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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

February 15, 1974

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Autos. Sales of new domestic-type autos in the first ten days of February were at a 7.5 million unit rate, as compared with a 7.7 million rate in the month of January and a 9.9 million rate in February last year. On a non-seasonally adjusted basis small cars accounted for 35.2 percent of domestic sales, a somewhat lower percentage than in January but sharply higher than a year ago.

Wholesale prices. Wholesale prices rose 3.1 percent, seasonally adjusted (45.0 percent at an annual rate), between December and January as large and widespread increases were reported for both industrial commodities and farm products and foods. The WPI in January was 20.8 percent above a year earlier.

The index of industrial commodities increased 2.3 percent (30.8 percent at an annual rate) with the fuels and related products and power group accounting for about 40 percent of the increase. Increases were also large for most other groups of industrial commodities, including the metals and metal products group which contains nonferrous metals whose prices recently have been permitted to rise or were decontrolled. Prices of softwood lumber and softwood plywood declined.

The index of farm products and foods rose 5.1 percent (81.4 percent at an annual rate). Higher prices for livestock, meat, dairy products, grains, eggs, sugar, and cereals and bakery products were of major importance to the rise.

WHOLESALE PRICES
(Percent changes at seasonally adjusted annual rates)

	1973 ^{1/}					
	Jan. '73 to Jan. '74	Dec. 1972 to June 1973 (6 mo.)	Freeze		Phase IV	
			June to July (1 mo.)	July to Aug. (1 mo.)	Aug. '73 to Jan. '74 (5 mo.)	Dec. '73 to Jan. '74 (1 mo.)
All commodities	20.8	22.3	-15.5	106.4	13.2	45.0
Farm products	29.8	47.5	-43.0	735.2	-8.7	81.4
Industrial commodities	17.1	12.5	0.7	4.8	26.2	30.8
Crude materials	35.3	23.3	15.1	15.8	54.9	56.7
Intermediate materials	15.5	13.3	-0.9	8.7	20.6	37.9
Finished goods	17.3	10.0	-1.0	3.6	30.3	22.0
Producer	6.4	5.7	1.0	7.0	7.1	15.2
Consumer nonfoods	22.8	12.2	-2.0	2.0	42.8	25.1
Nondurable	34.0	17.0	-2.9	1.0	68.5	31.6
Durable	5.1	5.0	2.1	5.3	4.6	17.6
Consumer finished foods	23.4	28.3	-9.5	243.7	5.4	58.5

Note: Farm products include farm products and processed foods and feeds.

^{1/} The freeze extended from June 13 to August 13 with controls relaxed for most controlled foods on July 18. Beef ceilings were removed on September 10. Phase IV began on August 13. The WPI pricing date for August was the 14th.

CORRECTIONS:

Page II-6 "Commercial Bank Credit" table, last column.
Total loans rose 15.5 percent in January (not declined).

The Domestic Financial Situation

Mortgage market. Offerings to FNMA in its February 11 auction for forward purchase commitments of FHA/VA home mortgages increased somewhat from the volume in the last auction four weeks ago. The average yield on accepted bids--which were 98 per cent of those received--declined 18 basis points further to 8.53 per cent.

FNMA PURCHASE AUCTIONS
(FHA/VA HOME MORTGAGES)

	Offerings		Per cent of offers accepted	Yield to FNMA ^{1/} (per cent)
	Received (millions of dollars)	Accepted		
1972 - High	365 (5/1)	336 (5/1)	92 (5/1, 7/24)	7.74 (10/30)
Low	61 (11/27)	37 (11/27)	42 (3/20)	7.53 (3/20)
1973 - High	551 (9/4)	289 (9/4)	88 (4/16)	9.37 (9/17)
Low	25 (10/15, 11/26)	17 (10/15)	43 (8/20)	7.69 (1/8)
Sept. 4	551	289	52	9.27
17	138	108	79	9.37
Oct. 1	33	25	76	9.11
15	25	17	68	8.97
30	28	22	79	8.94
Nov. 12	29	23	79	8.87
26	25	21	84	8.81
Dec. 17	39	36	94	8.78
1974 - Jan. 14	40	36	89	8.71
Feb. 11	50	49	98	8.53

^{1/} Average gross yield on mortgages FNMA has committed to purchase within four months, assuming a prepayment period of 12 years for 30-year loans. The yield is calculated before deduction of 38 basis points paid by FNMA for mortgage servicing and without inclusion of FNMA commitment charges.

In the HUD(FHA) survey of primary market home mortgage rates in January, average rates on new commitments for conventional new- and existing-home loans declined 10 basis points to 8.65 per cent, a finding that is consistent with the results of the weekly survey of conventional mortgage rates at selected S&L's. Private secondary market yields on FHA-insured loans were not available in January due to the lowering of the ceiling rate near the end of the month.

