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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

March 17, 1972

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Housing starts. Seasonally adjusted private housing starts rose to a record annual rate of 2.7 million units in February--8 per cent above the downward revised January rate. The sharp further rise in starts, which may have been heightened by seasonal adjustment problems, was concentrated entirely in structures containing 2-or-more-family units. Unlike starts, building permits held at a rate slightly below the advanced fourth quarter average. Given the unexpectedly high starts rate in February, the first quarter average is likely to be above the rate projected in the Greenbook.

PRIVATE HOUSING STARTS AND PERMITS
(Seasonally adjusted annual rate, in millions of units)

	1971			1972	
	QII	QIII	QIV	Jan. (p)	Feb. (p)
Starts	2.00	2.11	2.24	2.47	2.68
1-family	1.14	1.18	1.25	1.41	1.32
2-or-more family	.86	.94	.99	1.06	1.36
Permits	1.80	1.99	2.14	2.10	2.11
MEMORANDUM:					
Mobile home shipments	.49	.53	.51	.55	n.a.

Unit auto sales. Sales of new domestic-type autos in the first 10-day period of March were at an annual rate of 7.7 million units, down 6 per cent from a year ago. The decline from 1971 reflected both the ending last month of sales incentive programs by four major car-making divisions and the fact that last year GM cars were becoming more plentiful after the strike. In the first 7 reporting periods of 1972, sales averaged 8.4 million units--only slightly above the 8.3 million rate over the same period of 1971.

Personal income. Personal income increased nearly \$5 billion in February to a seasonally adjusted rate of about \$897 billion. The slowing from the \$8 billion (revised) increase of January was concentrated in wages and salaries, with the rise in disbursements only half as large as in January. In January, government payrolls had been boosted by a pay increase for the military and for civilian workers, totaling \$2 billion. The moderation of expansion in private industry payrolls in February reflected a much smaller increase in employment, with both employment and payrolls down in construction. In manufacturing, however, the \$1.7 billion gain in payrolls was much larger than in January, reflecting mainly a rebound in hours of work. Aside from the continued increase in transfer payments, other components of nonwage income increased relatively little.

PERSONAL INCOME
(Seasonally adjusted, annual rates, billions of dollars)

	Dec. 1971	1972		Net Change
		Jan.	Feb.	Jan. 1972- Feb. 1972
Total	883.9	892.0	896.9	4.9
Wage and salary disbursements	594.8	602.1	605.8	3.7
Government	128.8	131.2	131.8	.6
Private	466.0	470.9	474.0	3.1
Manufacturing	165.3	165.8	167.5	1.7
Distributive	144.7	146.3	147.5	1.2
Services	109.9	111.4	112.1	.7
Other	46.1	47.4	46.9	-.5
Nonwage income	321.0	323.7	325.1	1.4
Less: Personal contributions for social insurance	32.0	33.9	34.0	.1

Industrial relations. The Pay Board on March 16, by a vote of 8 to 5, rejected the first-stage wage and benefit increase of 20.6 per cent provided by the West Coast longshoremen's settlement retro-active to December 25, 1971. In order to win the Pay Board's approval, the first-stage increase would have to be reduced to 14.9 per cent. The cut-back is in wage rates, which are permitted to increase 10 per cent. The remainder of the increase is in fringe benefits, including pensions and life insurance. The Pay Board also authorized its Chairman to approve the second-stage 7 per cent package increase scheduled to go into effect on July 1, 1972.

The Domestic Financial Situation

Corporate profits. According to Bureau of Economic Analysis (Commerce) published estimates, corporate profits before tax in the fourth quarter of 1971 were at a seasonally adjusted annual rate of \$86.2 billion, up \$.4 billion from the preceding quarter and \$14.6 billion above (20 per cent) a year earlier. For 1971 as a whole before tax profits totaled \$85.5 billion, \$10.1 billion (13.4 per cent) more than in the preceding year. Corporate profits originating in the rest of the world rose by \$1 billion in the fourth quarter of 1971, and corporate profits before tax exclusive of these, were off \$0.6 billion.

Mainly because of liberalization of depreciation allowances and the restoration of the investment tax credit, after tax profits, including those originating in the rest of the world, rose \$1.6 billion in the fourth quarter and were \$10.6 billion (27 per cent) above a year earlier. In the fourth quarter, dividends did not rise seasonally because of cutbacks in year-end payments, and undistributed profits rose \$2 billion to a rate \$10.3 billion above a year earlier. Corporate cash flows net of dividends (domestic)--i.e., undistributed profits and capital consumption allowances (mainly depreciation allowances)--were up \$3.2 billion in the fourth quarter and were \$16.0 billion (23 per cent) above a year earlier.

CORPORATE PROFITS

	1971 - IV				1971		
	Billions of dollars			Per cent change from 70 - IV	Billions of dollars	Change from 1970	
	71 - IV	Change from 71 - III	70 - IV			Bill. \$	Per cent
Corporate profits before tax	86.2	.4	14.6	20.4	75.4	10.1	13.4
Corporate profits after tax	49.8	1.6	10.6	27.0	41.2	6.4	15.5
Undistributed profits	24.5	2.0	10.2	71.3	16.2	5.9	36.4
Cash flow, net of dividends ^{1/}							
All corporations	85.6	3.2	16.0	23.0	80.9	11.1	15.9
Nonfinancial corporations	77.9	3.1	15.2	24.2	73.5	9.8	15.4

^{1/} Excludes gross product originating in the rest of the world.
Source: Bureau of Economic Analysis, Department of Commerce.

