tightness in the money market. Along with the drop in the level of negative free reserves was the companion development of a tendency for the level of discounts at the Federal Reserve Banks to drop. That tended to bring into outline the fact that it is customary for member banks, as additional reserves come into their possession, to take the first step toward reducing their discounts. As they reduce their discounts, reserves are withdrawn from the market. The result had been a continuing tightness in the face of a lower level of net borrowed reserves. It seemed to him that it would be entirely appropriate to capitalize on this development and bring down the level of net borrowed reserves to a somewhat lower level, with the anticipation that in doing so there would not have been a relaxation of credit restraint to any degree that could be alarming to the most serious advocates of extreme pressure and credit restrictiveness. At the same time, the result would be to bring the System to a neutral position where the availability of credit would be poised. The supply of negative free reserves would be at a point where the System could move promptly either in the direction of greater ease or, improbably, in the direction of further tightness without having sacrificed any strength of position.

Mr. Mills expressed the view that to move in the way he had suggested was essential in that the availability of credit placed at the disposal of the commercial banking system had now been brought to a point where the commercial banks were restricted in making their normal contribution creditwise to growth and stability. He said that he wished to offer again for the Committee's consideration, as he had at the November 4 meeting, a change in the wording of the directive so that clause (b) would read "to fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion."

The comments made by Mr. Leach were substantially as follows:

> High levels of activity in major Fifth District industries are continuing. New evidence of strength in specific industries is incomplete but fairly persuasive.

The District furniture industry is in its strongest position in recent years, with activity running from 15 to 20 per cent higher than a year ago and production sold through February and in some instances well into March. In textiles, cotton cloth output is booked almost solidly through the second quarter of 1960, while synthetics are booking into the second quarter. Production should reach even higher levels in the near future as bottlenecks are eliminated. Sales and profits in cigarette manufacturing, our most stable industry, continue high. Coal production was up slightly last month and gives indication of a strong pickup with the resumption of steel production.

Farmers in the District, on the other hand, are continuing to experience declines in income. Cash receipts from marketings during the first nine months of 1959 were 5 per cent below the same period of 1958, a somewhat greater decline than for the country as a whole. Furthermore, frequent rains in the Carolinas and Virginia during the fall delayed harvesting and reduced production of nearly all crops.

Since resolving doubts on the side of ease, which was introduced into the consensus at the September 22 meeting, represented the System's only policy adaptation to the lull in economic activity related to the steel strike, I think those words have a little more meaning for the record than might normally apply. With the strike over, at least temporarily, and economic activity increasing, this would appear to be a logical time to delete these words from the consensus, where they have been, I take it, since the September 22 meeting. Aside from the other uncertainties discussed, the current Treasury financing obviously calls for continuing substantially the same degree of pressure until the next meeting of the Committee, with no change in the discount rate and no change in the directive. It would seem to me that the next meeting would be the time to consider changing the directive, if there is a desire to change it, because there will be a lull between Treasury financings. In the meantime, I would favor maintaining substantially the same degree of pressure, but I would like to remove the resolving of doubts on the side of ease from the consensus.

Mr. Leedy reported that the steel strike had left no signs of marked deterioration in the Tenth District economy. Severe weather since the November 4 meeting had hampered some of the late harvesting of crops, particularly in sugar beet areas. However, winter wheat was in good condition. Insured unemployment continued to be below the national level in each of the States of the district. There had been a slackening in commercial and industrial loans since midyear, although there was a substantial increase in nonguaranteed agricultural loans to an all-time high.

Mr. Leedy then commented on a situation in Oklahoma relating to the tax assessment date at the end of November. He explained that the large oil and other companies withdraw sizable balances from Tulsa and Oklahoma City banks, and that those banks have worked out over the years arrangements with their correspondents in other areas to build up balances with them to offset the loss of funds. In anticipation of that, the Oklahoma banks build up large balances in advance with the banks accommodating them. On average, it would appear that they maintain with correspondent banks about 25 per cent of the volume of their reserve balances with the Federal Reserve Bank. At the present time, however, they were maintaining balances roughly 30 per cent in excess of their balances with the Reserve Bank. The whole thing, of course, would be washed out after the end of the month but it tended to give a distorted picture as far as district banking statistics were concerned.

