Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Content last modified 6/05/2009.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

January 18, 1974

By the Staff
Board of Governors
of the Federal Reserve System

The Domestic Economy

Auto sales. Sales of new domestic-type autos in the first 10 days of January were at a seasonally adjusted annual rate of 7.4 million units as compared with a 7.9 million rate in the month of December and a 10 million rate in January last year.

Of the 138,200 domestic-type cars sold in early January (not seasonally adjusted) 39.8 percent were small cars, a record percentage and far above the 24.7 percent of a year ago.

Housing starts. Seasonally adjusted private housing starts, which had turned up in November, dropped one-fifth in December to an annual rate of 1.36 million units. Both single-family and multifamily starts shared in the sharp decline as did starts in each of the four regions--for December and the fourth quarter as a whole. Seasonally adjusted residential building permits, already extremely low, dropped moderately further in December from the upward revised November figure.

Starts for all of 1973 totaled 2.04 million units, 13 percent lower than the record total in 1972, although virtually the same as in 1971. Including mobile home shipments, which are now indicated to have at least matched last year's high, the combined total came to 2.6 million units--the second highest on record.

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

	1973				Percent change in December from:	
	QIII	QIV(p)	Nov.(r)	Dec.(p)	Month ago	Year ago
Permits	1.71	1.29	1.31	1.23	- 6	-49
Starts	2.03	1.57	1.70	1.36	-20	-43
1-family	1.12	0.89	0.94	0.76	-19	-37
2- or more-family	0.91	0.68	0.76	0.59	-22	-49
Completions	1.90	n.a.	1.94	n.a.	- 1 1/	- 2 1/
Memorandum: Mobile home shipments	0.53	n.a.	0.53	n.a.	+19 1/	-21 1/

n.a. -- not available.
1/ Percent changes shown based on November 1973.

Capacity utilization. The rate of capacity utilization in manufacturing as a whole turned down in the fourth quarter, with the rate dropping a little to 82.6 percent from 83.3 percent in each of the two preceding quarters.

The rate of capacity utilization in major materials industries was also down somewhat in the fourth quarter, falling to 95.1 percent from a high of 96.0 percent in the third quarter. The fourth quarter rate was, however, above the first half of this year and well above the 92.4 percent rate of the fourth quarter of 1972.

Personal income. Personal income rose $10.2 billion (annual rate) in December, slightly less than the revised November increase of $10.9 billion, but well above the average monthly gain of $7.2 billion in the first half of the year.

Wage and salary disbursements rose by $6 billion in December, following a $6.6 billion increase in the preceding month. Wage and salary disbursements advanced in all major groups, with the increases primarily reflecting a rise in hourly earnings. Nonwage income rose rapidly; farm proprietors income continued very strong over the month and dividends, pushed up by a large volume of year-end extras, rose substantially.

Compared to a year ago personal income increased 10.8 percent, and wage and salary disbursements were up by about the same amount.

PERSONAL INCOME
(Billions of dollars; seasonally adjusted, annual rate)

	1973		Nov. 1973-
	November	December	Dec. 1973
Total personal income	1079.4	1089.6	10.2
Wage and salary disbursements	717.8	723.7	5.9
Government	150.4	151.3	0.9
Private	567.4	572.4	5.0
Manufacturing	204.6	205.7	1.1
Other	362.8	366.7	3.9
Farm income	31.6	32.4	1.1
Other nonwage income	374.3	377.9	3.3
Less: Personal contributions for social insurance	44.3	44.4	0.1

Gross national product (GNP) in the fourth quarter of last year, at a seasonally adjusted annual rate of $1,334.0 billion according to Commerce Department preliminary estimates, was up $29.5 billion from the third quarter rate. The fourth quarter rate of increase in GNP in real terms was 1.3 percent at an annual rate; real gross private product also rose at a 1.3 percent per year rate. Private nonfarm product in real terms, however, declined at a .4 percent annual rate.

The GNP implicit price deflator rose at a 7.9 percent annual rate in the fourth quarter, and the gross private product fixed weighted price index at a 7.6 percent per year rate.