Bond markets. The Bond Buyer index of yields on long-term municipal bonds rose 14 basis points in the week ending March 17, and dealer inventories of tax-exempt bonds still in syndicate rose sharply. Apparently the recent moderation in bank acquisitions has had considerable impact on the municipal market. Yields on corporate new issues remained almost unchanged during the week, although there was some upward pressure on yields in the secondary market.

INTEREST RATES

	1971		1972	
	Highs	Lows	Feb. 14	Mar. 16
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	5.73 (9/8)	3.29 (3/10)	3.25 (2/9)	3.88 (3/15)
3-month				
Treasury bills (bid)	5.53 (7/19)	3.22 (3/11)	3.00	3.90
Comm. paper (90-119 day)	5.88 (8/18)	4.25 (4/12)	3.88 (2/11)	4.25 (3/15)
Bankers' acceptances	5.62 (8/23)	3.63 (3/12)	3.50	4.12
Euro-dollars	10.00 (8/17)	4.94 (3/17)	5.04	5.30
CD's (prime NYC)				
Most often quoted new	5.75 (8/11)	3.62 (3/24)	3.63 (2/9)	4.13 (3/15)
Secondary market	6.05 (8/18)	3.80 (3/17)	3.70 (2/9)	3.98
6-month				
Treasury bills (bid)	5.84 (7/27)	3.35 (3/11)	3.54	4.30
Comm. paper (4-6 mo.)	5.88 (8/18)	4.00 (3/24)	4.00	4.38
Federal agencies	6.20 (7/23)	3.67 (3/16)	3.84	4.58
CD's (prime NYC)				
Most often quoted new	6.00 (8/11)	4.00 (3/24)	4.13 (2/9)	4.38 (3/15)
Secondary market	6.40 (8/18)	3.70 (3/3)	3.95 (2/9)	4.50
1-year				
Treasury bills (bid)	6.01 (7/28)	3.45 (3/11)	3.94	4.54
Federal agencies	6.56 (7/28)	3.93 (3/16)	4.39	4.90
CD's (prime NYC)				
Most often quoted new	6.25 (8/11)	4.25 (2/24)	4.75 (2/9)	4.88 (3/15)
Prime municipals	3.60 (8/12)	2.15 (3/24)	2.60 (2/10)	2.80 (3/17)
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	7.03 (8/10)	4.74 (3/22)	5.68	5.94
20-years	6.56 (6/15)	5.69 (3/23)	6.07	6.08
Corporate				
Seasoned Aaa	7.71 (8/13)	7.05 (2/16)	7.30	7.22
Baa	8.93 (1/4)	8.33 (2/25)	8.23	8.24
New Issue Aaa	8.23 (5/20)	6.76 (1/29)	7.30 (2/10)	7.14
Municipal				
Bond Buyer Index	6.23 (6/24)	4.97 (10/21)	5.27 (2/11)	5.32
Moody's Aaa	5.90 (7/1)	4.65 (10/21)	5.00 (2/11)	5.00
Mortgage--implicit yield				
in FNMA auction ^{1/}	8.07 (7/26)	7.32 (4/12)	7.61 (2/7)	7.56 (3/6)

^{1/} Yield on short-term 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.

SUPPLEMENTAL APPENDIX A
THE SURVEY OF CHANGES IN
BANK LENDING PRACTICES *

For the three month period ending February 15, the Quarterly Survey of Changes in Bank Lending Practices showed no marked alteration in nonprice terms of lending. However, reflecting prime rate reductions from 5-1/2% in mid-November, 1971, to a split rate of 4-1/2% and 4-3/4% as of mid-February, 1972, the Survey indicated interest rates have eased at about three-fourths of the respondent banks. (See Table 1.)

This restructuring of interest rates has accompanied a readjustment of lending policies with banks more willing to make consumer loans and real estate loans. Bankers are somewhat more receptive to term lending to businesses and lending to brokers, and some respondents, as a result of increased bank liquidity and weak business loan demand, are seeking new borrowers outside their local service area.

Despite the search for new credits, comments on the Survey reveal attempts to upgrade the quality of loan portfolios--most likely because of adverse loss experiences in 1970-71. As part of these efforts, some bankers state they are becoming more selective in designating "prime" customers.

About a third of the respondents reported weakening in loan demand during the three months ending February 15, although nearly half of the respondents anticipate some improvement during the next three months. (Table 2.) Such expectations, however, probably should be discounted since bankers in the past have not proved to be good forecasters. For example, of the 38 banks in the November, 1971 Survey reporting expectations of stronger loan demands, only 12 actually experienced increased demands. Bankers had a similar poor forecasting record for the August Survey.

Looking at data on regional information and by size of bank indicates that business loan demands were much weaker and lending terms were slightly easier both in the Cleveland and San Francisco Districts where unemployment has been severe. (Tables 2 and 3.) Throughout the entire country, it appears that smaller banks (with deposits less than \$1 billion) have been more willing than larger banks to make consumer installment loans and single family mortgages.

