Time-Deposits Trends

TIME and savings deposits rose sharply as monetary policy eased during early 1967, but growth was more striking in other areas of the country than in the Twelfth District. The strengthening of deposit flows shows up clearly in a detailed Federal Reserve survey of member-bank deposits conducted in late April. More recent (but incomplete) data indicate a continued expansion of deposits — and if anything, an acceleration in some deposit categories.

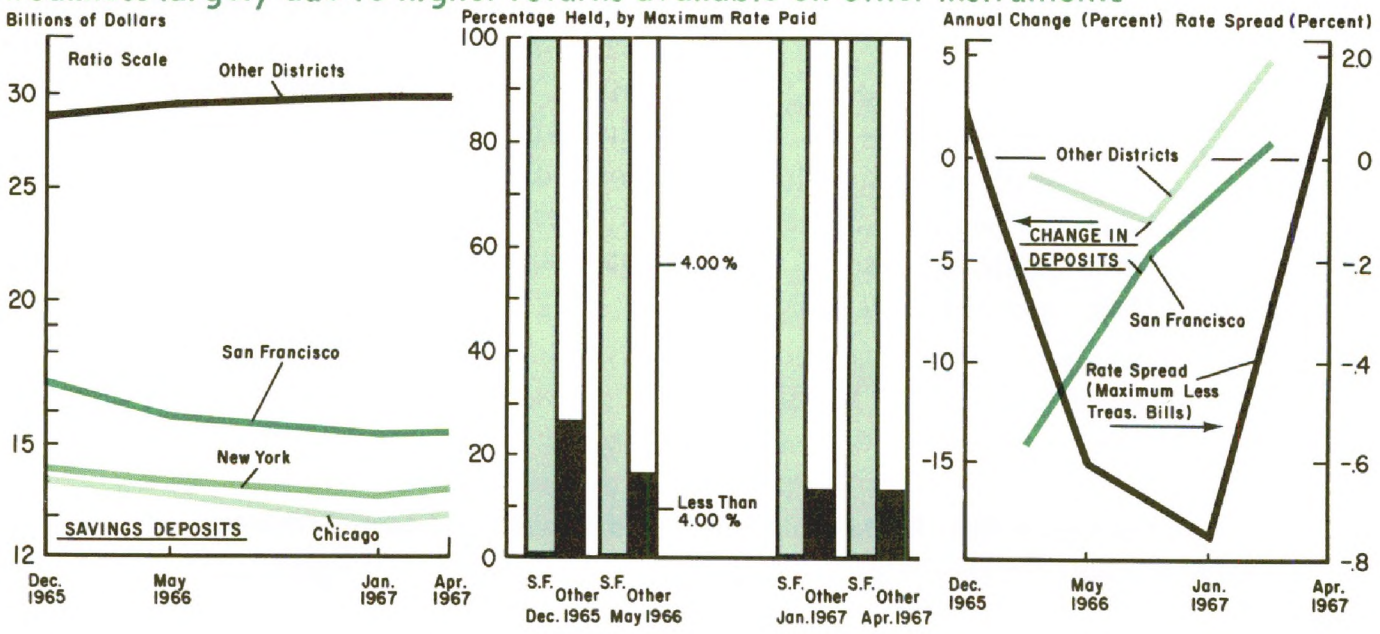
Passbook savings

Savings deposits increased throughout the country between late-January and late-April '67, in sharp contrast to the 1966 experience. In this District, passbook savings rose at close to a 1-percent annual rate, to $15.4 billion, whereas elsewhere they increased at a 5-percent annual rate. The slower regional rate of growth, following a greater-than-national decline last year, caused a slight reduction in the District's share of such deposits — from 23 percent in late 1965 to 21½ percent this past spring. Even so, the San Francisco District still boasted the largest volume of passbook-savings activity.

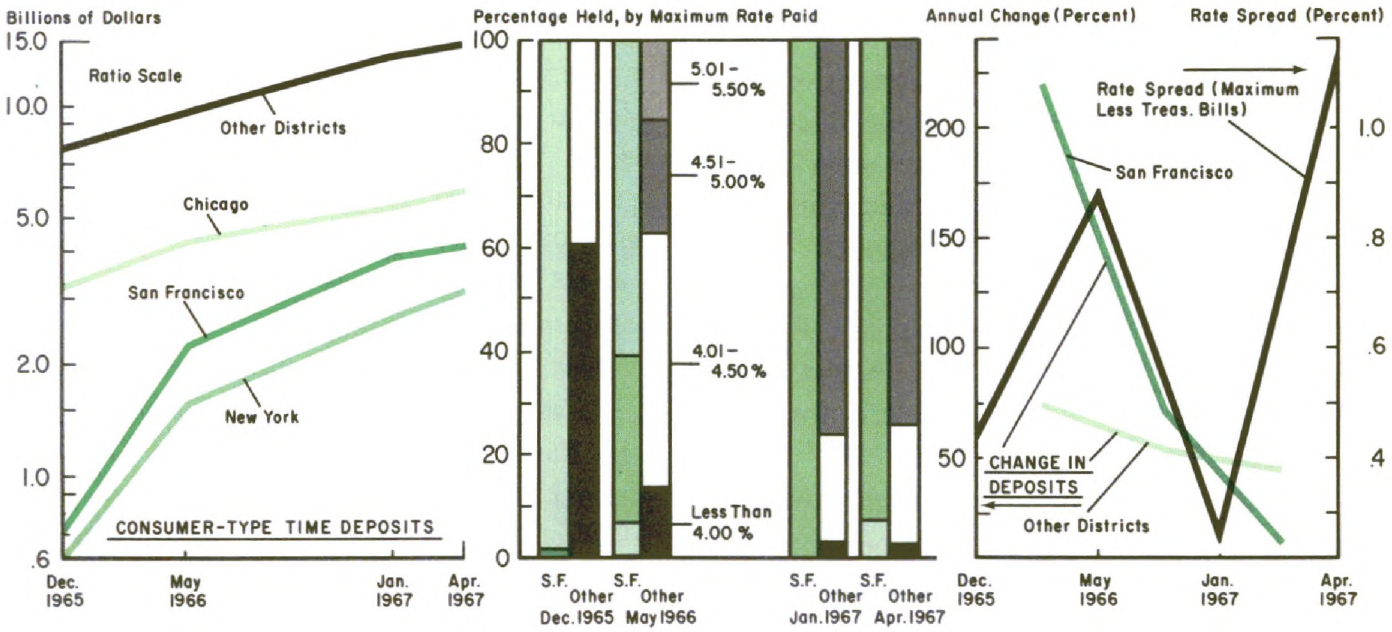
The District share declined despite the fact that District banks tended to pay the 4-percent ceiling rate on practically all (99 percent) of their savings deposits, not only during the late-April survey but also at the time of each preceding survey. In contrast, banks elsewhere paid below the maximum 4-percent rate on 13 percent of their deposits this past January and April.

