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, March 26, 1963, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bopp
Mr. Clay
Mr. Irons
Mr. King
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Scanlon
Mr. Shepardson

Messrs. Fulton, Wayne, Shuford, and Swan, Alternate Members of the Federal Open Market Committee

Messrs. Ellis, Bryan, and Deming, Presidents of the Federal Reserve Banks of Boston, Atlanta, and Minneapolis, respectively

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Noyes, Economist
Messrs. Baughman, Brill, Eastburn, Furth, Holland, Koch, and Tow, Associate Economists
Mr. Stone, Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Cardon, Legislative Counsel, Board of Governors
Mr. Williams, Adviser, Division of Research and Statistics, Board of Governors
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Mr. Hickman, Senior Vice President, Federal Reserve Bank of Cleveland
Messrs. Holmes and Sanford, Vice Presidents of the Federal Reserve Bank of New York
Messrs. Ratchford, Taylor, Jones, and Parsons, Vice Presidents of the Federal Reserve Banks of Richmond, Atlanta, St. Louis, and Minneapolis, respectively
Mr. Willis, Economic Adviser, Federal Reserve Bank of Boston
Mr. Cooper, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Boykin, Assistant Counsel, Federal Reserve Bank of Dallas
Mr. Lynn, Assistant Vice President, Federal Reserve Bank of San Francisco

Before this meeting there had been distributed to the members of the Committee a report covering open market operations in U. S. Government securities and bankers' acceptances for the period March 5 through March 20, 1963, and a supplementary report covering operations for the period March 21 through March 25, 1963. Copies of these reports have been placed in the files of the Committee.

Mr. Stone commented in supplementation of the written reports as follows:

> The Treasury bond market has been engaged mainly in the redistribution of the intermediate and long-term securities acquired in the recent advance refunding. The market's performance has been rather impressive, especially when considered against the background of an unusual succession of press reports and statements suggesting the possibility that an official preference toward higher interest rates, including long-term rates, might be evolving in order to deal with the balance of payments. Despite some selling by temporary holders of both new and outstanding issues, price declines for intermediate and long-term bonds were relatively moderate under the circumstances, amounting at maximum to about 1/2 point. Most issues showed declines of only 2/32-8/32. Early last week

Treasury investment accounts absorbed part of an overhang of supply that developed in the long-term area, while System operations to supply reserves away from the bill market, where demand was reappearing after the tax date, absorbed securities in the intermediate sector. Since the books on the advance refunding closed for institutional investors on February 28, dealers have reduced their positions by about $185 million in 5 - 10 year issues and by about $150 million in 10 - 20 year issues. The market still has a considerable distance to go in distributing the new issues, however, and it is primarily the feeling of some congestion in these new issues that is causing the market to approach the Treasury's April 9 auction of $300 million bonds somewhat more cautiously and realistically than it approached the first auction in January.

Apart from this technical factor of a still undigested supply of issues offered in the advance refunding, and notwithstanding the succession of reports and statements referred to earlier, the market seems to be facing the immediate future with some confidence in current rate levels. This confidence is based fundamentally on the absence of any clear indication of a significant rise in business activity and on the conviction that, barring a crisis in the balance of payments, there is not likely to be any major shift in credit policy until such a rise in activity develops--a conviction that in turn rests in part on the market's awareness of the close 7-5 vote by which the Committee undertook its slight shift in policy last December. Under all of these circumstances, the bond auction is currently expected by the market to result in a reoffering yield of 4.05 to 4.10 per cent.

In the Treasury bill market, meanwhile, rates ended the period about where they had started, although there was some downward movement toward the outset of the interval. This relative stability of rates reflects the influence of a series of short-run factors that about offset the continuous downward pull exerted by a more fundamental factor operative in the market--the reduction of several billion of under-one-year maturities as a result of the advance refunding. These short-run factors included the quarterly tax and dividend dates; the auction of June tax anticipation bills, in which dealers received particularly heavy awards; the sale of an additional $100 million bills in yesterday's auction and the prospect of an extra $100 million in each of the next seven weeks; and the rise in United Kingdom bill rates following the Bank of England's action in raising its lending rate to the discount houses to 4-1/2 per cent. Looking ahead, the unwinding of the effects of the Cook

County tax date after the first of next month, the sale of an additional $100 million in each of the next seven regular bill auctions, and the prospective raising of $500 million new money in the auction of April 15 one-year bills, all constitute additional short-run influences that will tend to offset the downward pull on rates resulting from the recent sharp reduction in the supply of short issues. After mid-April, however, we may run out of such short-run influences, and rates may then begin to reflect more openly the vacuum left in the short area by the advance refunding.

I have already touched on forthcoming Treasury financing. In summary, and apart from regular weekly bill auctions, the Treasury will sell its new bond issue on April 9 and set the coupon or coupons on April 3; it plans to auction $2.5 billion of one-year bills on April 10; and it plans to announce the terms of its regular May refunding on April 24 or 25, with the subscription books to open April 29.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities and bankers' acceptances during the period March 5 through March 25, 1963, were approved, ratified, and confirmed.

Before this meeting there had been distributed to the Committee a report from the Special Manager of the System Open Market Account on foreign exchange market conditions and on Open Market Account and Treasury operations in foreign currencies for the period March 5 through March 20, 1963, together with a supplementary report covering the period March 21 through March 25, 1963. Copies of these reports have been placed in the files of the Committee.

In comments supplementing the written reports, Mr. Sanford summarized foreign exchange market developments during the past three weeks, with particular reference to the weakness that had characterized

the pound sterling and factors that seemed to have contributed. He noted, among other things, that on March 19 the Bank of England had increased to 4-1/2 per cent the rate charged discount houses, while maintaining the Bank Rate at 4 per cent. This had resulted in a firming of rates on money market instruments having a direct bearing on international flows of funds; the covered interest differential between U. S. and U. K. Treasury bills, which had reached .80 per cent in favor of the U. S., was reduced to .44 per cent. Thus far there had been no reports of a movement of funds out of U. K. bills into U. S. bills, but there had been reports of investments in maturing U. K. bills not being renewed and of some switching into Euro-dollar deposits. As sterling declined or firmed, the Swiss franc and the German mark generally showed movements inverse to that of sterling, although the mark was also subject to other influences. The French franc and the Italian lira held at or close to their ceilings, and the Canadian dollar was essentially steady.

After commenting on London gold market developments, Mr. Sanford reviewed System Account operations in foreign currencies since the previous Committee meeting. The System had purchased $3.1 million equivalent of Swiss francs, which were applied--along with existing balances--to the repayment of $4.5 million of swap drawings from the Bank for International Settlements, thus reducing such drawings to a total of $45.5 million. On March 13, pursuant to authorization

previously given by the Open Market Committee, the $50 million swap agreement with the Netherlands Bank was renewed for another three months. On March 11 the National Bank of Belguim redeemed another $10 million of U. S. Treasury certificates of indebtedness arising from the System's swap drawing of Belgian francs, but yesterday, for value March 27, the National Bank increased its holdings by $7.5 million. The National Bank had now disbursed $12.5 million net of the $50 million it received on the swap drawing; the Federal Reserve now had on deposit all of its drawings of Belgian francs. The $250 million standby swap arrangement with the Bank of Canada was today being extended for another three months, pursuant to previous authorization of the Open Market Committee.

> Upon motion duly made and seconded, and by unanimous vote, the System Open Market Account transactions in foreign currencies during the period March 5 through March 25, 1963, were approved, ratified, and confirmed.

Mr. Sanford recommended that the swap arrangement with the Bank of Sweden in the amount of $50 million, maturing April 17, 1963; the arrangement with the Bank of Italy in the amount of $150 million, maturing April 18, 1963; the arrangement with the Swiss National Bank in the amount of $100 million, maturing April 18, 1963; and the arrangement with the Bank for International Settlements in the amount of $100 million, maturing April 18, 1963, each be extended for a period of three months.