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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, 1972 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	125	100.0	1	0.8	23	18.4	61	48.8	39	31.2	1	0.8
ANTICIPATED DEMAND IN NEXT 3 MONTHS	125	100.0	2	1.6	57	45.6	52	41.6	14	11.2	0	0.0
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	1	0.8	2	1.6	31	24.8	73	58.4	18	14.4
COMPENSATING OR SUPPORTING BALANCES	125	100.0	1	0.8	4	3.2	99	79.2	21	16.8	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	1	0.8	3	2.4	116	92.8	5	4.0	0	0.0
MATURITY OF TERM LOANS	125	100.0	0	0.0	2	1.6	108	86.4	13	10.4	2	1.6
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	0	0.0	2	1.6	102	81.6	18	14.4	3	2.4
NEW CUSTOMERS	125	100.0	1	0.8	1	0.8	94	75.2	27	21.6	2	1.6
LOCAL SERVICE AREA CUSTOMERS	125	100.0	0	0.0	1	0.8	106	84.8	15	12.0	3	2.4
NONLOCAL SERVICE AREA CUSTOMERS	125	100.0	1	0.8	5	4.0	100	80.0	17	13.6	2	1.6

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF FEBRUARY 15, 1972.

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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		
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	125	100.0	2	1.6	7	5.6	102	81.6	14	11.2	0	0.0
INTENDED USE OF THE LOAN	125	100.0	3	2.4	1	0.8	111	88.8	9	7.2	1	0.8
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	0	0.0	0	0.0	70	56.0	46	36.8	9	7.2
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	1	0.8	118	94.4	6	4.8	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	125	100.0	0	0.0	2	1.6	115	92.0	8	6.4	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	125	100.0	1	0.8	4	3.2	87	69.6	32	25.6	1	0.8
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	125	100.0	0	0.0	3	2.4	82	65.6	38	30.4	2	1.6
CONSUMER INSTALMENT LOANS	124	100.0	0	0.0	0	0.0	71	57.2	44	35.5	9	7.3
SINGLE FAMILY MORTGAGE LOANS	122	100.0	1	0.8	1	0.8	82	67.3	38	31.1	0	0.0
MULTI-FAMILY MORTGAGE LOANS	121	100.0	1	0.8	3	2.5	100	82.7	17	14.0	0	0.0
ALL OTHER MORTGAGE LOANS	123	100.0	0	0.0	4	3.3	89	72.3	30	24.4	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	123	100.0	0	0.0	2	1.6	94	76.5	26	21.1	1	0.8
LOANS TO BROKERS	123	100.0	1	0.8	1	0.8	99	80.5	21	17.1	1	0.8

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.

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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, 1972, 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	0	1	11	24	52	47	35	28	2	0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	0	3	43	48	46	38	11	11	0	0
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	2	0	0	3	27	22	56	61	15	14
COMPENSATING OR SUPPORTING BALANCES	100	100	0	1	2	4	83	77	15	18	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	2	0	0	4	94	92	4	4	0	0
MATURITY OF TERM LOANS	100	100	0	0	2	1	87	86	11	10	0	3
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	0	2	1	81	82	11	17	6	0
NEW CUSTOMERS	100	100	2	0	0	1	79	73	17	25	2	1
LOCAL SERVICE AREA CUSTOMERS	100	100	0	0	2	0	81	87	11	13	6	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	0	1	4	4	79	81	15	13	2	1

1/ SURVEY OF LENDING PRACTICES AT 54 LARGE BANKS (DEPOSITS OF \$1 BILLION OR MORE) AND 71 SMALL BANKS (DEPOSITS OF LESS THAN \$1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF FEBRUARY 15, 1972.

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TABLE 2 (CONTINUED)

	NUMBER ANSWERING QUESTION		SIZE OF BANK MUCH FIRMER POLICY		-- TOTAL DEPOSITS IN BILLIONS				MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	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
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	2	1	4	7	79	84	15	8	0	0
INTENDED USE OF THE LOAN	100	100	4	1	2	0	88	90	6	8	0	1
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	0	0	0	60	53	31	41	9	6
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	2	0	91	97	7	3	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	0	0	2	1	91	93	7	6	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	2	0	2	4	68	71	26	25	2	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	0	0	2	3	67	64	31	30	0	3
CONSUMER INSTALLMENT LOANS	100	100	0	0	0	0	63	53	28	41	9	6
SINGLE FAMILY MORTGAGE LOANS	100	100	0	1	2	0	73	63	25	36	0	0
MULTI-FAMILY MORTGAGE LOANS	100	100	0	1	2	3	85	82	13	14	0	0
ALL OTHER MORTGAGE LOANS	100	100	0	0	2	4	75	70	23	26	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	0	2	1	77	76	19	23	2	0
LOANS TO BROKERS	100	100	0	1	0	1	76	85	22	13	2	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.

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TABLE 3

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES AT SELECTED LARGE BANKS IN THE U.S. 1/
 STATUS OF POLICY ON FEBRUARY 15, 1972 COMPARED TO THREE MONTHS EARLIER
 (NUMBER OF BANKS)

	ALL DSTS	BOS- TON	NEW YORK TOTAL	CITY	OUTSIDE	PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)															
COMPARED TO 3 MONTHS AGO	125														
MUCH STRONGER	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY STRONGER	23	0	5	1	4	1	0	5	2	1	1	0	2	3	3
ESSENTIALLY UNCHANGED	61	4	7	3	4	4	7	5	5	6	5	2	4	4	
MODERATELY WEAKER	39	4	8	5	3	1	3	2	2	8	3	1	3	2	
MUCH WEAKER	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0
ANTICIPATED DEMAND NEXT THREE MONTHS															
	125														
MUCH STRONGER	2	0	1	0	1	0	0	0	1	0	0	0	0	0	0
MODERATELY STRONGER	57	3	10	5	5	4	4	7	5	6	3	0	3	4	8
ESSENTIALLY UNCHANGED	52	2	8	4	4	2	5	5	2	7	6	2	5	4	4
MODERATELY WEAKER	14	3	1	0	1	0	2	0	2	2	0	1	1	1	1
MUCH WEAKER	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LENDING TO NONFINANCIAL BUSINESSES															
TERMS AND CONDITIONS															
INTEREST RATES CHARGED															
	125														
MUCH FIRMER POLICY	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0
MODERATELY FIRMER POLICY	2	0	1	0	1	0	0	0	1	0	0	0	0	0	
ESSENTIALLY UNCHANGED POLICY	31	0	8	5	3	0	3	1	3	6	3	0	1	2	
MODERATELY EASIER POLICY	73	7	9	3	6	6	6	8	6	6	4	3	7	5	6
MUCH EASIER POLICY	18	1	2	1	1	0	2	3	0	2	2	0	1	2	3
COMPENSATING BALANCES															
	125														
MUCH FIRMER POLICY	1	0	1	0	1	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	4	0	0	0	0	0	0	0	2	2	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	99	6	17	8	9	3	10	8	7	11	6	3	8	8	12
MODERATELY EASIER POLICY	21	2	2	1	1	3	1	4	1	2	3	0	1	1	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	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, 1972.