AVERAGE RATES AND YIELDS ON NEW-HOME
MORTGAGES

	Primary market		Secondary market		
	Conventional loans		FHA-insured loans		
	Level	Spread	Level	Spread	Discounts
	(per cent)	(basis points)	(per cent)	(basis points)	(points)
1971 - Low	7.55	- 36	7.32	- 27	2.5e
High	7.95	52	7.97	31	7.8
1972 - Low	7.55	15	7.45	5	3.7
High	7.70	61	7.57	48	4.7
1973 - Low	7.70	31	7.55	14	2.2
High	8.95	107	9.18	130	9.4
1973 - Jan.	7.70	32	7.55	17	4.5
Feb.	7.75	35	7.56	16	4.6
Mar.	7.80	31	7.63	14	5.2
Apr.	7.90	44	7.73	27	5.9
May	7.95	44	7.79	28	6.4
June	8.05	41	7.89	25	7.2
July	8.40	39	8.19	18	9.4
Aug.	8.85	49	--	--	--
Sept.	8.95	107	9.18	130	5.2
Oct.	8.80	90	8.97	107	3.6
Nov.	8.75	85	8.86	96	2.8
Dec.	8.75	75	8.78	78	2.2
1974 - Jan.	8.65	44	--	--	--

NOTE: HUD series; interest rates on conventional first mortgages (excluding additional fees and charges) are rounded by FHA to the nearest 5 basis points. On FHA loans carrying the 7 per cent ceiling rate in effect from mid-February 1971 until July 1, 1973, a change of 1 point in discount is associated with a change of 12 to 14 basis points in yield. FHA rate was raised to 7-3/4 per cent in July 1973. Reliable data on FHA secondary market yield not available for August 1973 because rate changed to 8-1/2 per cent on August 25 and for January 1974 because of rate change to 8-1/4 per cent on January 22. Gross yield spread is average mortgage return, before deducting servicing costs, minus average yield on new Aaa utility bonds. e/ Estimated.

INTEREST RATES

	1973		1974	
	Highs	Lows	January 21	February 14
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	10.84(9/26)	5.61 (1/3)	9.77(1/16)	8.93(2/13)
3-month				
Treasury bills (bid)	9.05(8/14)	5.12 (1/4)	7.97	7.03
Comm. paper (90-119 day)	10.50(9/19)	5.63(1/12)	9.00	7.88
Bankers' acceptances	11.00(9/20)	5.75(1/11)	9.25	8.13
Euro-dollars	11.69(8/9)	5.81 (1/5)	9.56	8.38
CD's (NYC) 90-119 day				
Most often quoted new	10.75(9/19)	5.50 (1/3)	8.88(1/16)	8.00(2/13)
6-month				
Treasury bills (bid)	9.00(9/13)	5.38 (1/4)	7.87	6.81
Comm. paper (4-6 mo.)	10.50(9/20)	5.63(1/12)	8.75	7.75
Federal agencies	9.80(9/13)	5.64 (1/3)	8.25	7.28(2/13)
CD's (NYC) 180-269 day				
Most often quoted new	9.38(8/15)	5.63 (1/3)	8.25(1/16)	7.50(2/13)
1-year				
Treasury bills (bid)	8.50(9/13)	5.40 (1/4)	7.06	6.38
Federal agencies	9.49(8/13)	5.86 (1/2)	7.79	7.11(2/13)
CD's (NYC)				
Most often quoted new	8.50(9/19)	5.75 (1/3)	7.50(1/16)	7.00(2/13)
Prime municipals	6.00(8/8)	3.20 (1/3)	4.40(1/18)	3.70(2/15)
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	8.13(8/7)	6.23 (1/4)	6.99	6.72
20-years	7.83(8/7)	6.04 (1/3)	7.49	7.42
Corporate				
Seasoned Aaa	7.77(8/24)	7.10 (1/2)	7.87	7.86
Baa	8.68(8/30)	7.88(1/12)	8.60	8.60
New Issue Aaa Utility	8.52(8/8)	7.29(1/10)	8.27(1/16)	8.02p(2/13)
Municipal				
Bond Buyer Index	5.59(8/1)	4.99(10/10)	5.24(1/16)	5.18(2/13)
Mortgage--average yield				
in FNMA auction	9.37(9/17)	7.69 (1/8)	8.71(1/14)	8.53(2/11)

