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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

February 28, 1969

The Domestic Economy

Manufacturers' capital appropriations rose by 3.6 per cent in the final quarter of 1968 and were at the highest level since mid-1966, according to the latest National Industrial Conference Board Survey of the nation's 1,000 largest manufacturers. This rise exceeded that in capital expenditures made in the quarter and pushed the backlog of unspent appropriations to a new high. This backlog, which had been rising since the end of 1967, was nearly 4 times as large as expenditures in the quarter. The survey also indicates that manufacturers expect their new appropriations in the current quarter to be off a little, 1.8 per cent, from the fourth quarter rate (confidential). (This was reported publicly as appropriations in the first quarter "will hold to fourth quarter level".)

Even with reduced new appropriations during 1969, the backlog at the end of last year suggests that fixed capital spending by manufacturers would be up this year from last. The confidential and unpublished Commerce-SEC survey of spending plans for 1969 (see page II - 14 of January 29, 1969 Greenbook) had indicated a 14.9 per cent rise in manufacturers' fixed capital outlays this year. Another private survey, released earlier this week reported an 11.4 per cent rise this year in such spending by manufacturers.

All of the rise in new appropriations was at durable goods manufacturers, up 10.4 per cent, as those of nondurable goods producers declined nearly 4 per cent. Closing backlogs of unspent appropriations of durable goods industries were up, while those of nondurable goods firms declined.

Minimum wage. The Federal minimum wage increased to $1.30 for more than 2 million workers on February 1. The annual cost of the increase (estimated at $500 million) is relatively small compared with last year's $2.3 billion rise covering 7.3 million workers.

This year's increase covers service workers in hospitals, educational institutions, hotels and restaurants--all were first covered by the 1966 Amendments to the Fair Labor Standards Act on February 1, 1967. For these workers the minimum increased from $1.15 to $1.30; two additional increases of 15 cents each are scheduled for February 1, 1970 and 1971. The $1.30 minimum was also extended to workers in retail establishments with an annual volume of sales of $250,000, instead of $500,000, the former cut-off volume.

Industrial relations. Agreements on new contracts in the longshoremen's strike, in effect since December 20, had been reached at most Atlantic and Gulf Coast ports by the end of February. Negotiations were continuing at Boston and West Gulf ports. The breakthrough came when the New York dock workers were ordered to vote on ratification of the settlement reached in mid-January with the New York Shipping Association. The contract was ratified February 14 and 20,000 longshoremen in New York returned to work the following day. The contract settlement in New York provided for an estimated 10 per cent annual average increase in wage and fringe costs over the 3-year life of the contract. In the first contract year, the increase in wage rates is 10-1/2 per cent.

The cost of the package is much higher than those negotiated in other industries and reflected the settlement of issues related to the spread of containerization. In most other recent settlements, the increase in annual average employment costs was in the 6 to 7 per cent range.

Nearly all of the 60,000 oil refinery workers have reached agreements on new contracts. The package increase was about 7 per cent per year and put less emphasis on front-loading of wage increases than was generally the case in 1968.

Collective bargaining activity in the near future will be concentrated in construction, where settlements are generally larger. Negotiations underway in the transportation industry (with airline mechanics and railroad shopcraft unions) are expected to be prolonged and probably will not be settled until mid-year.

The Domestic Financial Situation

Bank credit. Total loans and investments at all commercial banks in February are now estimated to have continued expansion at approximately the sharply reduced pace of January. Banks accelerated their liquidation of U.S. Government securities and took no other securities into portfolio, on balance, as strong loan demands persisted in the face of continued CD attrition. Business loan expansion remained substantial--although well below that in January. The rapid growth in other loans reflects primarily a less than usual decline in security loans following a very large reduction in these loans in January.

NET CHANGE IN BANK CREDIT
All Commercial Banks
(Seasonally adjusted annual rates, in per cent)

	1968		1969	
	July-Oct.	Nov.-Dec.	Jan.	Feb.1/
Total loans and investments2/	18.3	7.7	2.5	3.1
U.S. Government securities	18.9	-23.4	-25.3	-51.7
Other securities	21.6	17.5	8.5	--
Total loans	17.2	13.1	7.1	17.5
Business loans	10.4	12.9	22.8	13.7
All other loans	21.5	13.2	- 2.3	19.8

1/ All February figures are preliminary estimates based on incomplete data and are subject to revision.
2/ Last-Wednesday of the month series.