Turning to policy, Mr. Leedy said it seemed to him that the System should not anticipate seasonal needs but should respond to them as they might arise. In his view, the System should neither reduce nor increase the pressure on reserves; instead, he would maintain the pressure at about the same level as maintained in recent weeks. He subscribed to the view that the Account Management should be given considerable leeway and that among the things it should take into account were both the level of net borrowed reserves and short-term interest rates. He would make no change in the directive or in the discount rate.

Mr. Allen made the following statement with respect to Seventh District developments and with regard to monetary and credit policy:

> Since the last meeting our Bank has participated in four of what can be termed business outlook conferences, two in Washington and two in the Seventh District. The opinions expressed were almost unanimous in pointing to a vigorous upturn during the first half of 1960. Few believed that a turn in the trend of business could come until the latter part of the year and some contended that the entire year would see rising activity.
>
> Steel production has increased more rapidly than anticipated. The estimates which I quoted here, that output would reach 32 per cent of capacity the first week and 74 per cent the second week, appeared optimistic to some, but actually the rate reached 46 per cent the first week and probably 79 per cent the second week. Our sources of information expect the industry to produce and ship 20 million tons of finished steel during the 80-day injunction period, but they expect consumers to use up a like amount, with no net addition to inventory. Assuming that the strike is not resumed, they expect ingot production in 1960 of 130 million tons compared with 117 million tons in record 1955. They say that ore supplies will be sufficient to achieve that projection. Shipments of finished steel are expected to total 94 million tons compared to 85 million in 1955. That estimate projects a 9 million addition to inventory in the first half and a one million addition in the second half, which would mean consumption of 84 million tons during the year.

The most important impact of the steel strike, current or prospective, has been on the auto industry. But here too production apparently will pick up more rapidly than was expected. Our Detroit friends say that by the third week in December the steel and parts pipelines will be full and the assembly plans really rolling. They project November production of 250,000 cars, December 450,000, and 600,000-700,000 each for January, February, and March. Achievement of that projection will mean overtime operations starting in mid-December.

A large national retailer of general merchandise tells us that sales were excellent through mid-November, despite the fact that some stores in steel-producing centers were off 50 per cent from last year. This firm now expects sales in the first half of 1960 to exceed the record sales of the first half of 1959 by 8 to 9 per cent. They expect prices of the merchandise they sell to move up about one per cent.

Commercial and industrial loans of our weekly reporting member banks have declined for five consecutive weeks, undoubtedly an effect of the steel strike and contrary to the rise in business loans shown by all reporting banks in the country. Thus, although other earning assets of Seventh District reporting banks moved upward somewhat--mortgage loans, consumer loans, Government security holdings, and loans on securities--reserve pressures on most of our central reserve and reserve city banks have moderated in recent weeks. In addition to the slack in business loans, these banks have gained some demand deposits. Time deposits have shown little change, in contrast to the decline at all weekly reporting banks.

The basic deficit position of Chicago central reserve city banks is heavily concentrated at one bank. Two large Chicago banks have sold Federal funds in unusually large amounts during the past two weeks. Outside Chicago we have relatively few reserve city borrowers, but both the amount of country bank borrowing and the number of country borrowers rose sharply in early November. Adverse weather has delayed harvest and sale of some crops and the amount of credit tied up in feeder cattle continues to increase, especially in Iowa.

During the past three weeks, as I have given thought to our policy, I have on occasion felt that perhaps we should ease up a bit. And if I thought that the level of business activity which we have at this particular moment would continue for a time without change, then I would favor less restraint. But in the light of the prospects set forth in

> the Board staff's review, supported by what others here and I myself have reported, I am unable to recommend a move toward ease. Rather, I favor continuance as nearly as possible of the degree of restraint which has existed during the past three weeks, and I see no need to suggest to the Desk that errors, if any, be resolved on one side or the other. I would ask that they try to keep things as they are. I would not change the discount rate or the directive.