NOT FOR QUOTATION OR PUBLICATION

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK TOTAL CITY	NEW YORK OUTSIDE	PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
LENDING TO NONFINANCIAL BUSINESSES														
TERMS AND CONDITIONS														
STANDARDS OF CREDIT WORTHINESS	125													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	0	1	0	0	0	0	0
MODERATELY FIRMER POLICY	3	0	1	0	1	0	0	1	1	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	116	7	18	9	9	6	11	9	11	9	3	9	9	13
MODERATELY EASIER POLICY	5	1	1	0	1	0	0	0	2	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MATURITY OF TERM LOANS	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	2	0	0	0	0	0	0	1	1	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	108	7	17	8	9	5	11	8	12	7	3	7	9	11
MODERATELY EASIER POLICY	13	1	2	1	1	1	0	1	2	1	0	2	0	2
MUCH EASIER POLICY	2	0	1	0	1	0	0	0	0	1	0	0	0	0
REVIEWING CREDIT LINES OR LOANS														
ESTABLISHED CUSTOMERS	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	2	0	0	0	0	0	0	0	2	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	102	6	17	8	9	6	8	9	11	7	2	6	9	12
MODERATELY EASIER POLICY	18	2	3	1	2	0	2	2	1	2	1	3	0	1
MUCH EASIER POLICY	3	0	0	0	0	0	1	1	0	1	0	0	0	0
NEW CUSTOMERS	125													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	0	1	0	0	0	0	0
MODERATELY FIRMER POLICY	1	0	0	0	0	0	0	1	0	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	94	6	13	8	5	5	8	8	10	7	2	7	9	11
MODERATELY EASIER POLICY	27	2	7	1	6	1	2	4	4	1	1	2	0	2
MUCH EASIER POLICY	2	0	0	0	0	0	1	0	0	1	0	0	0	0
LOCAL SERVICE AREA CUSTOMERS	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	1	0	0	0	0	0	0	0	1	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	106	6	18	9	9	6	8	9	12	8	2	8	9	11
MODERATELY EASIER POLICY	15	2	2	0	2	0	2	2	1	1	1	1	0	2
MUCH EASIER POLICY	3	0	0	0	0	0	1	1	0	0	0	0	0	0

NET FOR QUOTATION OR PUBLICATION

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK		PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
LENDING TO NONFINANCIAL BUSINESSES														
REVIEWING CREDIT LINES OR LOANS														
NONLOCAL SERVICE AREA CUST	125													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	5	0	0	0	0	0	0	1	3	1	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	100	6	18	9	9	6	8	8	10	7	2	7	8	12
MODERATELY EASIER POLICY	17	2	2	0	2	0	2	0	2	0	1	2	1	1
MUCH EASIER POLICY	2	0	0	0	0	0	1	0	0	1	0	0	0	0
FACTORS RELATING TO APPLICANT 2/														
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	125													
MUCH FIRMER POLICY	2	0	0	0	0	0	0	1	1	0	0	0	0	0
MODERATELY FIRMER POLICY	7	0	2	0	2	0	0	0	1	0	1	1	0	2
ESSENTIALLY UNCHANGED POLICY	102	7	17	9	8	5	9	8	11	7	1	8	8	10
MODERATELY EASIER POLICY	14	1	1	0	1	1	2	1	2	2	1	0	1	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTENDED USE OF LOAN	125													
MUCH FIRMER POLICY	3	0	0	0	0	0	0	1	1	0	0	0	0	1
MODERATELY FIRMER POLICY	1	0	0	0	0	0	0	0	0	0	0	0	0	1
ESSENTIALLY UNCHANGED POLICY	111	7	20	9	11	5	11	8	13	7	2	9	9	10
MODERATELY EASIER POLICY	9	1	0	0	0	1	0	2	1	1	1	0	0	1
MUCH EASIER POLICY	1	0	0	0	0	0	0	0	0	1	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES														
TERMS AND CONDITIONS														
INTEREST RATES CHARGED	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	70	2	13	7	6	5	4	6	7	10	5	4	5	8
MODERATELY EASIER POLICY	46	5	6	1	5	1	5	6	3	4	2	5	3	4
MUCH EASIER POLICY	9	1	1	1	0	0	2	0	0	1	2	0	1	1