The Commerce estimates indicate an increase in inventory investment in the fourth quarter to a $15.9 billion seasonally adjusted annual rate, up from $4.7 billion in the third quarter. Final purchases were up $18.3 billion in the fourth quarter, but in real terms they were off at a 2.4 percent annual rate. This weakness in constant dollar final purchases was in personal consumer expenditures for durable and nondurable goods--down at a 7.1 percent annual rate, and residential construction--down at a 38.1 percent annual rate. Federal government purchases were also off in real terms, but most of this decline reflected the sales of military equipment and supplies to Israel from defense stocks (treated as a negative national defense purchase in the GNP estimates) and were reflected in the increase in exports of goods and services. Private final purchases excluding net exports in real terms were off at a 3.9 percent annual rate.

Gross national product in 1973, at $1,288.2 billion, was $133 billion more than in 1972 and final purchases $131.7 more. Real GNP increased 5.9 percent last year, real final purchases 5.9 percent, the GNP implicit deflator, 5.3 percent, and the gross private product fixed weighted price index 6.0 percent.

From the fourth quarter of 1972 to the fourth quarter of 1973 the gains in current dollar gross national product and in final purchases were larger than for 1973 as a whole (see table). But price increases also were larger and real gains were less.

CHANGES IN GNP AND RELATED ITEMS

	1972	1973	1971-IV-1972-IV	1972-IV-1973-IV
	--------Billions of dollars--------			
Gross national product	99.7	133.0	115.0	134.8
Final purchases	99.7	131.7	112.1	127.1
	-------------Per cent------------			
Gross national product, constant dollars	6.1	5.9	7.0	3.9
Final purchases, constant dollars	6.9	5.9	6.9	3.4
Gross national product implicit deflator	3.2	5.3	3.3	7.1
Gross private product fixed weighted price index	3.2	6.0	3.4	7.6

CORRECTIONS:

Page I-4, line 9, change to: in deficit after midyear.

Page II-8, line 6, after sidehead refers to consumer instalment credit.

January 17, 1974

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates.)

	1973 Preliminary		1973-III		1973-IV Preliminary	
	Amount	Change from 1972	Amount	Change from 73-II	Amount	Change from 73-III
Gross National Product	1228.2	133.0	1304.5	32.5	1334.0	29.5
Final purchases	1280.8	131.7	1299.8	32.3	1318.1	18.3
Private	1003.6	121.0	1020.8	28.6	1032.3	11.5
Excluding net exports	999.0	107.8	1013.2	23.8	1024.3	11.1
Personal consumption expenditures	805.0	78.5	816.0	20.4	829.0	13.0
Durable goods	131.1	13.7	132.8	0.0	126.8	-6.0
Nondurable goods	336.3	36.4	341.6	11.3	351.1	9.5
Services	337.6	28.4	341.6	9.0	351.2	9.6
Gross private domestic investment	201.5	23.2	202.0	3.8	211.2	9.2
Residential construction	58.0	4.0	59.2	-0.4	54.2	-5.0
Business fixed investment	136.0	17.8	138.0	3.9	141.1	3.1
Change in business inventories	7.4	1.4	4.7	0.2	15.9	11.2
Nonfarm	6.7	1.1	3.2	-1.2	14.9	7.8
Net exports of goods and services	4.6	9.2	7.6	4.8	8.0	0.4
Exports	101.3	27.8	104.5	7.3	113.5	9.0
Imports	96.7	18.6	97.0	2.6	105.6	8.6
Gov. purchases of goods and services	277.2	22.2	279.0	3.7	285.8	6.8
Federal	106.9	2.5	106.8	-0.5	107.8	1.0
Defense	74.2	-0.2	74.2	0.0	74.0	-0.2
Other	32.7	2.6	32.7	-0.4	33.8	1.1
State and local	170.3	19.8	172.2	4.2	178.0	5.8
GNP in constant (1958) dollars	837.3	46.6	841.3	7.0	844.1	2.8
Personal income	1035.5	96.3	1047.1	28.1	1079.2	32.1
Wage and salary disbursements	691.6	63.8	699.3	16.7	717.6	18.3
Disposable personal income	882.6	85.6	891.1	21.4	918.0	26.9
Personal saving	53.8	4.1	51.1	0.1	63.3	12.2
Saving rate (per cent)	6.1	--	5.7	--	6.9	--
	--------Per Cent Change at Annual Rate--------					
Gross National Product		11.5		10.6		9.4
Gross Private Product		11.9		11.1		9.0
Gross Private Nonfarm Product		10.9		9.3		6.5
GNP in constant prices		5.9		3.4		1.3
GPP in constant prices		6.2		3.6		1.3
GPNFP in constant prices		6.6		4.3		-0.4
GNP implicit price deflator		5.3		7.0		7.9
GNP fixed weighted price index		6.1		7.3		8.1
GPP fixed weighted price index		6.0		7.6		7.6

The Domestic Financial Situation

Nonbank thrift institutions. Deposit flows into savings and loan associations during the first 10 days of January totaled approximately $1 billion, according to confidential FHLBB estimates. This compares with $1.4 billion during the same period in 1972 and 1971, the only years for which comparable data are available.