Mr. Deming said that for the past several months various economic indicators had been signalling a lag in the rate of growth in the Ninth District compared with that of the United States as a whole. This divergence in trend appeared to have broadened somewhat further in recent weeks as the cumulative effects of the summer drought and strikes became more pronounced. For example, the rate of increase from year-earlier trends in bank debits and department store sales had slowed down to a greater extent than for the nation. District bank deposits, which earlier in the year were exhibiting faster growth than in the United States as a whole, now were lagging the nation. Nevertheless, bank debits, retail sales, and bank deposits, and, for that matter, almost all other economic indicators continued to show modest advances from a year earlier. The most notable exception was cash farm income which, in the third quarter, was off 17 per cent from the third quarter of 1958 compared with a drop of only 7 per cent for the nation as a whole. Farm income is, of course, an important factor in the Ninth District.

Mr. Deming said that changes in country bank figures in October contrasted sharply with the usual pattern. For the first time since monthly reports were initiated twelve years ago, country bank loans did not rise, and the deposit rise was the second smallest over this period of time. On the other hand, city banks exhibiting contraseasonal changes showed them in the opposite direction from country banks. Ordinarily their loans would be falling but they showed practically no change.

Mr. Deming then turned to an analysis of the iron ore situation. He said that in the postwar period, excluding recession years, ore shipments had ranged from 75 to 95 million tons. Last year shipments were 51 million tons, and this year they totaled 34.5 million tons up to the time of the steel strike. How much it would be possible to get out during the period before the lakes closed was still a matter of conjecture, but the record for November was 9 million tons in 1952. For December, the record was 1.5 million tons in 1956. Therefore, 11 million tons would look to be as much as could be expected for November and December under the most favorable conditions, and the outside limit to shipments this year would appear to be about 7 million tons. Considering the weather and slowness in loading ships, the outlook might be closer to 4 million tons. As to rail shipments, the record for an entire season was 4.3 million tons, and there were not enough cars to haul much more than this amount. One seemed to come out with the possibility that somewhere around 8 to 10 million tons might be shipped during the poststrike period.

Added to the 34.5 million tons shipped up to the time of the strike, this would mean a total of 42 to 45 million tons as against a low of 75 million tons for normal years. Taking into account foreign imports and the use of steel scrap, this might not add up to an ore shortage. On the other hand, the steel producers could run into some difficulty before the mines opened up in the spring.

Mr. Deming expressed the view that Mr. Mills' suggested amendment of the policy directive perhaps came closer to stating what the Committee was doing at the present time than did the existing directive. However, he was not prepared to support the proposed change at this point because he was not prepared at this moment to mark a change in policy. While he would not want to eliminate the idea of having doubts resolved on the side of ease, he would like to be prepared to move in either direction as developments occurred. The betting seemed to be about even as to the direction in which the Committee would want to move after the low visibility cleared up. Like Mr. Bryan, he was concerned about the lack of money supply growth; this and various other factors made him unwilling to increase the degree of restraint. In summary, while he would give the Account Manager a great deal of leeway, he would not increase the level of restraint and he would continue to resolve doubts on the side of ease.

Mr. Mangels reported that Twelfth District economic activity continued at a good level. October employment figures showed a slight decline in employment and a slight increase in unemployment, due primarily to the continued layoff of aircraft workers. In the State of Washington alone the number of persons employed at aircraft firms was 14,000 below the level at the first of January. However, there were encouraging factors. The Boeing plant had been awarded the prime contract for a manned satellite unit and also was offering jet airfreighters for delivery in 1961 which would carry 100 tons of cargo at 3 cents per ton mile and would carry a 50-ton cargo nonstop across the United States in 5 hours. Boeing hoped to obtain a backlog of orders for the airfreighter. As to the steel situation, it appeared that for the week ending last Saturday production was at 80 per cent of capacity although Kaiser, the company with a two-week start, was still at 71 per cent. Lumber output in October and early November continued at about the September level. However, plywood prices at $64 were as low as the lowest level reached in 1958, a figure that was getting close to the break-even point for the mills. For the nine-month period through September, farm cash receipts were within .5 per cent of the comparable 1958 period, and cattle on feed as of the first of October were about 30 per cent higher than a year ago. There has been a large crop of wheat and the Commodity Credit Corporation at Portland reported about 75 million bushels under its ownership, almost double the amount in 1957 and 1958, because of reduced outlets. Due to the problem of contamination, it had been necessary to destroy some 3 million pounds of cranberries in

Washington and Oregon. The Alaska salmon pack in 1959 totaled 1.8 million cases, the lowest since 1900. Construction contracts continued to decline in September, primarily because of a 16 per cent drop in residential construction. While this was attributed mostly to the tightness of the mortgage market, there also seemed to be a weakening of demand, particularly for the multi-unit type of construction. Department store sales continued somewhat higher than a year ago, with the gain better in the Twelfth District than for the nation as a whole.