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 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK TOTAL CITY	NEW YORK OUTSIDE	PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
LENDING TO "NONCAPTIVE" FINANCE COMPANIES														
TERMS AND CONDITIONS:														
SIZE OF COMPENSATING BALANCES	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	1	0	0	0	0	0	0	0	1	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	118	7	19	9	10	6	10	11	10	13	9	3	8	9
MODERATELY EASIER POLICY	6	1	1	0	1	0	1	1	0	1	0	0	1	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENT	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	2	0	0	0	0	0	0	0	1	1	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	115	6	19	9	10	6	10	11	10	12	8	3	8	9
MODERATELY EASIER POLICY	8	2	1	0	1	0	1	1	0	2	0	0	1	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	125													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	0	1	0	0	0	0	0
MODERATELY FIRMER POLICY	4	1	0	0	0	0	0	0	1	0	0	0	1	1
ESSENTIALLY UNCHANGED POLICY	87	5	14	8	6	4	8	8	9	9	5	2	6	9
MODERATELY EASIER POLICY	32	2	6	1	5	2	2	4	1	4	4	1	2	0
MUCH EASIER POLICY	1	0	0	0	0	0	1	0	0	0	0	0	0	0
WILLINGNESS TO MAKE OTHER TYPES OF LOANS														
TERM LOANS TO BUSINESSES	125													
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY LESS WILLING	3	0	0	0	0	0	1	0	1	0	0	0	0	1
ESSENTIALLY UNCHANGED	82	7	13	7	6	3	7	9	6	13	4	1	5	6
MODERATELY MORE WILLING	38	1	6	2	4	3	3	3	3	2	4	2	4	3
CONSIDERABLY MORE WILLING	2	0	1	0	1	0	0	0	0	0	1	0	0	0
CONSUMER INSTALLMENT LOANS	124													
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESSENTIALLY UNCHANGED	71	7	13	8	5	3	7	5	5	9	4	2	3	6
MODERATELY MORE WILLING	44	1	4	0	4	3	4	6	3	4	5	1	4	2
CONSIDERABLY MORE WILLING	9	0	2	0	2	0	0	1	2	2	0	0	0	1

SUPPLEMENTAL APPENDIX B

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS*

The most recent survey of bank loan commitments, for the three months ending January 31, indicates a strong increase in the volume of unused commitments at the 42 reporting banks. (See Table 1.) This upsurge in commitments seems to be connected with marketing efforts on the part of commercial banks attempting to stimulate business borrowing. In addition, the increase is related to the continued vigor of construction activity.

The change in commitments to commercial and industrial (C&I) firms, as usual, dominated movements in total commitments. The reported large increase in C&I unused commitments, in turn, was mainly determined by the expansion in confirmed lines of credit; such commitments typically arise as bankers early in the new year extend lines without charging a fee in order to attract and hold customers. Other categories of C&I commitments, however, were not strong. Although new commitments for term loans rose markedly, unused commitments fell sharply from the record peaks achieved in the previous quarter. Unused revolving credits, meanwhile, rose only modestly.

A vigorous rate of construction activity strongly affected the other commitments. The growth in unused and new commitments for real estate mortgages was high--as were takedowns for this purpose. Data on construction loans showed large takedowns as well as strong growth in new and unused commitments.

Turning to nonbank financial institutions, the Survey shows a large growth in unused commitments. Underlying this increase was a build-up in unused commitments to finance companies and a large growth in unused commitments to other nonbank financial institutions--including mortgage and insurance companies, savings and loan associations, and mutual savings banks.

* Prepared by Marilyn Barron, Research Assistant, Banking Section, Division of Research and Statistics.

Financing of mortgage warehousing, moreover, was heavy as takedowns were the highest since the Survey began in the first quarter of 1969. According to information available to the staff, some of these takedowns were by mortgage bankers who were expecting lower mortgage rates in the future and hence were accumulating mortgages that they expected to resell at a profit.

As commercial banks have maintained ample liquidity in the face of modest business loan demands, respondents eased commitment policies further. (See Table 2.) No bank in the Survey, in fact, has become more restrictive in the last six months.

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS AT SELECTED LARGE U.S. BANKS ^{1/}

January 31, 1972

Table 1: NEW AND UNUSED COMMITMENTS
(Billions of dollars, not seasonally adjusted)

	New commitments made during 3-month ending			Takedowns, expirations and cancellations during 3-months ending			Change during 3-months ending			Outstanding on
	July 31.	Oct. 31	Jan. 31	July 31.	Oct. 31	Jan. 31.	July 31.	Oct. 31	Jan. 31	January 31
Grand total commitments	35.0	21.2	23.4	32.0	19.3	20.1	2.9	1.9	3.3	70.3
Total-Comm. & Industrial	27.4	16.8	18.2	24.8	15.6	16.2	2.5	1.2	2.0	53.2
Total-Nonbank Financial Institutions	5.5	2.9	3.6	5.2	2.4	2.8	0.4	0.5	0.8	13.0
Total-Real Estate Mortgages	2.1	1.5	1.6	2.0	1.3	1.1	<u>3/</u>	0.2	0.5	4.1
MEMO: Construction Loans (included above)	1.4	1.0	1.1	1.2	1.0	0.8	0.2	<u>3/</u>	0.3	3.2
Total-Comm. & Industrial										
Term Loans	1.9	2.2	2.0	1.7	1.8	2.1	0.1	0.4	-0.2	2.1
Revolving Credits	6.8	3.8	4.4	6.4	3.5	4.0	0.4	0.3	0.4	14.0
Total Term & Revolving <u>2/</u>	8.9	6.2	6.5	8.4	5.6	6.3	0.5	0.6	0.2	16.7
Confirmed Lines of Credit	14.9	9.5	9.9	13.4	9.0	8.2	1.5	0.5	1.7	32.7
Other Commitments	3.5	1.1	1.7	3.0	1.0	1.6	0.5	0.1	0.1	3.8
Total-Nonbank Financial Institutions										
Finance Companies	3.5	1.7	1.7	3.4	1.3	1.2	0.1	0.4	0.4	8.1
For Mortgage Warehousing	0.9	0.5	0.9	0.7	0.5	0.9	0.2	0.1	0.1	1.9
All Other	1.1	0.7	1.0	1.0	0.7	0.7	0.1	<u>3/</u>	0.3	3.0
Total-Real Estate Mortgages										
Residential	0.9	0.8	0.8	0.8	0.6	0.5	0.1	0.2	0.2	1.6
Other	1.2	0.8	0.8	1.3	0.7	0.5	-0.1	0.1	0.3	2.6