After discussion, renewal of the foregoing swap agreements, as recommended by Mr. Sanford, was authorized.

Mr. Sanford mentioned that on April 16, 1963, the $25 million equivalent drawing on the swap arrangement with the Bank of England would mature. If the Bank of England wished to extend the drawing for another three months, Mr. Sanford indicated that there would be a disposition to agree to such an extension.

Mr. Sanford also mentioned that on April 18, 1963, the $50 million equivalent drawing in Swiss francs from the Swiss National Bank and the $25.5 million equivalent drawing in Swiss francs from the Bank for International Settlements both would mature. He indicated that the Account Management would expect to renew that part of each drawing that had not been retired by the maturity date.

No objection was indicated to proceeding in the manner indicated by Mr. Sanford in respect to the foregoing matters.

In further discussion of System operations in foreign currencies, Mr. Mills referred to the possibility of problems arising and, over a period of time, becoming aggravated in one or more of the countries whose central banks had swap arrangements in effect with the Federal Reserve. He recognized the mutually protective features embodied in the reciprocal currency agreements with respect to devaluations. If, however, at some unforeseeable time in the future a foreign country drifted into a completely unsatisfactory situation, the Committee would be confronted

with the question whether to extend further the swap arrangement with the central bank of that country. In such a circumstance, he sensed that a responsibility might be felt for continuing the arrangement. It was his suggestion that the members of the Committee, especially the Reserve Bank Presidents, should give serious thought to what could develop in the way of possible losses at some future time, particularly in relation to the capital of the Reserve Banks.

There followed comments on the length of time the various swap arrangements had been outstanding and the uses made of such facilities to date.

Chairman Martin then expressed the view that the System's program of foreign currency operations had served a useful purpose. However, the point made by Mr. Mills should be borne in mind. The Committee should continue to study the program--which had now been in effect for something over a year, keep abreast of all aspects of it, and consider where the program might lead.

This concluded the discussion of System foreign currency operations and related matters. Accordingly, the Chairman called for the usual staff economic and financial reports, and Mr. Koch presented the following statement on economic developments:

> Considerable information on recent domestic economic developments has become available since the last Committee meeting. On balance the encouraging signs seem to me to outweigh the discouraging ones. Nevertheless, the developing information still does not suggest a speedy or a substantial improvement in either our high unemployment rate or our sluggish growth.

Consumers have continued to pull their spending oars, and recent developments suggest a good spring and Easter buying season. Excluding the effect of the special payment of insurance dividends to veterans in January, personal incomes were up in February to a level 4.5 per cent above a year ago. The pace of shopping has picked up more than seasonally thus far in March, and total retail sales in the two weeks ending March 16 were 7 per cent larger than a year earlier. Sales of new domestic autos continued strong in the first twenty days of March. Recent consumer attitude surveys conducted by the Survey Research Center of the University of Michigan, the Census Bureau, and the Sindlinger Service all suggest continuation of strong consumer sentiment and willingness to buy autos and houses.

In addition to the consumer--and to Government, Federal as well as State and local--we may be beginning again to get some help from the business sector in furthering the economic expansion. Although total business inventories showed little change in January, steel stocks of manufacturers rose for the first time since last April. On a seasonally adjusted basis, from last April through December these stocks had been reduced 30 per cent to the lowest level since the fall of 1961. According to a Commerce Department survey conducted in February, manufacturers expect their inventories in the first quarter to continue the modest upward drift that characterized late 1962. In the second quarter, they anticipate a sharp step-up in inventory buying, presumably reflecting--in part at least--further precautionary stocking of steel. Insofar as it reflects precautionary buying, however, such stocking can hardly be viewed as an element of underlying strength.

Turning to business fixed capital, a key economic statistic that has become available since the last Committee meeting and that we have been eagerly awaiting for some time is the Commerce-SEC estimate of new plant and equipment spending by business in 1963. As you are undoubtedly aware, the estimate shows about a 5 per cent increase in 1963 spending over that in 1962. The physical volume of outlays in 1963 suggested by this survey is not particularly high, but the findings have been interpreted with some optimism, in part because a McGraw-Hill estimate of business capital spending in 1963 made last fall showed an increase of less than 3 per cent.

The recent Commerce-SEC survey shows business capital spending reached a high in the third quarter of last year, declined a little in the fourth quarter, is expected to

show little change in the current quarter, and then is likely to rise moderately over the rest of the year.

Another recent survey dealing with business capital spending is also encouraging. The Newsweek-National Industrial Conference Board survey of capital appropriations made by manufacturing firms in the fourth quarter of last year showed them up 13 per cent from those made in the third quarter, and the highest since early 1957. On the basis of this appropriations estimate, Conference Board economists suggest that manufacturing capital outlays in 1963 may exceed those in 1962 by from 6 to 8 per cent. This is strikingly consistent with the Commerce-SEC estimate of a 7 per cent rise for manufacturing.

New orders received by durable goods makers, which reflect buying not only for business capital but also for other purposes, set a record in February for the second straight month. Steel and defense ordering accounted for much of the rise. Incoming business rose 2 per cent over the previous high in January. Despite the fact that these recent surveys of business capital spending, together with the rise in durable goods orders, are encouraging and somewhat higher than earlier expectations, they are not strong enough to suggest that business spending is likely to add enough to total spending to produce a dynamic upward trend in economic activity soon.

Looking at the economy from an over-all point of view, the gross national product in the current quarter is likely to be in the neighborhood of $569 billion on a seasonally adjusted annual rate basis. This compares with a rate of $563.5 billion in the fourth quarter of last year. Without wishing to overemphasize the significance of GNP figures per se, business and Government economists do appear to be raising their GNP sights for this year. It is far from clear, however, as to how much these estimates do or do not reflect assumptions that tax reductions will be enacted.

In conclusion, little change probably continues to be the byword for characterizing recent measures of economic activity, particularly output of goods. But there is a somewhat rosier hue to interpretations of the news, and this probably is not all due to the fact that spring is officially here and better weather actually here. Forecasts of recession are less numerous now than they have been in many months, although there are still some around. Forecasts of vigorous economic growth in the near-term future are also still few and far between. But one should be warned that economists and businessmen have been a bit manic-depressive in their forecasts over the last year or so, with sentiment experiencing roller-coaster ups and downs around a much more stable course of actual activity. Indeed, further

moderate expansion in activity, but with a persistent high level of unemployment, continues to be the most likely characteristic of the domestic economy for the intermediate- as well as the near-term future.

Mr. Holland presented the following statement on financial developments:

Considering the variety of financial cross-currents at work in recent weeks, money and capital markets have been comparatively stable. Occasions of either a substantially easier or firmer tone were usually confined to very few days' duration, and this despite the March tax date influence, the Treasury's record-size advance refunding and accompanying tax anticipation bill offering, and the largest month's sales of new corporate and municipal securities since last June. Perhaps the one exception worth noting occurred in the municipal market, where yields on Aaa securities adjusted downward by about one-tenth of a per cent in reflection of good receptions of new offerings.

Debt markets might not have been so unruffled, however, had not some official buying occurred in the intermediate and longer maturity areas of the Government market, in the form of investments for Treasury trust accounts and System Account purchases to inject needed reserves without altering the rather delicate balance in the bill market. With the overhang of recent offerings now reduced, long-term markets seem somewhat better prepared for the scheduled continuation of heavier corporate and municipal offerings through April and the $300 million Treasury bond auction on April 9. Incidentally, I should report that the Treasury still expects to be able to squeeze both this financing and the enlarged bill auctions outlined by Mr. Stone within the debt limit, but it will be a very tight fit. Hopefully, Congress will authorize a higher debt limit by mid-May, when a $305 billion ceiling would begin to impinge seriously on the Treasury's freedom of action.