SUPPLEMENTAL APPENDIX A *

DEMAND DEPOSIT OWNERSHIP SURVEY
FOURTH QUARTER, 1973

Demand deposit ownership data for the fourth quarter of 1973 reflect strong growth in gross IPC demand deposits (not seasonally adjusted) at all commercial banks, following considerably weaker expansion in the third quarter (Table 1). This pattern of movement in IPC deposits is consistent with the changes in M_1 over the last two quarters; and indeed, although there has been concern over increasing divergence between the M_1 series and DDOS figures, recent revisions in the money supply data have brought these two series into much closer alignment.^{1/}

Almost all the fourth quarter expansion in IPC deposits occurred in deposits held by nonfinancial businesses and particularly in such deposits at weekly reporting banks (Table 2). In contrast to nonfinancial business deposits, household balances were weak in the fourth quarter of 1973 relative to comparable quarters of previous survey years, and so also were deposits of financial businesses

^{1/} A comparison of the demand deposit component of M_1 (after adjustment for cash items in process of collection and other definitional differences) to gross IPC demand deposits as estimated from the DDOS for the four quarters of 1973 yields an average difference of \$700 million, with all but the third quarter being less than \$450 million (approximately 0.2 per cent of total IPC deposits). Prior to the M_1 revisions the average difference in the two estimates was \$2.5 billion for the first three quarters of 1973, and the third quarter divergence exceeded \$3.6 billion.

Despite these improvements, however, the staff has been increasingly concerned over deterioration in the quality of the DDOS data due to a large number of sample banks leaving the panel. Replacement of non-reporters has been postponed pending a review of the survey by the SRAC in the spring of this year.

* Prepared by Martha S. Scanlon, Economist, Banking Section, Division of Research and Statistics.

and "all other" (primarily nonprofit and charitable organizations). As shown in Table 2, most of the weakness in these latter ownership groups was concentrated at nonweekly reporting banks, with household balances increasing less than \$200 million at these institutions compared to an \$800 million expansion at the larger banks.

The large fourth quarter increase in foreign held deposits (which excludes deposits of foreign banks and governments) brings the total growth in such balances to just under \$1 billion for the year, an increase of more than 65 per cent from their beginning of year level.

Table 1

CHANGE IN LEVEL OF GROSS IPC DEPOSITS BY OWNERSHIP
CATEGORY, ALL COMMERCIAL BANKS 1/
(Billions of dollars, not seasonally adjusted)

Year	Financial business				Nonfinancial business				Households			
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV
1970	n.a.	n.a.	--	.3	n.a.	n.a.	2.7	4.6	n.a.	n.a.	2.4	2.2
1971	1.0	-.2	-.2	.6	-6.4	3.3	1.9	6.9	.8	1.8	1.2	1.2
1972	1.7	-2.3	--	.9	-5.8	5.0	4.0	8.4	-3.9	5.7	2.6	2.4
1973	-.2	-.1	.2	.3	-7.1	3.8	1.7	7.9	-.3	2.2	1.8	1.0

Year	Foreign				All other				Total			
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV
1970	n.a.	n.a.	-.2	-.1	n.a.	n.a.	.4	.3	n.a.	n.a.	5.3	7.3
1971	.1	-.1	-.1	.1	.3	--	-.8	1.0	-4.2	4.9	2.1	9.7
1972	--	--	--	.1	1.6	-1.3	.4	.9	-6.3	7.1	7.0	12.6
1973	.2	.3	.1	.3	-.5	--	.2	.4	-8.0	6.3	4.0	9.8

1/ Changes are based on daily averages of last-month-in-quarter to last-month-in-quarter, not annualized.
Data are before deduction for cash items in process of collection.

Figures may not add to totals due to rounding.

Table 2

FOURTH QUARTER CHANGE IN LEVEL OF GROSS IPC DEMAND DEPOSITS
BY OWNERSHIP CATEGORY, AT WEEKLY REPORTING BANKS VS. NON-WEEKLY REPORTING BANKS 1/
(Billions of dollars, not seasonally adjusted)

Year	<u>Financial business</u>			<u>Nonfinancial business</u>			<u>Households</u>		
	WRB	NON-WRB	TOTAL	WRB	NON-WRB	TOTAL	WRB	NON-WRB	TOTAL
1970	.1	.2	.3	2.3	2.3	4.6	2.1	--	2.2
1971	.7	-.1	.6	4.0	2.8	6.9	.1	1.1	1.2
1972	1.0	-.1	.9	5.4	2.9	8.4	.9	1.4	2.4
1973	.4	-.2	.3	5.5	2.4	7.9	.8	.2	1.0

Year	<u>Foreign</u>			<u>All other</u>			<u>Total</u>		
	WRB	NON-WRB	TOTAL	WRB	NON-WRB	TOTAL	WRB	NON-WRB	TOTAL
1970	-.1	--	-.1	--	.2	.3	4.5	2.7	7.3
1971	.1	.1	.1	.5	.6	1.0	5.2	4.4	9.7
1972	--	--	.1	.5	.4	.9	7.9	4.7	12.6
1973	.3	--	.3	.3	.1	.4	7.3	2.5	9.8

1/ Changes are based on daily averages of last-month-in-quarter to last-month-in-quarter, not annualized. Data are before deduction for cash items in process of collection. Only data for total and weekly reporting banks are reported; thus figures for non-weekly reporting banks are residuals.