The large New York City savings banks experienced a net outflow of deposits during the first 15 days of January. Some outflow of savings during the reinvestment period is typical at these institutions, but the 1974 experience thus far has been poor relative to other recent years.

NET DEPOSIT FLOWS INTO 17 LARGE NEW YORK CITY MSB's
DURING THE FIRST 15 DAYS OF JANUARY
(In millions of dollars)

1974	-85.3
1973	75.8
1972	83.3
1971	66.2
1970	-123.4

Consumer credit. In November the seasonally adjusted delinquency rate on auto contracts at finance companies reached its highest level since the 1970 recession--2.49 percent. The rate applies to both new and used car loans at companies which hold roughly 85 percent of finance company auto paper. The rate rose sharply in October and November after fluctuating in a narrow, moderately high range since March. Other measures of collection experience on finance company auto paper also deteriorated somewhat in November, though most remain at relatively modest levels. These include the rate of contract refinancing, repossession rates, and average loss on repossessed units sold.

Monetary aggregates. The following table on monetary aggregates incorporates the new revised data. Growth in the deposit aggregates slowed in December from the November rate, but the December rate of expansion in M_1 was well above that for the year as a whole. The December growth in M_1--which buoyed M_2 and M_3--was due in part to a reported bulge in deposits held by foreign commercial banks at large U.S. banks, which subsequently subsided as January progressed. From the revised data, growth in M_1 for the year was 5.9 percent, with rates for M_2 and M_3 about three percentage points higher. In December, the adjusted bank credit proxy accelerated to its highest rate since August, reflecting a turnaround in the runoff of large CD's at commercial banks.

MONETARY AGGREGATES
New Revised Basis, Unpublished
(seasonally adjusted changes)

	1973						
	QII	QIII	QIV	Year	Oct.	Nov.	Dec.
	Per cent at annual rates						
M_1 (Currency plus private demand deposits)	11.5	-0.2	8.0	5.9	5.0	10.4	8.5
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	11.1	5.2	10.2	8.6	10.8	10.9	8.7
M_3 (M_2 plus time and savings deposits at mutual savings banks and S&L's)	10.4	4.5	9.3	8.6	9.1	9.7	8.8
Adjusted bank credit proxy	12.6	10.5	3.5	10.7	1.6	2.7	6.2
Time and savings deposits at commercial banks							
a. Total	17.8	14.0	5.7	15.9	3.4	3.3	10.3
b. Other than large CD's	10.4	10.4	12.4	11.2	16.1	11.0	9.7
	Billions of dollars 1/						
Memoranda:							
a. U.S. Government demand deposits	-0.8	-0.1	--	-0.1	1.0	-0.2	-0.8
b. Negotiable CD's	2.5	1.6	-1.3	1.6	-2.9	-1.8	0.8
c. Nondeposit sources of funds	0.2	0.5	--	0.2	-0.4	0.2	0.3

1/ Change in average levels month-to-month or average monthly change for the quarter, measured from last month in quarter to last month in quarter, not annualized.

Mortgage market. Offerings to FNMA in the January 14 auction of forward commitments to purchase FHA/VA home mortgages were quite low even though four weeks had elapsed since the previous auction. The average yield on accepted bids--which were again a very high proportion of offers received--declined further to 8.71 percent. The volume of offerings to FNMA in its associated auction of forward commitments to purchase high loan-to-value ratio conventional mortgages also remained limited, and the average rate on commitments for such mortgages declined by 5 basis points to 8.77 percent.

Due to the continued low volume of offerings, the next auction will not be held until February 11.

FNMA COMMITMENT AUCTIONS
(FHA/VA HOME MORTGAGES)

	Offerings (millions of dollars)		Percent of offers accepted	Yield to FNMA 1/ (percent)
	Received	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	78	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

1/ Average gross yield on mortgages FNMA has commited 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.