Corporate and municipal bond markets. Public corporate bond offerings in February are now estimated at $800 million, an increase of $75 million from that shown in the Greenbook. The accelerated offering of two convertible bond issues expected early in March accounts for the revision. Corporate bond volume estimated for March remains unchanged, however, since additions to the calendar have offset the volume shifted to February. The estimated February-March pace of public offerings is about one-tenth below the average monthly volume of 1968.

CORPORATE SECURITY OFFERINGS[1/]
(Millions of dollars)

	Bonds				Total bonds and stocks	
	Public Offerings[2/]		Private Placements			
	1967	1968	1967	1968	1967	1968
YEAR - monthly avg.	1,249	894	580	554	2,006	1,831
	1968	1969	1968	1969	1968	1969
QI - monthly avg.	821	853e	574	533e	1,726	1,754e
January	903	960e	546	500e	1,771	1,860e
February	796	800e	585	500e	1,607	1,700e
March	766	800e	593	600e	1,799	1,800e

e/ Estimated.
1/ Data are gross proceeds.
2/ Includes refundings.

Corporate and municipal bond yields advanced this week amid market apprehension over continued rumors of a rise in the bank prime rate. The advance in municipal yields was particularly large, as the Bond Buyer index rose 9 basis points to a record level of 5.04 per cent.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa		State and local Government	
	New	Seasoned		
	With call protection		S&P High Grade	Bond Buyers (mixed qualities)
1968				
Low	6.13(8/30)	5.95(9/13)	4.15(8/9)	4.07(8/9)
High	6.92(12/13)	6.53(12/27)	4.94(12/27)	4.85(12/27)
1969				
Low	6.90(1/10)	6.55(1/3)	4.93(1/24)	4.82(1/24)
High	6.97(2/7)	6.68(2/28)	5.17(2/28)	5.04(2/28)
Week ending:				
January 24	6.92	6.59	4.93	4.82
31	6.92	6.59	5.01	4.91
February 7	6.97	6.63	5.07	4.96
14	6.91*	6.66	5.07	4.96
21	6.90	6.66	5.07	4.95
28	6.93*	6.68	5.17	5.04

* Includes some issues with 10-year call protection.

Mortgage commitments. According to data which have just become available, the combined backlog of mortgage commitments of all S&L's and New York savings banks rose slightly further to another new high in January, despite a further reduction in net savings inflows to both institutions. Although the rate of increase for each was below the average for the fourth quarter, the New York State savings banks reversed a slight decline that was reported in December and the S&L's backlog increased for the seventh consecutive month as both lenders sought to lock up the high mortgage yields prevailing. At nearly $10 billion, the aggregate commitment backlog for both lenders--chiefly for residential mortgages--was again equivalent to about a 4-month volume of mortgage takings in terms of the seasonally adjusted annual rate of loan closings reported by both lenders in January. If inflows continue to moderate, the thrift institutions will have to reduce their liquidity and/or increase their borrowings in order to honor these outstanding commitments and continue making new commitments in what is likely to be a reduced volume.

Government securities market. As shown in the accompanying table, the yields on all maturities of marketable debt have advanced further since the Greenbook was completed. The hike in the British bank rate from 7 to 8 per cent strengthened already widespread market beliefs that further increases in the Federal Reserve discount rate and the prime rate might be imminent. And these beliefs were reinforced further by Chairman Martin testimony emphasizing the System's resolution to maintain its tighter policy stance until inflation is brought under control. In addition to these broad expectational influences, yields on intermediate-term Treasury issues were under continuing pressure from banks, liquidating security holdings to add to reserves.

Rates on most Treasury bills have advanced about 10 to 20 basis points since Monday, with the 3-month issue most recently bid at 6.21 per cent. Over the same period, yields on notes and bonds have gained generally around 8 to 12 basis points.