Figures may not add to totals due to rounding.

SUPPLEMENTAL APPENDIX B **
MONTHLY SURVEY OF BANK LOAN COMMITMENTS, DECEMBER 1973

As shown in the most recent Monthly Survey of Bank Loan Commitments at 131 large banks, total unused commitments contracted slightly in December, with the decline appearing in all major components of the series. At the same time, total loans made under commitments advanced strongly. New commitments, which have moved erratically since the survey began, showed a large increase in December, mainly for loans to nonbank financial institutions and for mortgage loans.

Only two categories of unused commitments--for C & I term loans and C & I "other"--increased in December, while all other categories declined, as shown in Table 1. The declines were relatively small and may have been in fact seasonal. Until December, unused commitments to nonbank financial institutions had grown consistently and at a rapid pace, while the December easing in unused commitments for real estate mortgages continued a downtrend which began last September.

The decline in unused commitments in part reflected a substantial volume of takedowns in December, shown by the rates of growth of outstanding loans under commitments in Table 2. This is consistent with the typical heavy seasonal borrowing in December by nonfinancial businesses and especially by nonbank financial institutions, both of which showed large increases.

The high rate of takedowns also caused the utilization ratios to rise somewhat, as shown in Table 3, with the utilization ratio for commitments to nonbank financial institutions showing a particularly large increase. In column 10 of Table 3 is a new category, the utilization ratio for total commitments excluding C & I term loans and commitments and mortgage loans and commitments. The excluded items are related to long-term borrowing, and thus the new ratio measures the utilization of commitments for short-term credit. In December, as in earlier months, the movement of the "short-term" utilization ratio closely matched that for total commitments.

In December new commitments to C & I customers rose slightly, and new commitments for mortgages and loans to nonbank financial institutions recovered from their reduced November levels, as shown in Table 4. As noted earlier, the monthly volume of new commitments is quite erratic and though gross new commitments in December were substantial, they did not offset the considerable rate of takedowns, and as a consequence unused commitments declined.

* Prepared by Paul W. Boltz, Economist, Banking Section, Division of Research and Statistics.

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MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS 1/
(AS OF DEC. 31, 1973)

TABLE 1 - UNUSED COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1) C & I FIRMS TOTAL		(2) C & I TERM LOANS		(3) C & I REVOLVING CREDITS		(4) C & I TERM LOANS & REV. CREDITS		(5) C & I CONFIRMED LINES		(6) C & I OTHER COMMITMENTS		(7) NON-BANK FINANCIAL INSTITUTIONS		(8) REAL ESTATE MORTGAGES		(9) TOTAL COMMITMENTS	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
JULY 31	77.8	0.0	5.2	0.0	17.8	0.0	23.8	0.0	50.8	0.0	3.2	0.0	23.5	0.0	9.3	0.0	110.7	0.0
AUGUST 31	78.0	0.2	5.2	-0.4	18.3	3.1	23.6	-1.1	51.4	1.3	3.0	-8.3	24.8	5.2	9.4	0.9	112.2	1.3
SEPTEMBER 30	77.1	-1.2	5.0	-3.9	17.7	-3.4	22.7	-3.5	51.5	0.1	2.9	-3.8	25.0	0.9	8.9	-5.0	111.0	-1.0
OCTOBER 31	79.8	3.6	5.2	2.9	17.9	0.8	23.0	1.3	53.8	4.5	3.0	5.4	26.1	4.6	8.6	-4.2	114.5	3.1
NOVEMBER 30	80.4	0.7	5.0	-2.5	18.5	3.5	23.5	2.1	53.9	0.3	2.9	-3.2	26.7	2.3	8.5	-1.2	115.6	0.9
DECEMBER 31	80.0	-0.5	5.2	3.3	18.1	-2.0	23.3	-0.9	53.5	-0.8	3.2	8.4	26.0	-2.8	8.4	-0.6	114.4	-1.0
JUL 73 - DEC 73 AVERAGE	78.8	0.6	5.1	-0.1	18.1	0.4	23.3	-0.4	52.5	1.1	3.0	-0.3	25.4	2.0	8.9	-2.0	113.1	0.7

NUMBER OF BANKS 131

B - 2

1/ BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY

- SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF \$100 MILLION OR MORE.

** NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING. **

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MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS ^{1/}
(AS OF DEC. 31, 1973)

TABLE 2 - LOANS UNDER COMMITMENTS ^{2/}

(DOLLAR AMOUNTS IN BILLIONS)

	(1) C & I FIRMS TOTAL		(2) C & I TERM LOANS		(3) C & I REVOLVING CREDITS		(4) C & I TERM LOANS & REV. CREDITS		(5) C & I CONFIRMED LINES		(6) C & I OTHER COMMITMENTS		(7) NON-BANK FINANCIAL INSTITUTIONS		(8) REAL ESTATE MORTGAGES		(9) TOTAL COMMITMENTS	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
JULY 31	65.3	0.0	16.6	0.0	16.9	0.0	34.9	0.0	25.2	0.0	5.2	0.0	16.5	0.0	15.7	0.0	97.5	0.0
AUGUST 31	65.2	-0.2	17.8	7.6	17.4	2.9	35.2	0.9	25.1	-0.3	4.8	-6.9	16.4	-0.7	16.4	4.3	98.0	0.4
SEPTEMBER 30	67.0	2.9	18.0	0.8	18.2	4.6	36.2	2.7	26.0	3.5	4.9	1.0	17.0	3.7	17.0	3.9	101.1	3.1
OCTOBER 31	66.0	-1.5	17.9	-0.4	18.5	1.4	36.4	0.5	24.7	-4.9	5.0	1.5	17.4	2.5	16.7	-1.9	100.2	-0.8
NOVEMBER 30	67.2	1.8	18.0	0.7	19.2	4.1	37.3	2.5	24.9	0.9	5.1	2.0	17.1	-1.9	17.1	2.2	101.4	1.2
DECEMBER 31	68.5	1.9	18.4	1.9	19.1	-0.6	37.5	0.6	25.7	3.1	5.4	5.7	18.8	9.9	17.3	1.0	104.6	3.1
JUL 73 - DEC 73 AVERAGE	66.8	1.0	18.0	2.1	18.5	2.5	36.5	1.4	25.3	0.5	5.0	0.7	17.4	2.7	16.9	1.9	101.0	1.4

NUMBER OF BANKS 131

B - 3

^{1/} BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY ARE SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF \$100 MILLION OR MORE.

^{2/} LOANS UNDER COMMITMENT ARE DEFINED AS ALL LOANS MADE UNDER COMMITMENTS CURRENTLY OR PREVIOUSLY IN FORCE, LESS REPAYMENTS OF THE PRINCIPAL, THE REPORTED DATA ARE DISTORTED BY TAKEDOWNS OF LOAN COMMITMENTS BY OVERSEAS BRANCHES OF U.S. BANKS AND LOAN SALES.

NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING.

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MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS ^{1/}
(AS OF DEC. 31, 1973)

TABLE 3 - UTILIZATION RATIO ^{2/}
(PERCENTAGES)

	(1) C & I FIRMS TOTAL	(2) C & I TERM LOANS	(3) C & I REVOLVING CREDITS	(4) C & I TERM LOANS & REV. CREDITS	(5) C & I CONFIRMED LINES	(6) C & I OTHER COMMITMENTS	(7) NON-BANK FINANCIAL INSTITUTIONS	(8) REAL ESTATE MORTGAGES	(9) TOTAL	(10) TOTAL EXCLUDING TERM AND REAL ESTATE
JULY 31	45.6	76.0	48.7	59.5	33.1	61.6	41.3	62.8	46.8	40.4
AUGUST 31	45.5	77.3	48.7	59.9	32.8	62.0	39.9	63.5	46.6	39.5
SEPTEMBER 30	46.5	78.2	50.7	61.4	33.5	63.1	40.5	65.6	47.7	4
OCTOBER 31	45.3	77.6	50.8	61.2	31.5	62.2	40.0	66.1	46.7	39.4
NOVEMBER 30	45.5	78.2	51.0	61.3	31.6	63.5	39.0	66.9	46.7	39.4
DECEMBER 31	46.1	77.9	51.3	61.6	32.4	62.9	42.0	67.2	47.8	40.6
JUL 73 - DEC 73 AVERAGE	45.8	77.5	50.2	60.8	32.5	62.5	40.4	65.3	47.1	40.0
NUMBER OF BANKS	131									

B - 4

^{1/} BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY ARE (SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF \$100 MILLION OR MORE.)

^{2/} THE UTILIZATION RATIO IS THE RATIO, EXPRESSED AS A PERCENTAGE, OF LOANS UNDER COMMITMENTS TO THE SUM OF UNUSED COMMITMENTS AND LOANS UNDER COMMITMENT.

NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING.

NOT FOR
QUOTATION OR
PUBLICATION

MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS ^{1/}
(AS OF DEC. 31, 1973)

TABLE 4 - NEW COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1) C & I FIRMS TOTAL		(2) C & I TERM LOANS		(3) C & I REVOLVING CREDITS		(4) C & I TERM LOANS & REV. CREDITS		(5) C & I CONFIRMED LINES		(6) C & I OTHER COMMITMENTS		(7) NON-BANK FINANCIAL INSTITUTIONS		(8) REAL ESTATE MORTGAGES		(9) TOTAL COMMITMENTS	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
JULY 31	4.4	0.0	0.8	0.0	0.9	0.0	1.8	0.0	2.2	0.0	0.4	0.0	1.0	0.0	1.2	0.0	6.6	0.0
AUGUST 31	4.4	-0.2	0.9	11.6	1.1	12.1	2.0	9.3	1.9	-13.3	0.5	28.5	0.9	-8.2	1.2	0.8	6.5	-1.1
SEPTEMBER 30	3.7	-15.8	0.7	-23.8	0.8	-22.7	1.5	-23.3	1.5	-24.5	0.8	42.8	0.8	-8.2	0.7	-36.8	5.3	-18.5
OCTOBER 31	4.4	16.8	0.8	6.7	1.0	22.6	1.8	15.3	1.7	18.0	0.9	17.6	0.9	7.8	1.0	35.0	6.2	17.9
NOVEMBER 30	4.7	8.0	1.1	44.4	1.1	13.8	2.2	26.9	1.7	0.9	0.8	-15.1	0.8	-5.2	0.7	-26.2	6.3	0.6
DECEMBER 31	4.8	1.4	1.3	21.4	1.1	-4.8	2.4	7.9	1.7	-1.7	0.7	-11.0	1.0	24.0	1.0	36.9	6.8	8.5
JUL 73 - DEC 73 AVERAGE	4.4	2.0	0.9	12.0	1.0	4.2	2.0	7.2	1.8	-4.1	0.7	12.6	0.9	2.0	1.0	1.9	6.3	1.5
NUMBER OF BANKS	131																	

^{1/} BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY

- SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF \$100 MILLION OR MORE.

** NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING. **

SUPPLEMENTAL APPENDIX C *
MONTHLY SURVEY OF TIME AND SAVINGS DEPOSITS AT MEMBER BANKS
FOURTH QUARTER 1973

Since October, data have been collected from a special monthly survey of time and savings deposits at member banks in order particularly to obtain information on four-year deposits previously exempt from Regulation Q ceilings; in addition, the survey collected for the first time total time deposits in denominations of \$100,000 or more, including negotiable CDs and all other large time deposits. Procedures for processing the data have now become operative, and the results of the survey for the fourth quarter of 1973 are summarized below. Future survey results should be available in preliminary form within three weeks after the end of the survey month.

Savings and small denomination time deposits at member banks increased by close to \$600 million (not seasonally adjusted) in the fourth quarter of 1973, as an apparently sizeable increase in such balances in December more than offset small declines in October and November (Table 1). However, since a breakdown of member bank time and savings deposits by denomination has not previously been available, it is impossible to judge the underlying trend in small denomination deposits indicated by these data.

It should be noted that the savings and small denomination time deposit measure used in the special monthly survey differs significantly from the "other time" component of M_2 . Although this latter measure frequently is referred to as "consumer-type time and savings deposits", it is derived by subtracting from total time and savings deposits only large negotiable CDs at weekly reporting banks. The residual thus includes a substantial volume of other large denomination deposits--i.e., large non-negotiable time deposits at weekly reporting banks and large negotiable and non-negotiable CDs at non-weekly reporting banks. In the October-December period, the "other time" component of M_2 showed considerable strength, even before seasonal adjustment, but a large part of this strength apparently reflected growth not in consumer-type deposits, but in large time deposits other than negotiable CDs, as indicated in column 5 of Table 2.

* Prepared by Martha S. Scanlon, Economist, Banking Section, Division of Research and Statistics.

Effective November 1, a Regulation Q ceiling of 7.25 per cent was applied to four-year certificates, forcing a roll back in offering rates for a substantial number of banks. In July, 30 per cent of all member banks had offering rates above this level. As a result of this roll back, the higher ceiling rate on such deposits at thrift institutions, and perhaps less aggressive merchandising of four-year deposits by member banks as their loan demands subsided, the pace of inflow of these deposits slowed substantially in November and December, particularly at large banks (Table 3). Weekly reporting member banks accounted for \$900 million of the \$1.7 billion increase in four-year certificates at all member banks in the fourth quarter; in the third quarter, such deposits at all weekly reporters had increased \$1.9 billion.