^{1/} Participants in Quarterly Interest Rate Survey with total deposits of more than \$1 billion (42 banks).

^{2/} This item may exceed sum of previous two items because some banks report combined total only.

^{3/} Less than \$50 million.

NOTE: Figures may not add to total due to rounding.

Table 2: VIEWS ON COMMITMENT POLICY

	Apr. 30 <u>1970</u>	July 31 <u>1970</u>	Oct. 31 <u>1970</u>	Jan. 31 <u>1971</u>	Apr. 30 <u>1971</u>	July 31 <u>1971</u>	Oct. 31 <u>1971</u>	Jan. 31 <u>1972</u>
Total number of banks responding:	48	48	48	47	48	48	48	48
Unused commitments in the past three months have:								
Risen rapidly	0	0	1	3	5	1	0	1
Risen moderately	12	19	28	31	25	19	25	22
Remained unchanged	15	17	13	7	12	19	15	19
Declined moderately	21	12	6	6	6	9	8	6
Declined rapidly	0	0	0	0	0	0	0	0
Takedowns in the next three months should:								
Rise rapidly	0	0	0	0	0	0	0	0
Rise moderately	13	13	6	8	13	16	13	14
Remain unchanged	30	33	24	29	33	31	31	28
Decline moderately	5	2	18	10	2	1	4	6
Decline rapidly	0	0	0	0	0	0	0	0
Commitment policy compared to three months ago is:								
Much more restrictive	0	0	0	0	0	0	0	0
Somewhat more restrictive	7	5	2	0	1	2	0	0
Unchanged	40	37	19	8	25	37	37	34
Less restrictive	1	6	26	34	21	9	11	13
Much less restrictive	0	0	1	5	1	0	0	1

Table 3: EXPLANATION OF RECENT CHANGE IN NEW COMMITMENT POLICIES AS INDICATED IN THE CURRENT SURVEY

Indicated <u>Change</u>	Number of Banks Indicating <u>Change</u>	Reasons for Change (Number of Banks)		
		<u>Increased Loan Demand</u>	<u>Reduced Availability of Funds</u>	<u>Both Demand And Funds</u>
More restrictive	0	0	0	0
		<u>Decreased Loan Demand</u>	<u>Increased Availability of Funds</u>	<u>Both Demand And Funds</u>
Less restrictive	14	3	2	9

SUPPLEMENTAL APPENDIX C

RECENT DEVELOPMENTS IN DEMAND DEPOSIT OWNERSHIP*

The failure of the demand deposit component of M_1 to increase (on a seasonally adjusted basis) during the fourth quarter¹ of 1971 appears attributable to changes in deposit balances owned by depositors other than Individuals, Partnerships, and Corporations (IPC). As may be seen by examining the seasonally unadjusted data in Table 1, growth in the estimated combined category of certified and officers' checks and State and local government deposits (line 6) during the fourth quarter of last year fell considerably short of the increase recorded in the same period of 1970. In addition, it is estimated that deposit balances held by foreign commercial banks (line 4) declined rather sharply last quarter, probably reflecting efforts of such institutions to reduce their holdings of dollars. In contrast, balances held by IPC depositors (line 7) increased at a significantly faster pace in the fourth quarter of 1971 than in the same period of 1970.^{1/}

As may be seen in the bottom portion of Table 1, data obtained in the Demand Deposit Ownership Survey indicate that growth in gross demand deposits held by both categories of business depositors and by depositors in the "all other (IPC)" category (mainly nonprofit institutions and bank trust departments maintaining balances with their own banks) exceeded that recorded in the same period of 1970. Last year's fourth quarter gain in consumer deposits, on the other hand, fell substantially short of the gain recorded in the fourth quarter of 1970.

Reference to the experience of only one earlier year is at best a very weak basis for judging whether a change is or is not stronger

* Prepared by Frederick M. Struble, Economist, Banking Section, Division of Research and Statistics.

^{1/} The estimate for the combined category of Certified and Officers' Checks and State and Local Government deposits was derived on a residual basis by subtracting the estimated level of gross IPC deposits based on data from the Demand Deposit Ownership Survey from the "All Other Deposit" category (line 5 of Table 1). Thus the estimate for the combined category is subject to two types of estimation error.

First, the estimates for the "All Other Deposit" category were obtained by using data employed in the calculation of the money stock together with the estimates for cash items in process of (continued on page 2).

than seasonal. And, given that the fourth quarter of 1970 was significantly influenced by a major strike in the auto industry, it may easily be the case that the changes recorded in that year are not at all "normal." With these caveats, the shifts in patterns of ownership suggested by the data do not appear unreasonable. It seems quite possible that consumer demands for precautionary balances could have been reduced because of a favorable acceptance of the President's economic program and that demands by businesses and others could have strengthened in response to the decline in interest rates recorded after mid-August and the pickup in business activity.