Bank credit apparently continued to mount during the first three weeks in March, but not in categories suggestive of any underlying pick-up in economic activity. Business loans rose less than usual in the weeks surrounding the tax date, bespeaking the ample level of corporate liquid assets out of which payments could be made. This same factor undoubtedly contributed to the substantial net maturities of time certificates of deposit at leading banks over the tax date, and the heavy temporary bank borrowing by finance companies to cover commercial paper maturities and meet other payments. On the other hand, securities

loans at city banks seesawed, running high in the first half of March to finance dealer participation in Treasury financings, then dropping down as dealer holdings were redistributed or financed more cheaply elsewhere. Meanwhile, in the more permanent parts of their portfolios, banks were continuing to add to real estate loans, although seemingly at a more moderate pace then earlier, and also to their holdings of consumer loans and non-Government securities. In addition, banks lengthened some $4.4 billion of their Government securities portfolio through exchanges in the Treasury advance refunding. At city banks, some of these portfolio acquisitions during the first three weeks of March were financed by spinning off Treasury bills, but as of last Friday banks more than replenished their bill holdings by acquiring some $700 million of the $1.5 billion added issue of June tax anticipation bills.

On the deposit side, time and savings deposits, seasonally adjusted, were expanding at a somewhat slackened pace in February and the first half of March. The money supply, however, rebounded from its late February dip to an average $148.9 billion in the first half of March, aided by a more than seasonal decline in Government deposits. At this point member bank private demand deposits had climbed at between a 5 and 6 per cent annual rate since mid-December, compared to a less than 1 per cent advance during 1962, while time deposits were climbing at between a 14 and 15 per cent annual rate since mid-December, compared with 17-18 per cent during 1962. Thus, the comparative rates of growth in time and demand deposits have been moving back more toward their early 1961 relationship and away from the extreme skew in favor of time deposits that characterized particularly the first three quarters of last year.

All these patterns are synthesized in the movements of the statistics on aggregate reserves that are presented to the committee. As the staff memorandum reported, seasonally adjusted required reserves behind private deposits have mounted at an annual rate of 7 per cent since mid-December. Most of this growth stemmed from greater bank reserve utilization in late December and January and again in March, with some intervening weakness in February. However, the sharp advance in reserve use in the last three weeks--as my previous comments have indicated--is based upon component movements of bank credit and deposits that suggest some of this bulge may prove temporary. Indeed, early indications for the current week point to some sizable downward adjustment in reserve totals. A little more hindsight may make it clear that the banking system is in fact fluctuating around a more moderate growth rate than last fall, in the current

operating climate of $250-$350 million free reserves, bill rates in the range of 2.85-2.95 per cent, and Federal funds at or crowding 3 per cent.

You have observed, I am sure, that the required and total reserve statistics presented in the staff projections memorandum have a somewhat different look. This reflects the latest in our periodic efforts to revise them in ways that we hope will maximize their usefulness for current policy purposes. Perhaps a modest disclaimer is also appropriate at this juncture. In developing these seasonal and growth allowances, there is no disposition on the part of the staff to regard them as eternal verities, rivaling the Friedman 3 per cent or 4 per cent rule. Rather, the reserve projections are efforts to trace the pattern of reserve use that might be expected on the basis of past seasonal experience and some reasonable allowance for monetary expansion. If thereafter a sizable and persistent departure from the reserve guideline should materialize, this is a sign that the banking system and its customers are reacting to the current reserve environment in a way significantly different from what might have been expected. After studying the situation, the Committee might want to change policy to resist the new trend, or it might wish to accommodate or even encourage it. Such a decision would rest on all the economic and financial evidence available at the time, and not just upon the guideline, but the guideline would have served its purpose if it signalled fairly promptly when such a reconsideration was in order.

With reference to the revised reserve projections that had been mentioned by Mr. Holland, Mr. Mills expressed concern that the Open Market Committee may have attached more importance to such data in the formulation of policy than was justified. This was offset, of course, to the extent that the Account Manager was instructed to proceed with due allowance to factors such as the feel and tone of the market. Mr. Mills inquired whether, if the newly revised statistics had been available during 1962, they might have had some effect from the standpoint of policy decisions being different from those actually made.

In explanatory comments concerning the revision, Mr. Holland noted that the only sizable adjustments made in the seasonal factors

affected the months of April, August, and December. These adjustments were an effort to recognize, insofar as the state of the art permitted, the substantially stronger repetitive fluctuations that had materialized in these months in each of the past two years. Mr. Holland did not feel that any of the revisions in the series were large enough to have altered the policy judgments of the Open Market Committee in 1962. In each instance, Committee deliberations were focused on the trend of reserve statistics over a longer span than the few weeks chiefly affected by the revisions in seasonal allowance. However, the reserve movements at several points would have appeared more moderate, and probably more consistent with preceding and succeeding trends.

Mr. Furth presented the following statement on the U. S. balance of payments:

The latest figures for February put net transfers of gold, foreign convertible currencies, and dollars to foreigners at $180 million. Preliminary weekly figures for the first three weeks of March indicate sizable net transfers from foreigners to the U. S. If we dare assume that the last ten days of March will not do worse than the average of the past 12 weeks, we may tentatively estimate the U. S. payments deficit for the first quarter at $650 million (after adding to the official figures the increase in "non-liquid" Government liabilities to foreigners, resulting from medium-term Treasury borrowing abroad).

The first-quarter deficit was increased by the effects of the dock strike and an unusual bunching of foreign bond issues in January. But it was reduced by the repayment of year-end window-dressing credits and other bank loans, and especially by some undetermined but probably substantial impact of the recent troubles of the pound sterling and the political uncertainties in Canada on the international flow of funds. On balance, there does not seem to be any conclusive evidence indicating that the

tentatively estimated figure of $650 million was significantly affected either way by unusual or temporary circumstances. An annual deficit rate (before deducting prepayment receipts) of $2-1/2 to $2-3/4 billion, if realized, would be somewhat lower than the annual deficit figures for the past five years.

In consequence of sales of gold to the U. S. Treasury by the United Kingdom and Brazil, March will presumably show an increase in total U. S. gold holdings. The official Treasury gold stock figure will remain constant, with the accrual being absorbed by the Stabilization Fund. The decline in U. S. gold holdings for the first quarter will thus presumably be kept to $110 million, an annual rate far below the annual figures for the past five years. But this relatively low level of net sales was due to extraordinary circumstances, and even if our payments deficit does not rise above the rate tentatively estimated for the first quarter, we can hardly expect the gold situation to remain as favorable as in these three months.

Most foreign industrial countries continue to show satisfactory growth. The French authorities have taken some moderately restrictive monetary measures and money markets have been quite tight in Germany and the Netherlands. But the authorities of other European countries apparently permit domestic expansion to go on in spite of expected further moderate pressures on their prices and wages, and in spite of an expected decline in their payments surpluses. Japan has again lowered its discount rate. Even the United Kingdom, which is facing the most difficult payments situation of any of the major countries, has reacted to the near run on sterling merely by raising the rate for advances to discount houses and pushing up the Treasury bill rate but has so far avoided an increase in Bank rate.

Thus, for the first time since last summer, the future of the U. S. payments balance seems perhaps just a little bit brighter. But we must remember that both in 1961 and 1962 the first quarters looked quite promising, and we must resist temptation to extrapolate the recent improvement.

Chairman Martin then called for the usual go-around of comments and views on economic conditions and monetary policy beginning with Mr. Hayes, who presented the following statement:

Most of the important business statistics for February registered some slight improvement, in contrast with the general weakness shown in January. Although the basic business situation

is still one of sidewise movement, with a slight upward tilt, and although unemployment is still a serious and apparently rather intractable problem, I have a general impression that the business outlook is considerably firmer than it was three weeks ago. For one thing, the Commerce-SEC survey of plant and equipment spending plans and the NICB survey of capital appropriations indicate more strength in this crucial area than was expected earlier, especially in the second half of 1963, while growing inventory accumulation will be a favorable factor in the first half. Consumer buying intentions are rather strong.