INTEREST RATES

	1973			1974
	Highs	Lows	December 17	January 17
Short-Term Rates				
Federal funds (wkly. avg.)	10.84(9/26)	5.61(1/3)	10.04(12/12)	9.77(1/16)
3-month				
Treasury bills (bid)	9.05(8/14)	5.12(1/4)	7.47	7.86
Comm. paper (90-119 day)	10.50(9/19)	5.63(1/12)	9.25	9.00
Bankers' acceptances	11.00(9/20)	5.75(1/11)	9.25	9.25
Euro-dollars	11.69(8/9)	5.81(1/5)	10.50	9.63
CD's (prime NYC) 60-89 day				
Most often quoted new	10.50(9/19)	5.38(1/3)	9.50(12/12)	9.13(1/16)
6-month				
Treasury bills (bid)	9.00(9/13)	5.38(1/4)	7.28	7.75
Comm. paper (4-6 mo.)	10.50(9/20)	5.63(1/12)	9.00	8.75
Federal agencies	9.80(9/13)	5.64(1/3)	8.16	8.39
CD's (prime NYC) 180-269 day				
Most often quoted new	9.38(8/15)	5.63(1/3)	8.20(12/12)	8.25(1/16)
1-year				
Treasury bills (bid)	8.50(9/13)	5.40(1/4)	6.69	6.98
Federal agencies	9.49(8/13)	5.86(1/2)	7.72	7.82
CD's (prime NYC)				
Most often quoted new	8.50(9/19)	5.75(1/3)	7.00(12/12)	7.50(1/16)
Prime municipals	6.00(8/8)	3.20(1/3)	4.05(12/14)	4.40(1/18)
Intermediate and Long-term				
Treasury coupon issues				
5-years	8.13(8/7)	6.23(1/4)	6.71	6.93
20-years	7.83(8/7)	6.04(1/3)	7.23	7.47
Corporate				
Seasoned Aaa	7.77(8/24)	7.10(1/2)	7.67	7.87
Baa	8.68(8/30)	7.88(1/12)	8.50	8.59
New Issue Aaa Utility	8.52(8/8)	7.29(1/10)	7.97(12/12)	8.27(1/16)
Municipal				
Bond Buyer Index	5.59(8/1)	4.99(10/10)	5.06(12/12)	5.24(1/16)
Mortgage--average yield in FNMA auction	9.37(9/17)	7.69(1/8)	8.78 (12/17)	8.71(1/14)

SUPPLEMENTAL APPENDIX A *
MONTHLY SURVEY OF BANK LOAN COMMITMENTS

Total unused commitments and total new commitments for loans at 132 large banks showed less rapid growth in November than in the previous month, according to data from the most recent Monthly Survey of Bank Loan Commitments. Consistent with the increase in total loans at all weekly reporting banks, loans under commitment in November accelerated, reversing October's decline.

The November data on unused commitments, as well as those for the previous four months, are shown in Table 1. In November, unused commitments to commercial and industrial borrowers grew quite modestly (column 1) when the only strong advance in revolving credits (column 3). Unused commitments to nonbank financial institutions (column 7) continued the strong upward trend of that series, with the November increase reflecting a larger decline in takedowns than in new commitments. In contrast, unused commitments for real estate mortgages (column 8) have declined for the third straight month, leaving such commitments almost 10 per cent below the level four months earlier. (The real estate mortgage category, it should be noted, in effect excludes home mortgages because the majority of respondents to this survey report only for loans and commitments in excess of $100,000).

Total loans under commitment (loans outstanding under commitments currently or previously in force) are shown in Table 2. The November growth was substantial after October's downturn and was produced mainly by large takedowns of C & I revolving credits (column 3) and real estate mortgages (column 8).

New commitments (Table 3), which behave erratically, advanced little in November, but their composition changed considerably. Declines in new commitments for nonbank financial institutions (column 7) and real estate mortgages (column 8) were offset by an increase in new commitments to C & I borrowers (column 1).

The utilization ratios (the ratios of loans under commitments to the sum of loans under commitment and unused commitments) have shown mixed trends in recent months, although the overall ratio has remained stable (Table 4). In November, the usage ratio for real estate mortgages rose to a new high for the series while that for nonbank financial institutions slid to the lowest level in five months.