Turning to the banking picture, Mr. Mangels said that bank loans were up $175 million in the three-week period ended November 11. There was some increase in demand deposits but time deposits were down $115 million, due primarily to the distribution of Christmas savings club checks. District banks were net buyers of Federal funds last week, and this week purchases were expected to be twice the amount of sales. Borrowing at the Reserve Bank was quite nominal. Bankers expected many holders of Series F and G bonds to exchange into the 4-3/4 per cent notes; some concern was expressed that an increase in the amount of notes outstanding would have a bad effect on the market and perhaps cause some weakness.

Mr. Mangels said that he agreed with the policy views expressed by Mr. Hayes. During the forthcoming period, he felt that the Manager should be given considerable leeway. He would not favor any particular change in policy, but he would be liberal in supplying funds for seasonal needs. In the past three weeks net borrowed reserves had averaged some $20 - $25 million less than in the preceding three-week period, but he sensed that the degree of tightness in the market had intensified. On only two days did the Open Market Account buy outright, although the volume of repurchase agreements was substantial. The effect of System operations would be greater if the System was buying outright, Mr. Mangels believed, than if it made repurchase agreements. He would not change the discount rate, and for the moment he felt that the directive should continue in its present form.

Mr. Irons said that the situation in the Eleventh District had not shown much change in the past three or four weeks, in fact for a longer period than that. Apparently the steel strike had little, if any, real effect in the district. There had been some seasonal improvement; for example, in employment, unemployment, department store trade, and crude oil production and refining. There would be a 10-day allowable in December, the first break from nine days for several months. He got the impression from contacts with people in the oil industry that the attitude was somewhat changed. They appeared to be reconciled to, if not satisfied with, allowables in the range of nine to eleven days, whereas two or three years ago oil men figured that par for the course was somewhere between 14 and 17 days. Construction contracts were drifting downward, while agricultural conditions were favorable. The cotton crop was large and wheat was in good condition, although the district had been experiencing the unseasonable weather mentioned by Mr. Leedy.

On the banking side, Mr. Irons said there had been a slight improvement in bank loans over the past three weeks, possible reflecting some seasonal lending. In general, however, loans had not changed too much over the past few months. Bank investments were down. It was hard to get a picture for the district as a whole concerning the liquidity position of the banks, and the situation almost had to be presented by cities. The real liquidity squeeze was at the Dallas banks; their position was quite tight. While those banks had not been borrowing heavily at the discount window, they were using Federal funds in substantial amounts.

As a whole, Mr. Irons said, the picture for the district was one of steadiness at high levels of economic activity. Although there was some uncertainty as to what might come out of the steel strike in the long run, in general confidence as to the business outlook prevailed. If a tight defense budget should go through, there might be some difficulties in relation to the impact on the aircraft industry, but fortunately the district does not depend on that industry.

Mr. Irons said he subscribed to Mr. Hayes' views with regard to policy. He would give considerable leeway to the Manager of the Account and would try to maintain the same degree of pressure on reserves that had been maintained over the past three weeks, meeting part of the seasonal requirements by means of open market operations. The effect would be some increase in discounting as the banks moved in to the seasonal period. He would make no change at this time in the discount rate or in the directive.

Mr. Erickson said that the New England manufacturing index for September remained at the same level as in August, one per cent below the June high. Engineering News Record reported that engineering-type contracts were up 24 per cent in October from the same month last year. In the four weeks ended November 14, department store sales were 4 per cent over a year ago, thus continuing to be less impressive than the national figures which showed an increase of 6 per cent. The October survey of mutual savings banks showed that deposits were down from September, which represented the first month-to-month decrease since October 1957. Deposits were 5.3 per cent ahead of October last year, whereas the year-to-year comparison had previously been showing increases close to 6 per cent. No doubt the "magic 5's" were a large factor contributing to the situation in October. There had been only moderate use of the discount window and district banks were substantial sellers of Federal funds.