Much or all of the unusually sharp increase in bank credit in February appears to have been connected with the large volume of Treasury financing operations during the month. There is no evidence of a real change in underlying loan demand. The daily average money supply dipped slightly in February as Government deposits rose sharply, but then rebounded strongly in the first half of March in a typical lagged response to the upward movement of bank credit during February. In general the economy's liquidity still appears ample.

The basic situation with respect to the balance of payments has not changed appreciably. It does look, however, as if some of the extremely gloomy forecasts for the year 1963 may have been overdone. Monthly data by themselves are not particularly meaningful, and this applies to the large indicated deficit for January and February combined, as well as the indicated absence of a deficit in the first three weeks of March. Most observers estimate the annual deficit for 1963 as probably still close to the $2.5 to $3 billion level (without taking account of special receipts) which is of course much too high. Large foreign security placements in the New York market have played a major role in our payments recently; and I find especially disturbing the growing tendency for American corporations, and even a few banks, to place funds in dollar time deposits in Canadian and European banks to take advantage of higher interest rates than can be obtained on domestic short-term investments.

Sterling's troubles have tended to obscure our own in the last two weeks. The British sale of gold to our Treasury has put a halt for the time being to our gold losses; but it should be borne in mind that if the British are able to overcome their difficulties they will be back again to repurchase gold recently sold. This has been the past pattern of the wide swings in the British position. Fortunately for the stability of the international exchange system, the earlier spate of London press comments on possible sterling devaluation has given way to much more

conservative commentaries as to Government intentions, and the Bank of England's action in raising the rate applicable to borrowing by the discount houses has provided evidence that the authorities intend to defend sterling by means of orthodox measures. This action is also interesting in that it demonstrates how little reluctance there is among European central banks to use monetary policy when needed to check external threats to their currencies.

We continue to be confronted with a busy schedule of Treasury financing. It is now eleven days since delivery of the securities under the advance refunding program. With the coupon on the long auction bond not to be announced until April 3, there is a very brief period of a week or so that might be considered open for policy changes by the System. However, the period is doubtless too short for any very dramatic policy change. A similar short period will occur in the latter part of April after the bonds have been auctioned and before announcement of the May refunding. After mid-May there should be a substantially longer period when we need not be concerned with Treasury financing considerations.

The gravity of the threat posed to the dollar by the cumulative effects of our balance of payments deficits calls for decisive efforts in the fairly near future to bring equilibrium to our international payments. After careful reading of the interesting papers distributed at the last meeting, I have not found any basis for changing my view that there is a role for monetary policy, including discount rate action, in any concerted attack on the balance of payments problem that may be launched by the U. S. authorities. Somewhat higher interest rates and reduced credit availability could, I am convinced, bring important benefits, both technical and psychological. By emphasizing the short-term area, I believe the risk of damage to the domestic economy could be held to a minimum. I am encouraged by the recent signs that the balance of payments problem is receiving increasing attention within the Administration, and I do not believe that the Federal Reserve System can afford to lag behind.

However, these are matters for future determination, and our scope for policy change with respect to the next three weeks is distinctly limited. The time is not yet ripe for any discount rate change. I do believe the Committee can properly help now to pave the way for future decisive action by instructing the Manager, within the context of the Treasury bond auction, to probe toward a slightly lesser degree of ease through appropriate open market operations, designed to bring the 90-day bill rate up to about 3 per cent within the next few weeks and to keep the Federal funds rate consistently at that figure. This might entail

> a modest decline in free reserves and a modest rise in borrowing. Since the Desk will probably have to supply reserves on balance over the three-week period, a start toward these aims can be accomplished simply by supplying reserves somewhat less liberally than we would have done under our current directive. The directive might well be changed to reflect this probing toward slightly less monetary ease and to indicate our interest not merely in "minimizing capital outflows internationally" but rather in contributing to an improvement in the capital account of the balance of payments.

Mr. Ellis said that in New England business sentiment was trying to be more optimistic, and regional tendencies offered some support. The Reserve Bank's survey of capital expenditure plans of manufacturers indicated an increase of about 5 per cent in outlays this year as compared with 1962. Observers also were encouraged by the steady growth in personal income in recent months, by the strong showing of bank debits, and by the strength of sales at retail counters and automobile showrooms. On the other hand, much of the capital investment was aimed at eliminating factory jobs, which were now running around one per cent below a year ago. Insured unemployment through late February was running 10 per cent ahead of year-ago levels. Since the end of last year, when there were none, three labor market areas had been reclassified into the category of 9-12 per cent unemployment.

After more than a seasonal drop in January, loans at First District banks increased in February and thus far in March. Demand deposits were weak, but there was a continued rise in time deposits. The average loan-deposit ratio was back up to the all-time high registered in the first quarter of 1960.

Turning to policy, Mr. Ellis said that he endorsed substantially the position of Mr. Hayes. He had found the set of staff papers distributed at the March 5 meeting informative and stimulating. It was his conclusion that basically the imbalance in U. S. international accounts was caused by the defense and foreign aid programs, accentuated by capital outflows. If so, it might be a questionable remedy to impose sharp credit restraint on the domestic economy in order to achieve a solution to problems that were not inherent in the economy itself. The solution to the balance of payments problem seemed to offer alternative possibilities ranging from a reduction of foreign aid to tax action, efforts to change the flows of exports and imports, and monetary action. It seemed appropriate that monetary policy should play a role in any concerted attack on the balance of payments problem.

Mr. Ellis expressed the view that there should not be a sharp change in monetary policy in either direction at the present time. A move toward a substantially reduced availability of reserves could stimulate a weakness in the domestic economy, and it was not at all clear to him that monetary policy action would by itself have a great effect from the standpoint of the balance of payments. The possibility of secondary effects on the United Kingdom should also be considered. On the other hand, he felt that a general move toward greater ease would be ill-advised in the absence of material changes in the economy. Accordingly, he would favor exploration of a slightly lower availability of

reserves and slightly higher rates of interest to determine the economy's reaction in the spring months. If there should be a strengthening of business conditions, possibly the money market would tighten on its own initiative.

Mr. Ellis concluded by saying that he thought the current policy directive might well be changed to call for a probing action toward slightly less reserve availability. However, he would not recommend that any dramatic action be taken.

Mr. Irons said that in the Eleventh District various sectors of the economy were displaying some improvement. Consumer spending, as reflected by department store sales and automobile sales, showed a rather considerable improvement in mid-February. Industrial activity was relatively unchanged. The index of electric power use showed quite a substantial increase in the past month, but this was a new series in the District and might have some defects.

Nonagricultural employment had improved slightly, but there was also an increase in unemployment as a percentage of the labor force. Construction activity continued to be very favorable, both in terms of current levels and by comparison with a year ago. Oil and gas production was up slightly, while refining was off slightly. The agricultural situation was quite good, with growing conditions favorable.

Loans, investments, and deposits at District banks all showed increases, although the increases were not as large as during the same

period a year ago. Purchases of Federal funds increased, while there was relatively little change in sales. Member bank borrowing was in small volume. The banks appeared to have sufficient liquidity to meet increased demands for credit if they should arise.

In general, business confidence in the Eleventh District was good but not exuberant. There was still evidence of a feeling of uncertainty as to what might be ahead, with the same issues continuing to predominate, including the international situation, budgetary deficits, and the question of tax reduction.

Mr. Irons expressed the view that the execution of policy during the past three weeks in terms of interest rate levels and the adequacy of reserves had been quite satisfactory. Apparently the availability of reserves had been adequate to permit bank credit expansion, which had been quite large since the first of the year. The money supply had recently moved up.

Looking ahead to the next few weeks, Mr. Irons said he came to the conclusion that this would not be an appropriate period for any significant change in policy. He would recommend maintaining the present availability of reserves and the degree of money market ease that had prevailed for the past three weeks, with the objective of maintaining a stable market situation. If there should be any deviations, he would rather have them fall on the side of slight additional firmness although this would not be an objective. The forthcoming long-term bond auction

by the Treasury and the problem of the debt ceiling would argue against any substantial policy change on the part of the Federal Reserve at this time.