KEY INTEREST RATES

	1968 Low	1968-69 High	1969 Feb. 3	1969 Feb. 27
Short-Term Rates				
Federal funds (weekly average)	4.56 (1/3)	6.75 (2/19)	6.27 (1/29)	6.43 (2/26)
3-months				
Treasury bills (bid)	4.82 (1/29)	6.29 (12/24)	6.19	6.19
Bankers' acceptances	5.25 (3/7)	6.62 (1/9)	6.38	6.62
Euro-dollars	5.43 (2/2)	8.44 (2/28)	7.37	8.21
Federal agencies	5.00 (2/9)	6.49 (1/9)	6.41 (1/30)	6.44
Finance paper	5.13 (3/7)	6.38 (1/9)	6.38	6.38
CD's (prime NYC)				
Highest quoted new issue	5.25 (2/8)	6.00	6.00 (1/30)	6.00
Secondary market	5.20 (1/31)	6.65 (1/9)	6.40 (1/30)	6.55
6-months				
Treasury bills (bid)	4.98 (1/29)	6.42 (1/7)	6.33	6.37
Bankers' acceptances	5.38 (3/7)	6.75 (1/9)	6.38	6.62
Commercial paper	5.50 (3/7)	6.62 (1/9)	6.50	6.75
Federal agencies	5.25 (2/9)	6.62 (12/26)	6.54 (1/30)	6.60
CD's (prime NYC)				
Highest quoted new issue	5.50 (3/7)	6.25	6.25 (1/30)	6.25
Secondary market	5.45 (1/31)	6.75 (1/9)	6.50 (1/30)	6.65
1-year				
Treasury bills (bid)	5.05 (8/1)	6.47 (12/24)	6.22	6.39
Prime municipals	2.72 (8/8)	4.25 (1/16)	4.10 (1/30)	4.25
Intermediate and Long-Term				
Treasury coupon issues				
5-years	5.42 (1/12)	6.45 (2/27)	6.32	6.45
20-years	5.16 (8/1)	6.18 (2/1)	6.18	6.17
Corporate				
Seasoned Aaa	5.95 (9/5)	6.69 (2/26)	6.60	6.69
Baa	6.77 (10/3)	7.37 (1/2)	7.26	7.30
New Issue Aaa				
With call protection	6.13 (8/29)	6.97 (2/6)	6.92 (1/30)	6.93
Without call protection	6.29 (2/2)	7.15 (12/6)	--	--
Municipal				
Bond Buyer Index	4.07 (8/8)	5.04 (2/27)	4.91 (1/30)	5.40
Moody's Aaa	3.80 (8/8)	4.72 (2/13)	4.60 (1/30)	n.a.
Mortgage--implicit yield in FNMA weekly auction 1/	7.12 (5/6)	8.14 (2/24)	7.99	8.14 (2/24)

Yield on 6-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years.

Flow-of-funds review of 1968. Preliminary fourth-quarter data for flows of funds round out the financial record for 1968 on a preliminary basis and allow a survey of the year's developments in relation to incomes and spending and the patterns of earlier years. Financially, the year was sharply divided, with a first half in which both Government and private borrowings were low in relation to financing needs, and a second half in which the Treasury borrowed well beyond its current needs while private credit flows were increased enough to restore borrowing relationships of 1961-65 and 1967. During the first half of the year, banks supplied only 22 per cent of total funds advanced, and private investors--households and businesses--were major sources of funds directly to loan and security markets. In the second half, this pattern was abruptly reversed with the large flow of both public and private funds into bank deposits. In both the third and fourth quarters of the year, bank credit constituted over half of all the funds supplied in credit markets (line 13 of the summary table), while the direct supply from private investors was sharply reduced.

Much of the contrast between the two half years is the result of Treasury debt operations and cash management. The Government raised about $17 billion over the calendar year, evenly divided, after seasonal adjustment, between the first and third quarters. The first-quarter borrowings were substantially short of the amounts needed to cover operating deficits before the surcharge, and excess needs were covered by drawing on Treasury cash balances. As a result, Treasury deposits were not the source of funds to banks before midyear that they typically are (line 12 of the summary). The third-quarter financing fully covered those deficiencies, as well as needs for the rest of the year, and the corresponding recovery of Treasury deposits was an important base for bank credit growth in the second half and particularly in the third quarter.