Analysis of weekly reporting bank data in the third quarter had suggested that these banks had not only attracted new funds but had also retained their "consumer-type" time deposits in large part as the public shifted other time and savings deposits at these banks into the four-year accounts, funds which might otherwise have gone to market securities. The special survey results summarized in Table 1 suggest that--at least in October and November--bank customers may have continued to shift interest-bearing deposits to the higher-yielding four-year certificates.

Large denomination time deposits at member banks showed no increase on balance over the fourth quarter, although there was considerable volatility in the monthly pattern and composition of these flows (Table 2). Net outflows in October and November resulted from unusually large run-offs in negotiable CD's at the weekly reporting banks (column 4, Table 2). But while CDs at weekly reporters were declining, other large denomination time deposits at weekly reporters and other member banks appeared to be relatively strong (column 5, Table 2). In December, a sizeable increase in large time deposits at weekly reporting banks--including but not primarily due to negotiable CDs (columns 3 and 4, Table 2)--contributed to strong growth in that month. Large time deposits at non-weekly reporting banks increased throughout the quarter, gaining strength in November and December.

Table 1

NET CHANGE IN OUTSTANDING SMALL DENOMINATION (under \$100,000) TIME
AND SAVINGS DEPOSITS AT MEMBER BANKS
OCTOBER, NOVEMBER, DECEMBER, 1973
(In millions of dollars, not seasonally adjusted)

	Total	Savings deposits	Four-year time deposits in denominations of \$1,000 to \$100,000	All other
	(1)	(2)	(3)	(4)
October	-152	-215	+703	-641
November	-174	-534	+593	-233
December p	+904	+106	+439	+359
Totals p	+577	-643	+1,735	-515

NOTE: Changes are calculated from deposit data reported for last Wednesday of each month.
Figures may not sum to totals due to rounding.
p - Preliminary.

Table 2

NET CHANGE IN OUTSTANDING LARGE DENOMINATION TIME (\$100,000 or more)

DEPOSITS AT MEMBER BANKS

OCTOBER, NOVEMBER, DECEMBER, 1973

(In millions of dollars, not seasonally adjusted)

	All member banks	Non-weekly reporting member banks	Weekly reporting member banks	Large negotiable CDs at weekly reporting banks	Other large denomi- nation deposits at member banks
	(1)	(2)	(3)	(4)	(5) = (1) - (4)
October	-365	+293	-659	-2,038	+1,673
November	-1,370	+433	-1,803	-1,347	-23
December	+1,733	+611	+1,121	+266	+1,467
Totals	-2	1,337	-1,341	-3,119	+3,117

Table 3

NET CHANGE IN OUTSTANDING FOUR-YEAR DEPOSITS AT MEMBER BANKS
 BY SIZE OF BANK
 OCTOBER, NOVEMBER, DECEMBER, 1973
 (In millions of dollars, not seasonally adjusted)

	All member banks (1)	Size of Bank (total deposits in millions of dollars)		
		Less than 100 (2)	100 - 500 (3)	Over 500 (4)
October	+703	+243	+178	+282
November	+593	+103	+168	+323
December p	+439	+186	+105	+147
Total p	+1,735	+532	+451	+752

NOTE: Changes are calculated from deposit data reported for last Wednesday of each month.

Figures may not sum to totals due to rounding.

p - Preliminary.

Supplemental Appendix D
Wholesale Financing of Consumer Durable Goods Inventories*

A special Federal Reserve survey of more than 100 commercial banks and 6 major finance companies during the first two weeks of February indicates that most respondents have experienced no serious problems so far as a result of the buildup in dealer holdings of consumer durable goods. However, respondents noted that dealer inventories of consumer durables are large, credit lines are more heavily drawn than usual, and a number of weaker dealers are facing financial difficulties. While several commercial banks expressed concern that they might have to take over dealers' stocks in the near future, they reported only 12 takeovers to date--one of automobile stocks, one of mobile homes, and 10 of recreational vehicles. Furthermore, most respondents felt that expected seasonal increases in durable goods sales, coupled with promotional campaigns and cutbacks in factory deliveries to dealers, should enable all but the weakest dealers to work off excess inventories without serious trouble. Consequently, nearly all financial institutions have continued to accommodate reasonable dealer credit needs where past business relationships had shown the dealer to be sound. Both banks and finance companies are nevertheless watching the situation closely and working to avert dealer problems on a case-by-case basis. In addition, numerous banks are scrutinizing consumer credit applications more closely.