Accordingly, Mr. Irons said, he came out in favor of maintenance of the status quo, with any deviations on the side of less ease but with no deliberate probing in that direction at this time. This would envisage around $300 million of free reserves, relatively low levels of member bank borrowing, Federal funds at about the 3 per cent level, and the bill rate in the area of 2.85-2.95 per cent. His policy recommendation would not contemplate changing the existing policy directive, and he would not consider it appropriate to change the discount rate at this time.

Mr. Swan said that after a rather abrupt drop in the seasonally adjusted rate of unemployment in the Pacific Coast States in January, as mentioned at the March 5 meeting, there was a slight increase in the rate in February. This seemed to be related in part to the fact that aircraft employment again declined. Ordnance employment regained some of the ground lost in January but was still below the December high, while employment in lumber and wood products and primary metals gained in January as well as February. Orders for copper apparently were quite high in March, and January and February deliveries were at the highest levels since the middle of 1962. Steel production rose in February and the first part of March. The amount of hedging against

a strike was reportedly minor, with most of the orders reflecting demand for steel for construction.

District banks as a group continued to be heavy net sellers of Federal funds, due largely to the shift of one major bank from the bill market to the Federal funds market. Time and savings deposits continued to increase, although in the three weeks ended March 15 about half of the increase in time deposits at reporting banks reflected the issuance of certificates of deposit by one bank in Los Angeles. Substantial activity in the municipal market was in sight, with three offerings of $100 million or more scheduled for April.

Mr. Swan noted that the business situation and the Treasury financing program argued against a change in policy in the next three weeks. In his opinion, operations in the past three weeks had been quite satisfactory, particularly in view of the various problems with which the Desk was confronted. He would like to see the same kind of situation continue to prevail in the forthcoming period, with no abrupt change in either direction and without any probing toward a position of less ease. In his view the underlying situation did not warrant such probing at this time, and he thought there was more to be lost than to be gained. He would not recommend a change in the discount rate. Neither would he recommend any changes in the policy directive, other than technical changes, except that he again would

suggest eliminating the phrase that called for offsetting downward pressures on short-term interest rates, for reasons such as he had outlined at the March 5 meeting.

Mr. Deming commented that latest economic data on the Ninth District presented a more than ordinarily confusing picture. Industrial activity apparently rose in February (on a seasonally adjusted basis industrial power use increased), but more complete information on nonagricultural employment indicated a slight decline, seasonally adjusted, for that month (in contrast to what preliminary data on Minnesota alone indicated, as reported at the preceding Committee meeting). This latter factor, plus some decline in hours worked, was reflected in a drop in District personal income in February, which pulled the seasonally-adjusted annual rate down to last fall's level. At the same time, unemployment evidently was not as serious (except on the Iron Range) as it was at this time last year, and fewer unemployed had exhausted their benefits this year than last. How much the adverse developments reflected the severe winter was anybody's guess. In fact, the mixture of developments made their combined meaning anybody's guess also.

A recent Minnesota poll on consumer buying intentions added, if anything, more confusion. Taken in March, it showed a somewhat weaker demand for autos and durables than the national poll in January and a somewhat weaker demand than indicated by the Minnesota poll a

year ago. This was rather puzzling in view of the income gains recorded in the District over the past year up to February, which were better than the national average.

Finally, District banking statistics for the first half of March were most uncharacteristic, with loans declining and deposits rising in contrast to their usual behavior.

As to policy, Mr. Deming said that he would recommend no change during the next three weeks, particularly because of the Treasury financing program. This would mean no change in the directive except for technical changes. He would not recommend changing the discount rate at this time.

Mr. Scanlon reported that evidence on Seventh District developments tended to suggest that the current quarter was ending on a stronger note than it began. To some extent, of course, the improvement reflected moves to increase inventories of certain items, particularly steel and tires, that might become short later in the year if work stoppages developed. Nevertheless, the desire of businessmen to build inventories indicated a confident view of the probable demand for products in which these items were essential components.

The improvement in orders reported by Midwest producers of capital equipment appeared to be continuing, with substantial gains over last year reported for farm and construction machinery, railroad equipment, and trucks.

The auto market continued strong, and output in the second quarter probably would equal or exceed the high rate of the first quarter. Inventories at the beginning of March were lower relative to current sales than in any year since 1959. However, the auto inventory was not well balanced; in the case of most General Motors models, inventories were quite low.

With retail sales apparently moving to another new high in March, it had been noted that the rate of increase in savings in the Seventh District slowed somewhat in February and March. A large retailer of general merchandise believed that inventories were somewhat low relative to current sales and suggested that orders to suppliers would have to be stepped up soon if sales continued at the recent rate. The television industry expected a rise in sales of color sets from about 450,000 last year to as much as 800,000 this year.

Farm income was now expected to be sharply lower in the Seventh District in 1963 because of declines in prices of cattle and hogs induced by the larger numbers of animals coming to market. Some farmers who paid high prices for feeder cattle last fall probably were going to lose money this year. In Illinois and Iowa net farm income might be down one-fourth or more from 1962. Reduced income in livestock producing areas could be expected to dampen the strong market for farm machinery later this year.

Loan demand by businesses and consumers at Seventh District banks was moderate during February and March. Expansion in business loans over the March corporate income tax date was substantially smaller than in the past four years. As indicated by Mr. Holland, the large banks continued to provide a large amount of financing to Government securities dealers--with this accounting for the major part of the rise in bank credit. Chicago banks were showing the strains normally associated with preparation for the April 1 personal property tax assessment date, but so far had been able to acquire large amounts of Federal funds and, until last Friday, had made very little use of the discount window. Inventories of Treasury bills at these banks had been at a high level for several weeks, but if the normal pattern was repeated, holdings were likely to drop by at least $250 million by the end of April.

Mr. Scanlon believed the current policy posture was appropriate, considering the diversity of economic developments--domestic and international. He might be influenced, he felt, by the fact that the Cook County tax date and the unwinding of positions taken by Chicago banks in this connection would be occurring during the next three weeks. He would favor continuation of the present directive, and he would not favor a change in the discount rate at this time.

Mr. Clay expressed the opinion that, all factors considered, the Committee should continue essentially the same monetary policy

until its next meeting. In line with this view, the discount rate should be left unchanged. Except for a change in the reference to Treasury financing, he felt that the present directive would fit the current situation and the monetary policy called for by that situation.

The domestic economy, Mr. Clay noted, continued to exhibit the general pattern of activity that had prevailed for many months. In the aggregate, the evidence did not suggest an imminent downturn. Neither did it suggest any marked rise in the pace of activity. Rather, it pointed to a slow upward movement that would be less than sufficient to absorb potential labor force growth. The employment problem no doubt was aggravated by the structural shifts that were taking place in the economy as a result of mechanization. Quite apart from the employment situation, however, the sluggishness of the domestic economy was underscored by the fact that the measures of aggregate output showed a very slow rate of expansion.

While the most recent data made it difficult to judge the real magnitude of the deficit in the international balance of payments thus far in 1963, there was no question that it remained a serious problem. What could and should be done to deal with the problem so far as monetary policy was concerned was quite another matter. For the period immediately ahead, the recent developments in the British pound sterling seemed to him to make any credit-tightening moves on the part of the United States inappropriate at this time in any case.

In considering the various factors to be taken into account in formulating monetary policy at this time, there was also the forthcoming Treasury auction of its long-term bond. Apart from other compelling reasons, this would argue against any change in policy in the period ahead.

Mr. Wayne reported that Fifth District business conditions had changed little during the past three weeks. The Reserve Bank's survey detected another small increase in optimism among businessmen generally, and bankers on the panel took a more neutral but still optimistic view of the near future. Manufacturers in the survey reported virtually no change on balance in the flow of new orders. Shipments and hours, however, were up slightly, employment was down a little, and lower prices were indicated in nearly one-fourth of the survey reports. Nothing had occurred recently to clarify the textile industry's uncertain outlook, and conditions in most other important sectors of District business--construction, trade, and coal mining as well as areas of manufacturing--remained about the same as they were three weeks ago. A drop in tourism in the District of Columbia had been noted, dating back to last October.