FLOW OF FUNDS SUMMARY, 1966-68
(Seasonally adjusted, annual rates, in billions of dollars)

		1966	1967	1968	Change 1967-68	1968 H1	1968 Q3	1968 Q4
1.	Total borrowing by nonfinancial sectors	69.9	83.0	97.6	14.6	89.4	119.6	91.8
	By sector borrowing--							
2.	U.S. Government	6.3	12.7	16.9	4.2	17.5	32.4	.1
3.	Foreign	1.5	4.0	3.0	-1.0	3.4	3.2	2.0
4.	State and local governments	6.8	10.5	10.3	- .2	8.7	12.8	10.3
5.	Business	33.6	37.2	35.6	-1.6	31.8	36.1	42.7
6.	Households	21.6	18.7	31.8	13.1	28.1	34.8	36.3
7.	Direct lending in credit markets	69.9	83.0	97.6	14.6	89.4	119.6	91.8
8.	Commercial banks	17.4	36.2	38.4	2.2	19.3	66.3	48.5
9.	Nonbank finance	22.5	32.4	29.2	-3.2	27.9	29.2	31.9
10.	Private domestic nonfinancial sectors	20.1	2.1	15.7	13.6	26.3	8.4	1.8
11.	Other a/	9.9	12.3	14.3	2.0	15.9	15.7	9.6
	Memos:							
12.	Treasury deposits at commercial banks	-.5	.2	-.2	-.4	-12.0	28.3	-5.2
13.	Bank credit as per cent of total direct lending	25%	43%	39%	-4%	22%	56%	53%

a/ Federal Reserve, U.S. Government, and foreign.

All of the increase in private credit flows over 1967 occurred in household forms of borrowing, reflecting the strong rebound early in 1968 of consumer spending for durables and residential construction. On either a net or gross basis, more than two-thirds of the total increase from 1967 in private capital outlays (including consumer durables) was in household spending that is typically financed by outside funds. These increases were matched by a $7 billion rise in consumer credit lending and a $5 billion rise in mortgage lending to households. In business credit the moderate increases over 1967 in mortgages, bank loans, and other short-term loans were more than offset by the $5 billion reduction in net corporate security issues from their very high 1967 levels.

The 1968 pattern for long-term markets, with higher mortgage credit flows and reduced corporate security issues, was established early in the year and continued almost unchanged over the year. Variations within the year in private borrowing during 1968 were entirely in short-term forms of borrowing such as consumer credit, bank loans, and commercial paper, and the variations were very wide. Total private short-term borrowing increased from a moderate $22 billion rate in the first half of the year to an extraordinarily high $37 billion flow in the second half, far above the previous half-year high of $27 billion in the first half of 1966. This $15 billion increase from half year to half year appeared mainly as bank loans and commercial paper, and the bulk of the funds were provided directly or indirectly by commercial banks.

When private borrowing is compared with spending for the two half years, second-half borrowing appears to be only slightly above normal in relation to incomes and spending, while first-half borrowing turns out to be significantly low. The table below shows on lines 2, 3, and 4 a form of relation between private investment and borrowing. During most of the 1960's other than 1966, credit raised has been almost equal to net capital outlays. There have been perturbations in this relation, particularly when tax payment schedules have been changed, but the 1968 movements on line 4 show a clear shortfall in borrowing for the first half of the year. This is contrary to a recent general tendency of tax payments to increase borrowing in the first half of the year.

HOUSEHOLDS AND BUSINESS
(Billions of dollars, seasonally adjusted annual rates)

	1967	1968	1968 H1	1968 H2	Change, 1967 to 1968
1. Net saving, cash basis a/	56.3	67.6	68.7	66.4	11.3
2. Net capital outlays b/	57.2	70.2	65.9	74.4	13.0
3. Net borrowing c/	56.0	67.4	59.9	75.0	11.4
4. Outlays less borrowing	1.2	2.8	6.0	-.6	1.6
5. Financial uses, net (1-4)	55.1	64.8	62.7	67.0	9.7

a/ Gross saving less capital consumption allowances, excess of tax accruals over payments, and net increase in insurance and pension fund reserves.
b/ Net of capital consumption.
c/ In credit markets.

Second-half borrowing appears to be partly a correction of the first half, but it was only slightly above what might have been expected on the basis of investment outlays. The first-half deficiency is thus almost fully reflected in the $2.8 billion difference on line 4 for the year as a whole. This deficiency is far less than the 1966 difference of $16 billion.