The severity of inventory financing problems was said to vary by type of durable good. Small-car dealers have fared well. Although mobile home inventories are larger than usual for the time of year, a seasonal increase in sales during the spring is expected to reduce the overhang, especially if factory shipments are cut back.

Large-automobile dealers and used-car dealers have generally experienced a considerable problem with inventory accumulations, and some have gone out of business. However, as a result of high automobile sales in recent years, many dealers were in a strong financial position, at least until recently. Furthermore, financial institutions, particularly the captive sales finance companies, are trying hard to fund dealer credit needs during what is regarded as a temporary cyclical downturn in demand. Because of production cutbacks, it is expected that auto dealers will be able to eliminate much of their inventory imbalance with the advent of the spring buying season. Some signs of firming or rising prices and sales rates for used cars and large new cars were noted in recent weeks.

* Prepared by Richard Peterson, Economist, Mortgage, Agricultural, and Consumer Finance Section, Division of Research and Statistics.

The most severe problems reportedly exist in the recreational vehicle market. Large motor-home sales began to decline with the gasoline shortages of 1973, and are expected to recover substantially only after the gasoline shortage is eased. Consequently, commercial banks in 8 Districts reported one or more problems with recreational vehicle dealers. Because of declining profitability, some banks discontinued wholesale financing for recreational vehicle dealers as early as last summer. In addition, delinquencies on recreational vehicle loans have risen and several banks have increased qualification standards for such loans. While large motor homes have been the weakest area, and show the fewest signs of improvement, boat dealers have also been hit hard. Here again, anticipated seasonal increases in sales, coupled with factory cutbacks, are expected to reduce excess inventories in most cases.

Because of the inventory buildup, creditors are generally watching dealer situations closely. To mitigate future problems, a number of lenders report more frequent scrutiny of dealer inventories and sales rates, reductions in credit-line limits, and more stringent payback requirements on inventory loans. Where inventory problems have already developed, creditors report considerable willingness to work closely with dealers in an attempt to alleviate further difficulties. Actions taken include terminations of financing on new factory shipments, encouragement of factory takebacks of excess inventories, and temporary easing of credit-line limits and inventory loan payback requirements.

Because of concern with rising delinquency rates, higher unemployment, and relatively weak used-car markets, a number of respondents have taken a closer look at consumer credit terms and borrower qualifications. Many banks reported greater scrutiny of borrower occupational risk and, in several instances, reported higher downpayment requirements for large-car loans. On the other hand, finance companies reported no change in borrower loan qualification standards, and one auto finance company and one bank reported lengthening the maximum permitted maturity on new car loans.

APPENDIX E

International Developments

U.S. balance of payments. Preliminary data on selected transactions in the U.S. balance of payments for the fourth quarter 1973 and for calendar 1973, as released by the Department of Commerce on February 14, are summarized below.

U.S. Balance of Payments - 1972 and 1973 (millions of dollars - seasonally adjusted)

	1972 Annual	1973 Annual	1973			
			Q-1	Q-2	Q-3	Q-4
Merchandise trade balance	-6,912	674	-966	-250	710	1,180
Income & services, net	2,301	1/5,762	1,120	928	1,444	1/2,270
Balance on goods & services	-4,610	6,436	154	678	2,154	3,450
Net transactions on foreign securities	-614	-792	51	-126	-204	-513
Net transactions on U.S. securities						
(other than Treas. issues)	4,335	4,057	1,745	496	1,159	657
(stocks)	(2,268)	(2,796)	(1,301)	(125)	(869)	(501)
(bonds)	(2,067)	(1,261)	(445)	(371)	(289)	(156)
Net nonliquid capital flows by U.S. banks	-2,615	-4,549	-1,912	-1,619	432	-1,450
Net liquid private capital flows	3,542	2,608	-3,920	1,940	588	4,000
Liquid claims	(-1,234)	(-1,827)	(-2,044)	(835)	(-363)	(-255)
(reported by U.S. banks)	(-742)	(-1,169)	(-1,351)	(905)	(-344)	(-379)
Liquid liabilities	(4,776)	(4,435)	(-1,876)	(1,105)	(951)	(4,255)
Other transactions, incl. errors & omissions 2/	-11,089	-13,051	-6,604	-1,021	-2,008	-3,418
Official reserve transactions balance	3/11,050	-5,291	-10,486	348	2,121	2,726
<u>Financed by changes in:</u>						
Liabilities to foreign official agencies	10,308	5,082	10,266	-365	-2,108	-2,711
U.S. official reserve assets, net	3/742	209	220	17	-13	-15

1/ Includes \$625 million of military equipment to Israel.

2/ Includes direct investments and other transactions for which fourth quarter 1973 data are not available.

3/ Excludes SDR allocation.