Preliminary estimates of IPC demand deposit ownership at weekly reporting banks for January 1972 (Table 2) suggest that, at large banks, consumer demands for deposits continued to fall below those recorded during the comparable period of a year ago. In addition, growth in financial business balances fell somewhat below the gains recorded a year ago, while non-financial business deposits declined sufficiently to just match the 1970 drop in these balances.

1/ Continued:

collection at nonmember banks, deposits of mutual savings banks and deposits of foreign governments and official institutions. Each of these latter items are of relatively small magnitude, do not appear to be subject to sharp fluctuation and appear to be estimated accurately. Nevertheless, the "All Other Deposit" category may be subject to some estimating error.

A second and more important consideration is that the estimate of gross IPC deposits based on DDOS data is, of course, subject to sampling error. Examination of these data suggest that if these estimates are in error, it is most likely that they tend to overstate the 1971 increase and understate the 1970 increase.

Consequently, the 1971 change in IPC deposits may not have been as relatively strong--and that for certified and officers' checks and State and local government may not have been as relatively weak--as is indicated by the data. However, even if generous allowance is made for this possibility, the generalization offered in the text still appears to hold.

TABLE 1

CHANGES IN DEMAND DEPOSIT COMPONENT OF M₁
AND IN DEPOSITS COMPRISING THIS COMPONENT¹
(\$ billion, not seasonally adjusted)

	<u>Fourth Quarter</u>	
	<u>1970</u>	<u>1971</u>
(1) Demand Deposit Component of M ₁	8.1	7.2
(2) Plus: Cash Items in Process of Collection and Federal Reserve Float, Adjusted ^{1/}	1.5	1.9
(3) Gross Deposits in M ₁ (Total)	9.6	9.1
(4) Less: M ₁ Type Balances at Agencies and Branches of Foreign Banks	- .1	- .1
Foreign Deposits with the Federal Reserve Banks	--	--
Foreign Commercial Bank Deposits ^{2/}	.1	- .5
Foreign Government and Official Institution Deposits ^{3/}	.1	.1
(5) All Other Deposits (Total)	9.5	9.5
(6) Less Certified and Officers' Checks and State and local Government Deposits ^{4/}	2.2	.6
(7) Gross IPC Demand Deposits ^{5/}	7.3	8.9
Financial Business	.3	1.0
Nonfinancial Business	4.6	5.7
Consumers	2.2	1.2
Foreign	- .1	.1
All Other	.3	1.0

^{1/} Adjusted for transactions of Edge Act Corporations and Agencies of foreign banks.

^{2/} An estimate of deposits held by mutual savings banks deducted from the category, foreign commercial and mutual savings bank deposits, to obtain this estimate.

^{3/} Estimated using data from weekly Condition Reports and from semiannual call reports.

^{4/} Calculated by deducting DDOS estimate of Gross IPC deposits from all other deposits (total).

^{5/} Estimate based on data from Demand Deposit Ownership Surveys.

TABLE 2

CHANGE IN OWNERSHIP OF GROSS IPC DEPOSITS
 AT WEEKLY REPORTING BANKS
 (Not seasonally adjusted, \$ billions)*

	<u>January 1971</u>	<u>January 1972</u>
Financial Businesses	.4	.1
Nonfinancial Businesses	-1.7	-1.7
Consumers	.8	.5
Foreign	--	--
All Other	--	--
Total IPC Deposits	-.4	-1.2

* Sum of ownership categories may not equal total because of rounding.

SUPPLEMENTAL APPENDIX D

SURVEY OF STATE AND LOCAL-LONG TERM BORROWING
 ANTICIPATIONS AND REALIZATIONS: FOURTH QUARTER, 1971*

State and local governments borrowed \$4.6 billion as planned and another \$1.2 billion in excess of previously reported long-term borrowing plans during the final quarter of 1971. Results projected from the FRB-Census Survey of State and Local Long-term Borrowing Anticipations and Realizations indicate, however, that some State and local units experienced borrowing shortfalls of \$1.5 billion. These shortfalls led to a postponement or cancellation of \$275 million in capital spending. Alternative financial expedients were substituted for \$550 million of the unfulfilled planned borrowing while another \$725 million in shortfalls represented money not currently needed.^{1/}

Table 1

LONG TERM BORROWING ANTICIPATIONS AND
 REALIZATIONS OF STATE AND LOCAL GOVERNMENTS
 4th Quarter, 1971
 (Billions of dollars)

Unit Type	Anticipa- tions	Borrowed as planned	Borrowed above plans	Borrowing Shortfalls
State				
State colleges	2.3	1.9	.5	.4
Counties	.5	.4	.1	.1
Cities and Towns	1.7	1.2	.1	.4
Special districts	.9	.7	.2	.2
School districts	<u>.8</u>	<u>.4</u>	<u>.3</u>	<u>.4</u>
Totals	6.2	4.6	1.2	1.6
Memo:				
Per cent of Anticipations				
3rd quarter	100.0	77.5	22.4	22.5
4th quarter	100.0	74.9	19.9	25.1

NOTE: Totals may not add due to rounding.

(Footnote 1 on next page)

* Prepared by Paul Schneiderman, Economist, Capital Markets Section,
 Division of Research and Statistics.

Results compiled from survey responses show that interest rate levels and changes induced a net long-term borrowing of almost \$240 million above planned levels. More than \$500 million in borrowing above plans came to market as a result of favorable yields, while, on the other hand, \$270 million of planned financing was postponed, mostly in expectation of even lower rates. Project postponements induced by borrowing shortfalls associated with interest rate behavior were insignificant.