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

NOT FOR
QUOTATION OR
PUBLICATION

MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS 1/
(AS OF NOV. 30, 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	78.1	0.0	5.3	0.0	18.1	0.0	24.1	0.0	50.8	0.0	3.2	0.0	23.6	0.0	9.4	0.0	111.1	0.0
AUGUST 31	78.3	0.2	5.2	-0.6	18.6	2.9	23.8	-1.2	51.5	1.3	3.0	-8.3	24.8	5.2	9.4	0.9	112.5	1.2
SEPTEMBER 30	77.3	-1.2	5.0	-3.7	18.0	-3.4	23.0	-3.5	51.5	0.1	2.9	-3.8	25.1	0.9	9.0	-5.0	111.4	-1.0
OCTOBER 31	80.1	3.6	5.2	2.8	18.1	1.0	23.3	1.4	53.8	4.5	3.0	5.4	26.2	4.5	8.6	-4.3	114.9	3.1
NOVEMBER 30	80.7	0.7	5.0	-2.5	18.8	3.4	23.8	2.1	53.9	0.3	2.9	-3.2	26.8	2.3	8.5	-1.2	115.9	0.9
JUL 73 - NOV 73 AVERAGE	78.9	0.8	5.1	-1.0	18.3	1.0	23.6	-0.3	52.3	1.5	3.0	-2.5	25.3	3.2	9.0	-2.4	113.2	1.1

NUMBER OF BANKS 132

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. **

NOT FOR
QUOTATION OR
PUBLICATION

MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS 1/
(AS OF NOV. 30, 1973)

TABLE 2 - LOANS UNDER COMMITMENT

(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 LOANS	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
JULY 31	65.5	0.0	16.6	0.0	17.1	0.0	35.1	0.0	25.2	0.0	5.2	0.0	16.5	0.0	15.8	0.0	97.8	0.0
AUGUST 31	65.3	-0.2	17.8	7.6	17.6	2.8	35.4	0.8	25.1	-0.3	4.8	-7.0	16.4	-0.7	16.4	4.2	98.2	0.3
SEPTEMBER 30	67.2	2.8	18.0	0.8	18.4	4.5	36.3	2.7	26.0	3.5	4.9	0.9	17.0	3.7	17.1	4.0	101.3	3.1
OCTOBER 31	66.2	-1.5	17.9	-0.4	18.6	1.3	36.5	0.5	24.7	-4.9	5.0	1.5	17.5	2.5	16.7	-1.9	100.4	-0.9
NOVEMBER 30	67.4	1.8	18.0	0.7	19.4	4.1	37.4	2.4	24.9	0.9	5.1	2.0	17.1	-1.9	17.1	2.2	101.6	1.2
JUL 73 - NOV 73 AVERAGE	66.5	0.7	17.9	2.2	18.5	3.2	36.4	1.6	25.2	-0.2	4.9	-0.6	17.0	0.9	16.8	2.1	100.4	0.9

NUMBER OF BANKS 132

1/ BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY - SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF $100 MILLION OR MORE.

2/ LOANS UNDER COMMITMENTS ARE DEFINED AS ALL LOANS MADE UNDER COMMITMENTS CURRENTLY OF 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.

NOT FOR
QUOTATION OR
PUBLICATION

MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS 1/
(AS OF NOV. 30, 1973)

TABLE 3 - 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	-0.1	0.9	11.7	1.1	12.3	2.0	9.5	1.9	-13.3	0.5	28.5	0.9	-8.2	1.2	0.9	6.5	-1.1
SEPTEMBER 30	3.8	-15.5	0.7	-22.7	0.6	-22.5	1.5	-22.6	1.5	-24.4	0.8	42.8	0.8	-8.2	0.8	-36.1	5.3	-18.2
OCTOBER 31	4.4	16.7	0.8	5.0	1.0	23.8	1.8	15.1	1.7	17.9	0.9	17.6	0.9	7.7	1.0	33.8	6.3	17.7
NOVEMBER 30	4.7	7.7	1.1	44.5	1.1	12.1	2.2	25.8	1.7	0.9	0.6	-15.1	0.8	-5.2	0.8	-25.7	6.3	0.4
JUL 73 - NOV 73 AVERAGE	4.3	2.2	0.9	9.6	1.0	6.4	1.9	6.9	1.8	-4.7	0.7	18.4	0.9	-3.5	1.0	-6.8	6.2	-0.3

NUMBER OF BANKS 132

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. **

NOT FOR
QUOTATION OR
PUBLICATION

MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS 1/
(AS OF NOV. 30, 1973)