It seemed clear to Mr. Wayne that there had been some strengthening in the pulse of business during the usually gloomy month of February. Fractional gains in retail sales, factory hours and employment, and private payrolls underscored the more substantial improvements in

housing starts, steel production, and sales and new orders for durable goods. These improvements seemed to outweigh reduced construction outlays and the higher rate of unemployment, although their significance was not so apparent as their number. They might reflect better weather, the end of the dock strike, hedge buying of steel, the January payment of the special dividend on veterans' insurance, or simply a one-shot rebound from sharp declines in previous months. The gains in sales and new orders for durable goods would seem to have some additional significance since they rose for the second successive month. The continued growth in bank credit also tended to confirm the upward movement in business activity. While all of these developments, taken together, did not constitute a major change of direction, they gave considerable assurance that the general condition of business was not deteriorating further.

Mr. Wayne noted that the Desk had been quite successful, since the previous Committee meeting, in promoting the degree of stability and ease in the money market that the policy directive instructed the Manager to maintain. In view of current domestic and international developments and of the continued expansion of bank credit in recent weeks, he felt that it would be difficult to describe a more appropriate course of action under the circumstances. Again international developments had brought a slight easing to the position of the dollar, at least temporarily. At the same time there could be no

doubt that the banking system was in a position to finance with ease any growth in business activity that was likely to occur. In these circumstances, and in view of the forthcoming auction of bonds by the Treasury, he could find no justification for a change of policy. He would renew the current directive except for an appropriate reference to the Treasury bond sale. He would not favor any change in the discount rate.

Mr. Mills said that he would recommend no change in policy during the next three weeks. In his opinion the operations of the Account, as reflected in bank reserve positions in the past three weeks, had been desirable, and he would favor a continuation of operations on the same basis in the forthcoming period. He did not feel that this was an appropriate time to probe toward a slightly greater degree of firmness, as he believed that domestic considerations still had priority over the concern expressed about the balance of payments problem. It seemed to him quite important to wait until one could see the actual reserve figures of the past week or so, because apparently there was a greater degree of market ease than might have been suggested by the preliminary reports on reserves. If the early record of market ease did not turn out to have had a truly factual basis, probing beyond the degree of firmness that had really prevailed could be harmful. He would consider it advisable to keep a close eye on movements in the money supply and to determine whether the recently

reported increase actually occurred or somehow was related to the rather blurred reporting on reserves.

Mr. Mills saw no occasion to consider raising the discount rate at this time and no reason to amend the policy directive in substance. He agreed, however, with the view that the reference in the directive to offsetting downward pressures on short-term interest rates was misplaced. A strong effort to offset such downward pressures could have the result of more than realizing the same degree of money market firmness that had prevailed. This led him to repeat his regret that the Committee did not go back to the old form of policy directive (the clause "b" form of instruction) that it had used for many years. In his opinion the time had come to consider whether it would not be advisable to return to that form of directive, in light of the criticisms made recently in the report of the Joint Economic Committee concerning the vagueness of the Committee's directives.

Mr. Robertson presented the following statement:

> It appears that the general business atmosphere may be a shade better. This is certainly heartening, but it should not lead us to relax our concern for the domestic economy. On the contrary, with a 6 per cent unemployment rate and the absence of inflationary pressures, I think we should be seizing this opportunity to do everything we reasonably can to nurture and encourage this improved business tone.
>
> On this score, I am generally satisfied with the financial performance of the last three weeks. Given the number of different seasonal and other influences at work recently, it seems to me bank reserve positions and the money market have been fairly stable. The statistics on bank credit and required reserve increases suggest some further expansion

thus far in March. I judge from the comments here that some of that may be expected to be temporary, and I would not be concerned if our banking statistics evidence some downward adjustment to a more moderate expansive trend. But I am convinced that, over time, some continued gradual, and more than fractional, growth in bank credit, time deposits, and the money supply is both feasible and desirable in an economy with as many unemployed men and machines as we have, and with our current record of generally stable prices for goods and gradually declining unit labor costs.

For many months now, our discussions of how stimulative monetary policy should be have had to take into account the continuing deficit in our balance of payments. There is no doubt in my mind that our monetary policy today is somewhat less easy than it would be for domestic reasons alone, because of Committee concern with our international financial position. The papers distributed at the last meeting raise and explore the question of whether monetary policy should be tightened still further for balance of payments reasons. There seems to be some question as to whether our action should be an effective restraint, or merely something of a symbol. But I am not persuaded that any such action by the Federal Reserve would be other than disadvantageous, on balance, to the United States economy.

When it comes to the blunt issue of the need on international grounds to tighten policy now, my answer is "no," on three grounds raised in these papers. In terms of rate incentives to international capital flows, it seems clear (even in the light of the fuzzy figures that are bandied about in this particular field) that the only area in which moderate changes in rates by the U. S. <u>might</u> have an appreciable effect is in the short-term and money market sectors. Here the covered interest differentials are not greatly disadvantageous to us on any major international instruments, and I have not heard of any sizable flows developing. I submit that, as responsible central bankers, we ought to feel flatly barred from any unilateral act to move our short rate higher in the face of the precarious position facing the other key currency and our closest international ally. With the covered bill differential between New York and London <u>already</u> substantially in our favor, and pressures from a variety of sources <u>already</u> crowding Britain to make some upward rate adjustments in self defense, further rate increases on our part, it seems to me, would run unfathomable risks. Even from a purely selfish point of view, rate action on our part could simply give rise (as I pointed out at the last meeting) to a vicious circle of higher rates in both the U. S.

and the U. K., with little net reserve gain to either and with undesirable domestic effects in both. Right now the British are living through a serious market threat to their currency. We, by comparison, are not. I think it behooves us, in these circumstances, to hold "steady in the boat," giving them all the implicit support we can and leaving them the maximum range of flexibility for their own policy actions.

I am not persuaded by the argument in one of these papers that we ought to take overt policy action with the aim of triggering a market scramble to reverse the "lead and lag" relationships that have apparently moved against us during our period of balance of payments deficits. The large short position in the dollar, which has been developing for some time, in effect puts our currency in a strong technical position. I would rather preserve that technical strength than take superficial action (such as a discount rate increase) designed to trigger a rash of short covering and then expose us to a creeping move back to a short market position again.

Finally, and more fundamentally, I just do not accept the idea that we are so basically noncompetitive internationally, and that we need to go even further in wringing out our economy in order to regain a reasonable foundation for competing in the markets of the world. We already are in a position to compete--and compete very effectively--in the world markets for a wide variety of goods, although we are denied the full fruits of our competitive ability by foreign tariffs and import restrictions. Wheat, coal, automobiles, poultry--these are just some of the many products of what are the most efficient sectors of American business, for which international restrictions deny us our full potential of export earnings. With our trade surplus already so large, if we should develop any major new product penetration of world markets, we should not be surprised to see that export potential also curtailed by some counteracting imposition of trade restrictions. We are not losing our competitive edge--we are whetting it, by maintaining a long span of relatively stable prices of goods and gradually declining unit labor costs, while the rest of our international competitors are inflating. I fear that to try to do much more would be misplaced effort, until we can do more to restrain foreign handicaps to U. S. exports.