The inflow of funds into savings this year, like the substantial outflow during 1966, reflected the sophisticated response of savers to interest-rate considerations. During 1966, the 4-percent ceiling rate lagged behind other deposit rates and behind market rates (such as the Treasury-bill rate), and funds consequently flowed out of such deposits. During the early part of this year, on the other hand, as the easier tone in the market brought the bill rate below 4 percent, savers again began to see the attractions of the traditional passbook form of savings.

Inflow into passbook savings improves after 1966 decline . . .
weakness largely due to higher returns available on other instruments



High rates stimulate sharp expansion of consumer-type deposits . . . West offers highest rates, so West outpaces nation until recently



Consumer-type time

Consumer-type time deposits continued to expand rapidly in all Districts during the most recent survey period, although the growth was not quite so explosive as it was during 1966. These deposit instruments, all under $100,000, include savings certificates, savings bonds, and other negotiable and non-negotiable instruments, as well as time deposits on open account.

The San Francisco District posted a 22-percent annual rate of gain in such deposits during January-April 1967 — only half the rate of gain reported elsewhere. But in earlier survey periods, covering roughly the first and second halves of 1966, consumer-type deposits in this District increased at annual rates of 218 and 72 percent, respectively — far greater gains than those reported elsewhere. With deposits of $4.0 billion on the books this past April, the District's share of the total thus was 14½ percent as against only 6 percent in December 1965.

The rapid growth of consumer-type deposits reflects the higher return available from them than from passbook savings. After rate ceilings were first raised above 4½ percent in December 1965, District member banks on successive survey dates paid maximum rates of over 4½ percent on 93 percent of their deposits. (In fact, prior to the Federal Reserve rollback of rate ceilings last summer, they paid over 5 percent on 60 percent of their deposits.) Yet, all this time the ceiling rate on passbook savings remained at 4 percent.

In the rest of the nation, member banks have consistently paid a lower maximum rate on consumer-type deposits than have their Western counterparts. This April, for example, they paid over 4½ percent on 74 percent of such deposits. Yet in the latest survey period, with consumer-type deposits as with passbook savings, they increased their deposits faster than District banks despite a lower structure of deposit rates. But the Western banks' performance was affected of course by the higher rates offered by the highly competitive savings-and-loan associations in this region.

Business-type time

Business-type time deposits, especially the large-denomination time certificates of over $100,000 denomination, posted mixed results during each of the survey periods. New York, which accounts for about two-fifths of such deposits, experienced large declines in late 1966 and early 1967, but other Districts—especially San Francisco and Chicago—meanwhile posted substantial gains. (This summer, however, major New York banks recorded a very large increase.) San Francisco, with $3.1 billion on the books this past April, at that time accounted for 18 percent of business-type deposits.

This District overshadowed the national performance during each survey period, despite a gradual slowdown in its rate of growth. In two survey periods last year, it posted 49-percent and 29-percent annual gains, respectively—far in excess of the national growth—and in January-April 1967, it posted a 9-percent annual gain at a time when the New York decline was causing a net decline nationally.

The slower District growth this year reflected a reduction in rates offered on large CD's. Maximum rates of over 5 percent were paid on 99 percent of such deposits on the January survey date, but on only 12 percent of such deposits in late April. (In April, maximum rates of 4½ percent or less were offered on three-fourths of the total.) The same downward shift in rates was evident elsewhere; maximum rates of over 5 percent were paid on 67 percent of CD's in January, but on only 15 percent of such deposits in April.

The spread between the ceiling rate on CD's and the Treasury-bill rate widened to 165 basis points in April, but the reduction in *effective* CD rates and the continued competition for funds affected the inflow into business-type deposits. The San Francisco District, as mentioned above, reported a slowdown in its inflow early this year. Most notably, New York suffered a 27-percent annual rate of decline in the January-April period—a decline more than twice as great as the one it recorded during the 1966 tight-money period—before staging a sharp turnaround this past summer.

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Western banks attract increasingly large share of business-type deposits . . . slower growth in early '67 reflects rate reductions on large CD's