TABLE 4 - UTILIZATION RATIO 2/

	(1) C & I FIRMS TOTAL PER CENT	(2) C & I TERM LOANS PER CENT	(3) C & I REVOLVING CREDITS PER CENT	(4) C & I TERM LOANS & REV. CREDITS PER CENT	(5) C & I CONFIRMED LINES PER CENT	(6) C & I OTHER COMMITMENTS PER CENT	(7) NON-BANK FINANCIAL INSTITUTIONS PER CENT	(8) REAL ESTATE MORTGAGES PER CENT	(9) TOTAL COMMITMENTS PER CENT
JULY 31	45.6	75.9	48.6	59.3	33.1	61.6	41.2	62.7	46.8
AUGUST 31	45.5	77.3	48.6	59.8	32.8	62.0	39.8	63.5	46.6
SEPTEMBER 30	46.5	78.1	50.5	61.2	33.5	63.1	40.5	65.6	47.6
OCTOBER 31	45.2	77.6	50.6	61.0	31.5	62.2	40.0	66.1	46.6
NOVEMBER 30	45.5	78.2	50.8	61.1	31.6	63.5	39.0	66.9	46.7
JUL 73 - NOV 73 AVERAGE	45.7	77.4	49.8	60.5	32.5	62.5	40.1	64.9	46.9

NUMBER OF BANKS 132

A-5

1/ BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY - 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 COMMITMENTS.

* NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING.

SUPPLEMENTAL APPENDIX B
DEMAND DEPOSIT OWNERSHIP SURVEY*
November 1973

Preliminary Demand Deposit Ownership Survey data indicate that almost all of the November increase in gross IPC demand deposits (not seasonally adjusted) at weekly reporting banks occurred in deposits of nonfinancial businesses (see Table 1). This recent growth in corporate balances--which was very strong relative to November increases in previous survey years--was also the largest monthly increase in such deposits since June. It is possible that in November these balances were buoyed by funds raised through corporate sales of foreign exchange.

In contrast to the growth in corporate accounts, there was what appeared to be a contra-seasonal decline in deposits of financial businesses. This decline, however, followed a substantial increase in such deposits in October, and for the October-November period, the net expansion in financial business deposits was close to the average increase in the three earlier years. 1/ Consumer deposits in November showed a very moderate expansion of $200 million at the weekly reporters, close to the average November increase in 1970-72.

A small rise in foreign held IPC balances in November brought the total growth in such deposits to $700 million for the first eleven months of 1973. The growth in foreign balances in 1973 contrasts sharply with earlier years when there was almost no variation in the level of these deposits. It should be noted, moreover, that since the DDOS includes only deposits of individuals, partnerships and corporations, the foreign ownership category focuses exclusively on nonbank, nongovernment institutions and individuals domiciled outside of the United States. Hence, movements in deposits held by foreign central banks in Federal Reserve Banks and by foreign commercial banks in U.S. banks--such as occurred in November and December and contributed to the growth of M_1 in those months--are not directly reflected in DDOS figures.

1/ Because of the relative volatility of financial business deposits, it is difficult to interpret closely month-to-month fluctuations in the series. However, over the last three years, the net increase in such deposits at large banks has been slower than the growth in other IPC deposit categories, leading to a reduction in the percentage of total IPC deposits held by these institutions.

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

Table 1
CHANGES IN THE LEVELS OF GROSS IPC DEMAND DEPOSITS
BY OWNERSHIP CATEGORY, WEEKLY REPORTING BANKS
(Billions of dollars, not seasonally adjusted)

Month/	FINANCIAL BUSINESS				NONFINANCIAL BUSINESS				CONSUMER			
Year	1970	1971	1972	1973	1970	1971	1972	1973	1970	1971	1972	1973
Jan.		.4	0	.3		-1.7	1.8	-1.3		.4	.7	.6
Feb.		0	-.7	-.7		-2.2	-1.4	-2.8		-.6	-1.0	-1.5
March		.3	.3	.1		.2	.5	-1.2		.8	.6	.2
April		0	.3	0		.9	1.0	.3		1.4	2.0	2.1
May		-.4	-.6	-.5		-.5	-.8	-.2		-1.2	-1.6	-1.7
June		.3	.4	.4		1.3	1.1	1.6		.4	.4	.2
July	.1	.1	.3	.6	-.1	.5	1.3	.3	.3	.4	.4	.2
August	-.9	-.8	-.7	-.5	0	-1.3	-1.1	-1.6	0	-.5	-.2	0
Sept.	.7	.5	.1	.2	1.0	1.2	1.5	1.1	.6	.3	.3	-.1
October	-.2	.1	.4	.5	-.1	.9	1.0	1.0	-.3	0	0	.1
Nov.	.4	-.1	.4	-.2	.2	.3	.5	1.3	.2	.1	.4	.2
Dec.	-.1	.7	.2		2.2	2.8	3.9		2.2	0	.5	