Mr. Erickson said he would favor no change in the discount rate or in the directive at this time. For reasons enumerated previously at this meeting, he would favor giving the Manager of the Account broad latitude in order to maintain the same degree of restraint as during the past three weeks.

Mr. Szymczak said he agreed with those who had expressed concurrence in the views stated by Mr. Hayes. He felt that at some point the System might have to supply more reserves than it had been supplying, but at present he did not know where that point would be. As suggested by Messrs. Bryan, Mills, and Deming, the System might have to add to the reserves of the banking system and it should get in position to do so if necessary. In view of the Treasury financing, he would avoid changing anything at the present time, but the time might come when the System would have to do something. In this connection, he noted that the early part of a new year generally tends to be rather dull as far as economic activity is concerned.

Chairman Martin said he shared some of the apprehension that had been expressed about the money supply and the relationship of credit to growth, but he did not believe this was the time to correct it. It was, however, something to which the System should be alive.

The Chairman then said that clearly the consensus of this meeting favored maintaining the <u>status quo</u>, with maximum flexibility in the hands of the Manager of the Account to maintain the <u>status</u>

quo. He doubted whether the Committee could do anything much different than that.

As he understood it, Chairman Martin said, the majority of the Committee favored no change in the discount rate or in the policy directive at this time. Mr. Mills, he noted, had suggested a change in the directive and presumably would want to have this suggestion recorded in the minutes along with his vote on the directive.

Mr. Mills replied in the affirmative.

The Chairman then inquired whether there were any other comments and, none being heard, he said that the directive would be approved in its present form with the record showing Mr. Mills' dissent.

Thereupon, upon motion duly made and seconded, the Committee voted, with Mr. Mills voting "no", 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 credit expansion in order to foster sustainable economic growth and expanding employment opportunities, 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.

Chairman Martin then referred to the next item on the agenda for this meeting, which contemplated further discussion of procedure in connection with the collection of statistics from Government securities dealers. He suggested that this item be tabled. If agreeable to the Committee, he said, Mr. Young would be willing to undertake to go forward and try to work out something that could be presented in the form of a recommendation at the next meeting of the Committee.

No objection was indicated to this suggestion.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, December 15, 1959, at 10 a.m.

Mr. Hayes said it occurred to him, after listening to Mr. Johns, that the latter's comments pointed up a problem of open market techniques. As he understood it, Mr. Johns had suggested, in effect, that policy be allowed to develop within the three-week period, depending on how credit demand might develop. He (Mr. Hayes) had sympathy with this aim, but the problem was one of how to accomplish it within a three-week period. It seemed to imply a greater ability than the Desk now possessed to measure what was happening to the credit supply and in credit demands within such a short period. The Account Manager had to rely largely on such things as the feel of the market, interest rates, and discount window activity as rough indicators of what was happening to credit demand in any three-week period. The question raised by Mr. Johns presented a challenge but at this juncture he found it somewhat frustrating.

The meeting then adjourned.

Secretary's Note: Immediately following this meeting, Chairman Martin called a meeting of the members of the Board and the Presidents who had attended the Open Market meeting at which Messrs. Riefler, Sherman, and Rouse also were present. He referred to consideration that the Board had been giving to the possibility of implementing the legislation passed during 1959 relating to member bank reserve requirements, by means of permitting the counting of a portion of vault cash as part of required reserves. Chairman Martin emphasized that the Board had not acted on this question and that he did not know whether the Board would decide that such action should be taken in the near future. He inquired, however, as to any comments the Presidents might have, specifically, whether any of them envisaged a disturbing impact in the money market that would accentuate the difficulty of open market operations if some such move were made prior to the year end. A number of the Presidents indicated that they would favor some move toward permitting a small part of vault cash to be counted as required reserves, while one or two others commented that, on balance, they would concur in such a move, but without enthusiasm. Chairman Martin reiterated that no decision had been made in this connection and that he did not know what, if any, action the Board would take.

Winfield W. Riefler
Secretary