The offsetting characteristics of the first and second half years of 1968 in Federal finance and in bank credit growth, together with the private credit movements described above, produced certain aggregate relationships for the year that are not far different from the past. The table below, for example, compares growth rates in major credit totals with the rate of increase in GNP. Apart from GNP, each of these is a growth in a stock of debts or assets outstanding, rather than rates of increase in the flows themselves. The 8.4 per cent increase in total debt outstanding (line 2) was slightly less than the growth in GNP and erodes slightly further the ratio the stock of debt to GNP that was at a peak in 1963 and 1964 and that has been moving downward in the years since then. This decrease occurred in spite of the large volume of Federal borrowing over the year and is attributable to the first-half short fall in private borrowing. Private debt, on line 3, increased at a slightly higher rate than either GNP or total debt, but the excess was much less than the experience of the post-war period up to now.

GNP AND CREDIT GROWTH
(Annual rates of growth, in per cent)

	1961-67 average	1968	1968	
			H1	H2
1. GNP	6.6	9.0	9.7	8.9
2. Total debt	7.1	8.4	7.7	8.8
3. Pvt. domestic debt	8.8	9.4	8.2	10.1
4. Bank credit	8.6	11.0	6.5	14.9
5. Pvt. dom. finan. assets	7.0	8.3	7.8	8.4

Bank credit growth (line 4) stands above the other items in the list for the year as a whole and above the other financial items in its relation to GNP. Over the year, banks supplied 39 per cent of all credit (line 13 of the summary table), a ratio that was below 1967 but above the 35 per cent average for 1961-65.

The last item in the list, private domestic financial assets, consists of the stocks of cash, deposits, loans, and debt securities--but excluding corporate shares--held by households, nonfinancial businesses, and state and local governments. This total stock of these assets has had an extremely close relation to GNP, empirically, since the early 1950's, a relation that is almost one-to-one. This total is the asset counterpart to a large part of total debt, since it consists partly of deposit claims on institutions that hold that debt and partly of direct holdings of the debt. It tends to grow somewhat more slowly than total debt because of the Government's increasing role as a lender in credit markets. In 1968, it followed this pattern and thus increased at a somewhat lower rate than GNP. Its increase was also substantially less than bank credit growth, reflecting in one way the extent to which investors shifted their funds toward banks in 1968 and away from other forms of financial investment.

The distribution of these private asset holdings among money, interest-bearing deposits, and direct credit is summarized in the table below, which indicates a slight further shift in 1968 toward time deposits and away from money and other claims. This was a continuation of the movements in 1967, after a pause in the first half of the year, into intermediaries that had not been cancelled by year-end by the CD drain that started late in the year.

PRIVATE DOMESTIC FINANCIAL ASSETS
(Billions of dollars)

	1965	1966	1967	1968
1. Private financial asset holdings a/	698.7	740.6	796.4	862.2
2. GNP	684.9	747.6	789.7	860.6
3. Assets less GNP	14.8	-7.0	6.7	1.5
Per cent distribution of private financial asset holdings				
4. Total	100.0	100.0	100.0	100.0
5. Money supply holdings	22.9	22.0	21.8	21.6
6. Time and savings accounts b/	44.5	44.5	46.2	46.4
7. Securities and loans	32.6	33.5	32.1	32.0

a/ Stocks of currency, deposits, and credit market instruments--other than corporate shares--held by households, nonfinancial business, and state and local governments.

b/ At banks and nonbank intermediaries.

International Developments

Liabilities of U.S. banks to their foreign branches increased by about $250 million in the week ending Wednesday, February 26. Today, February 28, Euro-dollar interest rates rose sharply -- the one-month rate to 8-1/4 per cent and the three-month rate to 8-7/16 per cent.

The Bank of England raised its discount rate on Thursday from 7 to 8 per cent, the same rate to which Bank rate was increased -- from 6-1/2 per cent -- when the pound was devalued in November 1967. Since then the rate had been reduced twice by half a point -- on March 21 and September 19.

Yesterday's action was dictated largely by recent steady expansion of bank credit in the face of the Bank of England's directive in November 1968 that bank loans be reduced by mid-March to 98 per cent of the November 1967 level. Lending rates of the clearing banks will automatically rise with the increase in the discount rate. The restoration of Bank rate to a "crisis" level, not a politically popular move, is probably intended to demonstrate the government's determination to keep a tight rein on aggregate demand.

Rising interest rates in the Euro-dollar market may have been a subsidiary consideration in the decision. The Bank of England has been a net purchaser of dollars this year but not on the scale that had been hoped.