State and local responses to the survey place long-term borrowing plans at \$6.3 billion for the first quarter of 1972 and \$5.1 billion for the second quarter of 1972. While borrowing plans usually tend to be somewhat understated for future quarters, past survey experience and other information suggests that borrowing in the first half of 1972 will fall short of that issued during the latter half of last year.

Long-term Borrowing Shortfalls

Over \$1.5 billion of State and local long-term borrowing plans went unrealized during the fourth quarter of 1971, as compared with \$1.3 billion in quarter 3. However, more than 60 per cent of such shortfalls had been rescheduled for the January through December, 1972 period. As shown in Table 2, administrative and legal delays were responsible for over two-fifths of the borrowing shortfalls with delays in the progress of the projects themselves responsible for about 55 per cent of the reported \$680 million. Litigation involving the current state of property tax based financing may be responsible for a substantial portion of the delay since school bonds are often backed by revenues from this source. Additional delays have arisen in some cases because of delays in release of pollution control revenue bond guidelines by the Treasury.

Expectations of lower interest rates in the future led to over \$200 million of postponements of long-term borrowing. This represented a rise in such postponements from the quarter earlier and coincide with the sizable decline in rates following the administrations New Economic Program. As would be expected, shortfalls attributed to rate levels declined.

(Footnote 1 from previous page.)

1/ The survey is administered by the Governments Division of the U.S. Bureau of the Census. The 80 per cent response rate on the Realizations Survey captured 97 per cent of the long-term borrowing completed during that quarter. The Anticipations Survey had a response rate of 74 per cent. It is assumed that nonrespondents to the Anticipations Survey had no borrowing plans to report. No information is available about the behavior of nonrespondents responsible for the unreported \$200 million of the \$6.06 billion borrowed during the fourth quarter.

Table 2

STATE AND LOCAL GOVERNMENT SHORTFALLS FROM
LONG-TERM BORROWING PLANS
3rd and 4th Quarters, 1971

Reason for Borrowing Shortfall	3rd Quarter		4th Quarter	
	Millions of dollars	Per Cent	Millions of dollars	Per Cent
Authorization not obtained	90	6.7	227	14.6
Administrative and legal delays	851 ^{1/}	63.2	678 ^{2/}	43.6
Interest rate ceiling	94	7.0	9	0.6
Interest rate too high	55	4.1	47	3.0
Interest rates expected to fall	32	2.4	213	13.7
Other	<u>224</u>	<u>16.6</u>	<u>379</u>	<u>24.4</u>
Totals	1,346	100.0	1,553	100.0

1/ Of this total, \$404 million represents delays not necessarily related to financing.

2/ Of this total, \$298 million represents delays not necessarily related to financing.

Effects of Borrowing Setbacks

Responses to the survey inquiry indicate that some of the long-term borrowing shortfalls resulted in capital outlay cutbacks of more than \$275 million, or 18 per cent of all shortfalls. About three fourths of these capital spending adjustments were considered temporary, and long-term borrowing to finance such outlays has been rescheduled over the next year.

Table 3

EFFECTS OF LONG-TERM BORROWING SHORTFALLS
4th Quarter, 1971
(Millions of dollars)

	Permanent	Temporary	Total
Used alternative financing			
Short-term borrowing	24	190	214
Use of liquid assets	13	106	119
Postpone other outlays	69	86	155
Other methods	44	17	61
Money not needed now	175	550	725
Capital outlays cutback	<u>74</u>	<u>204</u>	<u>278</u>
Total	399	1,153	1,552
Per cent	25.7	74.3	100.0

Where long-term financing suspensions did not force the cancellation of projects, funds were not needed immediately or an alternative financing source was utilized. Errors of judgment as to timing of need or amount, as well as other delays in the projects themselves are generally the circumstances under which funds are not currently required.

Short-term borrowing in lieu of suspended long-term issues provided almost 40 per cent of the alternatively sought financing. As indicated in Table 3, current plans call for all but 10 per cent of the \$214 million to be refinanced in the long-term markets. A reevaluation of projects was apparently also undertaken by some units as \$155 million of alternative financing came from funds originally allocated to other projects.

Long-term Borrowing Above Planned Levels

As in the third quarter of 1972, State and local authorities expanded their borrowing by \$1.2 billion dollars above planned levels previously reported. More than 40 per cent of this long-term borrowing was brought to market in response to lower interest costs. In addition an appreciable number of reporting units indicated that the purpose of their borrowing above previously planned levels was to prerefund issues marketed in 1969 at higher costs.

Anticipated Long-term Offerings

Projected anticipations for long-term borrowing for the first and second quarters of 1972 are shown in Table 4. It appears that, governments could fall short of long-term borrowing expectations by as much as 15 per cent of \$6.3 billion planned for the January through March period, given the staffs monthly estimates of municipal volume. In part the shortfalls may be attributed to continued administrative and legal delays that have anterrupted borrowing plans for some time.

Anticipations for the second quarter may be expected to increase from those reported at year end 1971. Some of the probable increase could reflect the typical problem of uncertain borrowing plans not reported at the time of the survey, and its also possible that prerefunding and pollution control bonds will grow in importance. However, the sharp drop in such plans from the first quarter level is unlikely to be made up entirely in view of past survey experience.

Table 4

LONG-TERM BORROWING ANTICIPATIONS
OF STATE AND LOCAL GOVERNMENTS
As of
December 31, 1971

	January through March	April through June
Authorized	5.37	3.34
Unauthorized	<u>.96</u>	<u>1.75</u>
Total	6.33	5.09