Finally, I am compelled to point out that the statistics on our fundamental international trade position are rendered literally uninterpretable during this period by the effects of the dock strike. Were it not for that strike, we might be seeing some improvement in our underlying position. Parenthetically,

> progress in this direction is all that responsible foreign colleagues ask of us. Given the size and the long duration of divergent price trends here and abroad, some improvement would not be unlikely. But the distortions of the current figures deny us the basis for any firm view of the trend. It would be the height of irony if, with no gold drain to rush us into action, we were to tighten policy today, only to learn two or three months from now that we had already begun to experience the kind of underlying progress toward a reduced balance of payments deficit that all of us devoutly desire.
>
> All this discussion leads me to the clear conclusion that our best choice today--particularly in light of the Treasury financing plans--would be to hold policy as it is for the next three weeks. I would be pleased to have the directive phrased in the somewhat more quantitative terms that I advocated at our last meeting. I would acquiesce, however, in almost any alternative suggestion for directive language that would call for a continuation of the current policy, especially if the words "and to offsetting downward pressures on short-term interest rates" were deleted therefrom. But I could not concur in the views expressed this morning that we should probe toward a slightly tighter monetary policy.

Mr. Shepardson referred to comments made by a number of the delegations of State bankers associations that had visited the Board's offices in recent weeks that seemed to indicate some concern about the quality of credit. These comments suggested to him that there was no doubt about the abundant availability of reserves. With that in mind, he was inclined toward the position taken by Mr. Hayes and Mr. Ellis in favor of probing toward a slightly lesser degree of ease. It had been his view for some time that the growth of the economy was going to be more dependent on other factors than on monetary policy. Factors such as uncertainty about budgetary and tax developments seemed to have

been having a significant effect, along with apprehension about continuing labor strife. However, for the period immediately ahead, he concluded that it would be best to continue the present monetary policy, and he would subscribe to proceeding along lines suggested by Mr. Irons.

Mr. King expressed the view that there should not be any substantial change in monetary policy at this time. As to the policy directive, it probably would be appropriate to make certain technical changes. He would also propose eliminating the phrase that called for offsetting downward pressures on short-term interest rates, since he was not sure that the retention of this language would contribute a great deal toward expressing the position of the Committee.

Mr. Mitchell expressed the opinion that the balance of payments situation was improving significantly and observably, mainly because of the increasing problems of other countries in relation to those of the United States. This kind of situation was gradually developing around the world, and the net result should be a benefit in terms of this country's balance of payments. Despite an understandable reluctance to be too enthusiastic, the most recent figures seemed quite good.

As to the staff papers on the balance of payments and monetary policy that had been distributed at the March 5 meeting, Mr. Mitchell noted that by necessity they were highly speculative. However, he had

found them interesting and well organized. He hoped that there might be additional papers dealing with certain assumed conditions. One such paper might deal with what would happen from the standpoint of the United States should the British devalue the pound sterling or take certain other steps such as had recently been discussed in the British press. Another paper might deal with the balance of payments effects of a U. S. monetary policy directed toward moderately greater ease, with short-term rates falling by perhaps one-half of one per cent.

Mr. Fulton reported that steel production and auto sales continued to be the buoyant elements in the Fourth District business picture. Most of the recent news seemed to be more on the favorable side that the unfavorable. Although there were no firm indications of a basic change in the business climate, the attitudes of business executives were definitely more optimistic, sparked by increasing order books for durable goods.

Steel production continued to increase substantially. Unfortunately, however, this substantial increase reflected orders to accumulate inventories in anticipation of a strike at midyear; production after midyear would suffer whether or not a strike occurred. It was not known as yet whether the United Steelworkers would request a reopening of the contract by April 30, but this was a year when the unions seemed determined to seek to improve job security, pensions, etc., rather than cash wages. One of the phases of union security

seemed to be to restrict the companies from contracting out various types of maintenance and construction projects. If the union was successful in preventing the steel companies from contracting for such work, that would add substantially to costs. Union pressures for benefits had constantly increased costs, which had accelerated installation of labor-saving equipment, which in turn had caused increased unemployment.

Lake shipping would be delayed in its opening until the latter part of April or the first of May because of ice conditions. However, the steel mills still had adequate supplies of iron ore.

Auto sales in the three principal areas of the Fourth District were strong in the second week of March after a dip in the first week, probably due to the end of concerted sales drives in the previous month. Department store sales had been on the weak side, with sales for the year to date being 2 per cent under the same period last year. Total construction contracts slumped in January (seasonally adjusted). Residential building contracts remained high in January and subsequently, but the heavy engineering series had sagged. Unemployment showed nominal improvement on a seasonally adjusted basis in the week ended March 16. On an unadjusted basis, there was improvement in all but two of the major labor markets.

The decline in total earning assets of District banks since the latter part of 1962 had been the smallest in the past four years. The

decline in loans was centered in repayments by nonbank financial institutions. The reduction in U. S. Governments was concentrated more in short-term issues than heretofore. While demand deposits had shown a normal decline, the increase in time deposits was the largest for this period in the past four years.

The Women's Federal Savings and Loan Association of Cleveland had announced a reduction in its dividend rate from 4-1/2 per cent to 4-1/4 per cent, citing a plethora of funds, a low volume of new mortgages, and declining interest rates on mortgages.

Mr. Fulton stated that he would not change the policy directive, the discount rate, or the present posture of monetary policy in terms of the short-term rate or the volume of free reserves. In other words, for the next three weeks he would hold to the posture of the past three weeks.

Mr. Bopp said a close look at the numbers for the Third District suggested that business may have improved a little. Small rays of sunshine came from weekly unemployment claims and steel production series, which were improved, and from small increases in manufacturing employment and help wanted advertising. Nevertheless, employment and output had been stagnant and unemployment had been creeping upward, outpacing slightly the expected seasonal rise.

Three weeks ago it had been hoped that the loan volume was picking up, but the latest reading indicated that loans had been increasing less rapidly than a year ago. Business loans had fluctuated

within a narrow range since the end of January. With the exception of security loans, other categories had shown little sign of any sustained advance in recent weeks. Meanwhile, the increase in time deposits continued unabated.

Turning to policy considerations, Mr. Bopp noted that Treasury operations dictated no substantial change in policy at the moment. Although he would still prefer a somewhat easier monetary policy than now prevailed, there seemed to be little point in dwelling on this theme except to emphasize that the domestic economy continued to perform sluggishly. Just a few months ago the Committee had decided that policy should be slightly less easy, and he would not now recommend a reversal of that decision. But neither would he like to see the movement away from ease carried any further. Although the balance of payments was still a gnawing problem, he felt that relatively small increases in interest rates would contribute very little to the solution; larger increases would depress the domestic economy unduly.

For the present, therefore, Mr. Bopp recommended no change in policy, which implied a continuation of present levels of market rates and reserve availability and continuation of the existing discount rate. The directive might be changed along the lines suggested by Mr. Swan.

In a further comment, Mr. Bopp said he had spent the week that included March 15 at the Trading Desk in New York. This developed to be a particularly difficult week, and he was impressed by the competence

of the Account Manager and his staff. He gained the feeling that the phrase "color, tone, and feel of the market" had real substance and content, with a large number of quantitative magnitudes, such as free reserves and dealer positions, feeding into it. There might be some virtue, he thought, in undertaking with the use of electronic equipment some study to see whether there was a way of being more precise.

Mr. Bryan said that although some of the statistics were of stale date, the latest figures from the Sixth District showed a generally upward inclination. The changes were not of great magnitude, but they supported the optimistic reports of the Reserve Bank's directors. The series indicating an upward movement included nonfarm employment, manufacturing employment, department store sales, construction employment, personal income, and weekly average hours worked. The exceptions to the slow upward movement related to financial statistics, in which the movement seemed to have been substantial. Bank debits, demand deposits and currency, demand deposits and currency and time deposits, loans, and loans and investments of member banks all exhibited upward movements that had been consistent and of magnitudes much greater than those exhibited in nonfinancial series.

Mr. Bryan felt that the Committee should continue in a policy posture that he would describe essentially as one of no change. By that language he meant to say that the System should continue to supply reserves in a way that would take account of seasonal factors plus a

small growth component to accommodate a growing population and the growing transactions necessary to such a population. At this time, he would not quarrel with anyone on whether the growth factor should be at the rate of 2 per cent or 3 per cent annually; indeed, being somewhat above a 3 per cent trendline, he would think it reasonable, in terms of such an instruction, to head for the next few months for a central target more nearly at a 2 per cent annual growth than a 3 per cent annual growth. In terms of figures, this would suggest a central target of slightly less than $19.5 billion of total reserves (daily average) for April and a central target for May of slightly more than $19.5 billion. Such figures, assuming other factors equal, would reconcile with a free reserve target centering around $300 million. He would assume that the Manager of the Account should have an ample latitude, around these central figures, to accommodate himself to transitory conditions in the money market.