On Thursday the Swedish discount rate was raised from 5 to 6 per cent effective February 28, the first change since last October 11 when the rate was reduced from 5-1/2 to 5 per cent. The Bank of Sweden explained that the latest increase to 6 per cent was justified by the higher interest rate levels that had developed in major countries, necessitating a realignment of the Swedish interest rate structure. The increase is probably a defensive action in the face of recent reserve losses, which appear greater than trade and other current transactions would explain. In the three months through January, Swedish reserves declined by $161 million -- not much less than the loss of $178 million sustained in the comparable period one year earlier, when the Swedish currency came under speculative attack following the devaluation of sterling in November 1967.

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LENDING PRACTICES*

Nearly 60 per cent of the 125 banks reporting in the February 15 Bank Lending Practices Survey indicated that demand for business loans had strengthened during the preceding three months, while virtually all the remaining banks reported that the strength of demand was unchanged (Table 1). Apparently at many banks, this increase in loan demand was unexpected, since less than 30 per cent of the respondents in the previous survey had anticipated stronger business loan demand over the three months ending February 15. Currently, somewhat more than half of the banks project that loan demand will strengthen during the three months ending in mid-May. In contrast to the past survey, a much larger proportion of banks with deposits over $1 billion than of smaller banks experienced stronger loan demand in the preceding three months, and a higher percentage of larger banks also anticipated stronger loan demands in the next three months.

Interest Rates and Compensating Balance Requirements.

Over 85 per cent of the banks indicated that they had firmed their policies regarding interest rates charged to nonfinancial businesses--reflecting three increases in the prime rate--and more than one-half had firmed such policies on loans to independent finance companies. Similarly about two-thirds of the banks firmed their policies with regard to compensating balances of nonfinancial businesses and more than one-quarter stiffened compensating balance requirements of finance companies. Nearly every bank firming lending policies cited strong loan demands, reduced availability of funds, and tight liquidity positions as the major reasons for their action. One New York bank also made specific reference to the high cost of Euro-dollar funds.

Other Lending Terms and Conditions.

Banks also substantially stiffened their other lending terms and conditions. About one-third of the respondent banks firmed their policies regarding standards of credit worthiness and maturities on term loans. From 50 to 60 per cent of the banks tightened guidelines in granting credit to new and nonlocal service area customers, and about 30 per cent also firmed lending terms with respect to established and local service area customers. Over 60 per cent of the banks indicated less willingness to establish new or larger credit lines to finance companies.

* - Prepared by Don E. Matthews, Research Assistant, Banking Section, Division of Research and Statistics.

Willingness to Make Other Types of Loans.

Banks in the current survey were also much less willing to make other types of loans as compared to the previous survey. Banks were most reluctant to grant term loans--as indicated by more than 50 per cent of the respondents--with many stating that they wanted to keep the maturity of their loan portfolios relatively short because of rising interest rates. About 35 to 40 per cent also were less willing to make mortgage and broker loans, and over 20 per cent indicated more reluctance to grant loans to correspondent banks. However, banks did remain willing to extend credit in the profitable consumer instalment loan area, with nearly 85 per cent of the respondents indicating that their policies with regard to these loans were unchanged from those prevailing at the time of the previous survey.

Size of Bank Differences.

About an equal proportion of both larger and smaller banks indicated stiffer policies with regard to interest rates charged on loans to nonfinancial businesses. On all other lending terms and conditions, however, a greater per cent of the banks with deposits over $1 billion than of smaller banks reported firmer policies. The tighter terms at larger banks probably reflect the stronger loan demand and the more severe CD run-off at these banks.

Concluding Comment.

The extent of the marked shift toward firmer policies reported in the February as compared with the November survey is shown in the data on net responses summarized in Table 3. For most items, the net percentage of banks moving toward firmer policies in February was about the same as reported in May last year, when monetary policies also were quite restrictive.

NOT FOR QUOTATION OR PUBLICATION

TABLE 1

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON FEBRUARY 15, 1969 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	123	100.0	11	8.9	60	48.8	48	39.0	4	3.3	0	0.0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	122	100.0	9	7.4	56	45.9	52	42.6	5	4.1	0	0.0

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	123	100.0	36	29.3	70	56.9	17	13.8	0	0.0	0	0.0
COMPENSATING OR SUPPORTING BALANCES	123	100.0	21	17.1	58	47.2	44	35.7	0	0.0	0	0.0
STANDARDS OF CREDIT WORTHINESS	122	100.0	12	9.8	28	23.0	82	67.2	0	0.0	0	0.0
MATURITY OF TERM LOANS	122	100.0	10	8.2	27	22.1	85	69.7	0	0.0	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	123	100.0	2	1.6	38	30.9	83	67.5	0	0.0	0	0.0
NEW CUSTOMERS	123	100.0	34	27.6	42	34.1	47	38.3	0	0.0	0	0.0
LOCAL SERVICE AREA CUSTOMERS	120	100.0	2	1.7	35	29.2	83	69.1	0	0.0	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	121	100.0	32	26.4	28	23.1	61	50.5	0	0.0	0	0.0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF FEBRUARY 15, 1969.

TABLE 1 (CONTINUED)

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	123	100.0	29	23.6	44	35.8	49	39.8	1	0.8	0	0.0
INTENDED USE OF THE LOAN	123	100.0	32	26.0	36	29.3	54	43.9	1	0.8	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	122	100.0	19	15.6	46	37.7	57	46.7	0	0.0	0	0.0
COMPENSATING OR SUPPORTING BALANCES	122	100.0	7	5.7	21	17.2	94	77.1	0	0.0	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	122	100.0	14	11.5	22	18.0	86	70.5	0	0.0	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	122	100.0	38	31.1	29	23.8	52	42.6	3	2.5	0	0.0

	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	123	100.0	11	8.9	51	41.5	59	48.0	2	1.6	0	0.0
CONSUMER INSTALMENT LOANS	122	100.0	3	2.5	9	7.4	103	84.4	7	5.7	0	0.0
SINGLE FAMILY MORTGAGE LOANS	120	100.0	12	10.0	28	23.3	77	64.2	3	2.5	0	0.0
MULTI-FAMILY MORTGAGE LOANS	120	100.0	20	16.7	29	24.2	70	58.3	1	0.8	0	0.0
ALL OTHER MORTGAGE LOANS	120	100.0	17	14.2	34	28.3	69	57.5	0	0.0	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	123	100.0	7	5.7	19	15.4	94	76.5	3	2.4	0	0.0
LOANS TO BROKERS	120	100.0	20	16.7	21	17.5	79	65.8	0	0.0	0	0.0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

NOT FOR QUOTATION OR PUBLICATION

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
(STATUS OF POLICY ON FEBRUARY 15, 1969, COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS IN EACH COLUMN AS PER CENT OF TOTAL BANKS ANSWERING QUESTION)

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	100	100	18	4	58	44	22	48	2	4	0	0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	14	4	45	46	34	47	7	3	0	0

	TOTAL		MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	33	27	51	60	16	13	0	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	16	18	60	40	24	42	0	0	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	11	9	27	21	62	70	0	0	0	0
MATURITY OF TERM LOANS	100	100	7	9	24	21	69	70	0	0	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	2	1	38	27	60	72	0	0	0	0
NEW CUSTOMERS	100	100	38	22	33	35	29	43	0	0	0	0
LOCAL SERVICE AREA CUSTOMERS	100	100	2	1	37	25	61	74	0	0	0	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	30	24	23	23	47	53	0	0	0	0

1/ SURVEY OF LENDING PRACTICES AT 47 LARGE BANKS (DEPOSITS OF $1 BILLION OR MORE) AND 78 SMALL BANKS (DEPOSITS OF LESS THAN $1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF FEBRUARY 15, 1969.

TABLE 2 (CONTINUED)

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	NUMBER ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	31	19	33	37	36	43	0	1	0	0
INTENDED USE OF THE LOAN	100	100	36	21	29	29	35	49	0	1	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	16	15	41	36	43	49	0	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	7	5	18	17	75	78	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	16	9	16	19	68	72	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	41	26	25	23	34	47	0	4	0	0

	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	100	100	11	8	44	40	43	51	2	1	0	0
CONSUMER INSTALMENT LOANS	100	100	2	3	9	6	87	83	2	8	0	0
SINGLE FAMILY MORTGAGE LOANS	100	100	16	6	21	25	63	65	0	4	0	0
MULTI-FAMILY MORTGAGE LOANS	100	100	23	13	23	25	54	61	0	1	0	0
ALL OTHER MORTGAGE LOANS	100	100	21	10	30	27	49	63	0	0	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	11	3	22	12	67	81	0	4	0	0
LOANS TO BROKERS	100	100	20	15	18	17	62	68	0	0	0	0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