In conclusion, Mr. Bryan said he would not favor a change in the discount rate at this time.

Mr. Shuford commented that on the basis of the information reported this morning, he could appreciate that there probably would be some improvement in the degree of optimism. However, he did not believe that in the Eighth District the degree of improved optimism was quite as strong as had been suggested at the national level and by the reports from other Reserve Districts. This was not intended to

leave an impression of pessimism, for the general views in the Eighth District had been all along on the side of optimism, but he had not seen any marked change of sentiment recently--and during the past month he had had an opportunity to talk not only with bankers but a number of business people around the District. The prevailing tone of sentiment was probably borne out by recent statistics. Employment remained at the level of November and December, while electric power use had risen slightly to about the level of last summer. Department store sales were up a little from the end of last year, but they had remained substantially unchanged for the past three months. There had been no significant change in business loans for several months; however, bank debits had risen moderately in recent months. Cash farm income in the District had been declining so far this year, with major declines in beef cattle and hog prices.

Mr. Shuford said that a policy for the ensuing period such as outlined by Mr. Irons would be agreeable to him. He would not be inclined to do any probing in the direction of lesser ease, especially in view of the forthcoming Treasury bond auction. In his opinion the current level of interest rates was about right under existing circumstances, but he would not be disturbed if the short-term rate declined over a period of time as low as 2.85 per cent. He would not recommend changing the discount rate. As to the policy directive, he would suggest that changes be held to a minimum.

Mr. Balderston commented that there might be a rather critical period ahead for the Treasury, considering factors in the offing such as the Treasury bond auction. He would be sympathetic in principle with the idea of probing in the direction of slightly less ease, as suggested by Mr. Hayes, but the situation immediately ahead seemed to call for maintaining an even keel until the date of the next Committee meeting.

Mr. Balderston then inquired of Mr. Stone how he proposed to take care of the indicated shrinkage in reserves over the forthcoming period and whether he anticipated substantial downward pressure on short-term interest rates.

Mr. Stone said he would anticipate that there might be some downward pressure on bill rates in the next few days. However, with the unwinding of positions in bills after the April 1 Cook County personal property tax date, a large amount of bills would have to be absorbed. In meeting needs for reserves, he would have in mind a combination of repurchase agreements--to the extent that they could be made--with some purchases of bills as necessary, and purchases of some quantity of coupon issues having maturities within five years

Mr. Balderston inquired of Mr. Stone whether he would consider it inopportune to eliminate the words of the directive that called for offsetting downward pressures on short-term interest rates, and the latter replied that over the next three weeks he would not anticipate the emergence of serious downward pressure. This could emerge, however

after mid-April. Mr. Balderston then said that he would favor elimination from the directive of the language to which he had referred.

Chairman Martin commented that apparently there was general agreement on maintenance of essentially the status quo during the next three weeks, with some variations of opinion. Mr. Hayes and perhaps one or two other members of the Committee would favor probing toward slightly more firmness, but this view seemed clearly in the minority.

The Chairman noted that Mr. Young had composed possible language for the policy directive that reflected suggestions such as those made by Mr. Swan; the proposed language would involve only minor changes from the wording of the existing directive. The Chairman then read the suggested language.

In further discussion, Mr. Hayes referred to reservations that had been expressed by some at this meeting about any move in the direction of probing toward slightly less ease in light of the current difficulties of the United Kingdom. His own feeling was that the really serious threat would come if the dollar and the pound were both in trouble on a continuing basis. He did not believe that the problem of the dollar could be brushed under the rug simply on the ground that the British were having some difficulties. The British were able to take protective measures. The intractable balance of payments problem

was between the Continental countries on the one side and the United Kingdom, Canada, and the United States on the other. It would be necessary to deal with that problem, and the policy he advocated was intended to pave the way very tentatively. He would like to be recorded as dissenting from adoption of a policy directive such as was now being suggested. Also, he might wish to submit a supplemental comment on why a program such as he had suggested would not be damaging to the Treasury's forthcoming bond auction.

There followed a brief discussion during which Chairman Martin referred to difficulties that might develop if Committee members were to submit additional comments after a Committee meeting for inclusion in the record of the meeting. On the other hand, he saw no reason why a Committee member should not at any time submit a paper for distribution to the other members of the Committee.

Chairman Martin went on to say that he had prepared a paper for presentation at this meeting. However, he had decided simply to make the comment, as had Mr. Hayes, that in his view the greatest single shadow over the growth of the domestic economy was the balance of payments problem. This involved a matter of judgment, but in his opinion that problem was a real deterrent to economic growth; the one could not be separated from the other. As he saw it, everyone was working basically with the same objectives in mind. It was just a matter of judgment as to whether a particular modus operandi would or would not be effective in achieving the desired result.

The Chairman also commented that he would associate himself with the view that any deviations from the status quo in the forthcoming period should preferably be on the side of firmness. However, this was a minor point; he would not want to vote against the suggested policy directive.

Thereupon, upon motion duly made and seconded, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Open Market Account in accordance with the following current economic policy directive:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse United States balance of payments position and the increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy in a period of a Treasury bond financing, System open market operations during the next three weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Vote against this action: Mr. Hayes.

Chairman Martin referred at this point to the report on open market operations during the year 1962 prepared by the Manager of the System Open Market Account, noting that it had been suggested that the

Open Market Committee might want to authorize publication in the April issue of the Federal Reserve Bulletin of the main part of the report. The article would parallel the one on foreign currency operations, prepared by the Special Manager, that had appeared in the March issue of the Bulletin. Copies of the report, in form suggested for publication, would be distributed to the members of the Committee for their comments.

There was general agreement that the publication of such an article in the Bulletin would be desirable for the purpose of contributing to a better public understanding of System open market operations. It was suggested that the article be published as an informational review--like the article on foreign currency operations--rather than in the form of a report by the Manager of the Committee. There was concurrence with this suggestion, and also with the view that it would be desirable for the article to include a rather substantial description of actual open market operations.

Question was raised about the possibility of distribution of the article by a Federal Reserve Bank within its District subsequent to the publication of the April issue of the Bulletin. It was stated, in this connection, that reprints of the Bulletin article would be available from the Board's offices for such distribution as Federal Reserve Banks might want to make. This procedure, it was suggested, would seem preferable to the inclusion of the article as part of the content of the monthly review of a Reserve Bank.

There had been distributed to the members of the Committee by the Secretary, under date of March 25, 1963, a brief summary statement of the economic position, with the notation that it was expected to be used as a basis for preparing a portion of the entry for today's meeting that would be included in the record of policy actions taken by the Committee. It had recently been the practice to incorporate such a background statement at the end of the minutes of the respective meetings in order that the Committee members might have an opportunity to make comments and suggestions, as a step toward expediting the preparation of the policy record entries.

Question was raised whether it was necessary to incorporate the text of these statements of the economic position in the minutes, it being suggested that the same purpose might be accomplished if the background statements were distributed separately. There was general agreement with this procedural suggestion.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, April 16, 1963.

All of those in attendance then withdrew except the Members and Alternate Members of the Committee, the Reserve Bank Presidents not currently serving on the Committee, and Messrs. Young, Sherman, Kenyon, and Stone.

Chairman Martin reported informally on certain discussions that he had had concerning matters in the area dealt with in the

staff papers that had been distributed at the March 5 Committee meeting. He also reported, as a matter of information, on plans that had been announced by the Chairman of the House Banking and Currency Committee for hearings by the Committee in regard to Federal Reserve System matters, probably beginning some time this summer.

The meeting then adjourned.

Secretary