NET RESPONSES OF BANKS IN LENDING PRACTICES SURVEYS
(In per cent)

	Feb. 1967	May 1967	Aug. 1967	Nov. 1967	Feb. 1968	May 1968	Aug. 1968	Nov. 1968	Feb. 1969
Strength of loan demand 1/ (compared to 3 months ago)	-29.3	12.0	20.2	18.8	-8.0	64.8	-2.4	25.6	54.4
Anticipated demand in next 3 months	17.3	44.4	63.2	71.2	50.0	66.4	--	20.8	49.2
LENDING TO NONFINANCIAL BUSINESSES 2/									
Terms and Conditions									
Interest rates charged	-75.2	-69.8	21.6	30.4	34.4	93.6	0.8	-27.2	86.2
Compensating or supporting balances	2.3	1.5	20.8	25.0	16.1	56.8	4.8	10.4	64.3
Standards of credit worthiness	9.1	9.5	12.0	8.9	7.3	32.8	4.8	4.8	32.8
Maturity of term loans	- 3.0	- 3.1	5.6	12.1	1.6	32.8	1.6	1.6	30.3
Reviewing Credit Lines									
Established customers	-14.3	-14.2	1.6	6.4	-0.8	28.0	-5.6	-1.6	32.5
New Customers	-38.3	-23.1	16.8	21.6	10.5	64.8	-5.6	6.4	61.7
Local service area customers	-17.6	-12.1	0.8	6.5	2.5	30.0	-5.6	-4.1	30.9
Non-local service area customers	-10.8	- 4.0	16.1	18.9	11.6	56.9	10.6	15.4	49.5
Factors Relating to Applicant (Net percentage indicating more important)									
Value of depositor as source of business	5.3	6.3	25.6	20.0	19.2	54.4	12.8	16.0	58.6
Intended use of loan	-12.9	-13.4	10.4	14.4	12.0	44.4	8.1	6.4	54.5
LENDING TO NONCAPTIVE FINANCE COMPANIES 2/									
Terms and Conditions									
Interest rates charged	-49.6	-14.2	6.4	10.4	22.4	60.5	2.4	-26.4	53.3
Compensating or supporting balances	4.5	2.4	9.6	11.2	5.6	25.0	2.4	2.4	22.9
Enforcement of balance requirements	9.8	4.8	14.4	17.6	12.8	32.3	8.1	3.2	29.5
Establishing new or larger credit lines	- 0.8	- 5.6	13.7	14.4	7.2	53.2	15.3	4.8	54.9
WILLINGNESS TO MAKE OTHER LOANS 3/									
Term loans to businesses	-25.6	-21.5	6.4	11.2	- 4.0	49.6	4.8	-0.8	48.8
Consumer instalment loans	-23.5	-31.2	-16.1	-16.1	-22.6	- 0.8	-11.3	-15.3	4.2
Single-family mortgage loans	-42.0	-53.2	- 8.2	4.1	- 4.9	32.0	-14.1	-3.3	30.8
Multi-family mortgage loans	- 4.6	-17.0	9.0	14.0	7.4	36.4	8.2	-4.1	40.1
All other mortgage loans	-14.5	-28.3	9.8	14.0	--	43.4	3.4	1.7	42.5
Participation loans with correspondent banks	-22.1	-24.2	- 6.4	- 4.8	8.8	16.0	1.6	--	18.7
Loans to brokers	-17.4	-13.8	1.6	3.2	1.6	23.4	6.5	1.6	34.2

1/ Per cent of banks reporting stronger loan demand minus per cent of banks reporting weaker loan demand. Positive number indicates net stronger loan demand, negative number indicates net weaker loan demand.

2/ Per cent of banks reporting firmer lending policies minus per cent of banks reporting weaker lending policies. Positive number indicates net firmer lending policies, negative number indicates net easier lending policies.

3/ Per cent of banks reporting less willingness to make loans minus per cent of banks more willing to make loans. Positive number indicates less willingness, negative number indicates more willingness.

NOTE: 133 banks participated in the February 1967 Survey; 125 banks have participated in the surveys since that time.