	FOREIGN				ALL OTHER				TOTAL			
	1970	1971	1972	1973	1970	1971	1972	1973	1970	1971	1972	1973
Jan.		0	-.1	0		0	0	.2		-1.0	-1.2	-.2
Feb.		0	0	.2		0	0	-.2		-2.8	-3.1	-5.1
March		0	.1	0		.2	.1	-.2		1.6	1.6	-1.1
April		0	0	.2		0	-.1	0		2.4	3.2	2.6
May		0	.1	.1		-.2	-.2	0		-2.4	-3.2	-2.4
June		0	0	0		.5	.3	-.1		2.5	2.2	2.1
July	0	0	0	.1	0	-.6	.0	.3	.3	.4	2.0	1.5
August	-.2	-.1	0	0	-.5	-.4	-.2	-.4	-1.5	-3.0	-2.2	-2.6
Sept.	0	0	0	0	.6	.5	.4	.4	2.9	2.4	2.3	1.7
October	0	0	0	.0	.3	-.1	0	.1	-.3	.8	1.4	1.7
Nov.	-.1	0	0	.1	-.4	.1	.1	.1	.3	.3	1.4	1.4
Dec.	0	.1	0		.1	.5	.4		4.5	4.1	5.1	

SUPPLEMENTAL APPENDIX C*

THE PROPOSED WINDFALL TAX ON OIL

The "windfall profits" tax on oil recently proposed by the Administration (but not yet presented to Congress) is a progressive rate excise tax to be paid by the producer on the sale of domestic crude oil. The excise would be applied to all domestic crude oil sold above the controlled posted base price of December 1, 1973, at marginal rates ranging from 0 to 85 per cent, depending on the amount of price rise above the base level, as shown in Table 1. The same tax treatment applies whether or

TABLE 1

Proposed Tax Schedule for Crude Oil

Segments of market price	Tax rate applicable to segment	Average tax rate 1/ Initial	Average tax rate 1/ After 3-yrs.
	In per cent		
1. Up to posted base price, as of December 1, 1973 2/	0	0	0
2. Next $0.50 initially, but gradually increasing to next $3.00 over a 36-month period 3/	0	0	0
3. Next $0.25 above segment 2	10	.5	.3
4. Next $0.35	20	1.9	1.2
5. Next $0.60	30	4.8	3.3
6. Next $0.80	50	10.4	7.5
7. All portions of price above segment 6	85	36.5 4/	15.2 4/

1/ Measured at top of the brackets and assuming a price of $10 for top bracket rate.

2/ Approximately $4.00, with some variation according to location of well and quality.

3/ The width of this zero rate bracket rises monthly from the initial $0.50 to $3.00 after 36 months. At six month intervals the width is $0.64, $0.88, $1.20, $1.62, $2.21, and $3.00. All other bracket widths remain the same over time.

4/ Assumes a price of $10.00 for illustrative purposes.

* Prepared by David Reaume and Helmut Wendel, Government Finance Section, Division of Research and Statistics.

not the oil produced is now subject to price control. Posted base prices vary somewhat according to field location and oil quality but they averaged about $4.02 per barrel on December 1, 1973. For purposes of calculating percentage depletion and income taxes, the excise is deducted from the sales price. All calculations presented in this memorandum assumes a posted base price of $4.00 per barrel.

The tax bite is designed to decline over a period of three years and the tax is proposed to terminate completely after five years. The five-year termination feature, however, is particularly conjectural, since excise taxes in the past have frequently been extended beyond their termination dates. The three-year tax reduction schedule is accomplished by increasing the width of the initial tax bracket (the bracket with a zero marginal tax rate) from $.50 initially to $3.00 after 36 months. All other brackets maintain their initial width so that, for example, after three years the initial bracket above the base price will run from $0 to $3 and the second bracket from $3.00 to $3.25. During the final 24 months of the five-year period the schedule will remain unchanged.

YIELD

Table 2 presents a representative sample of prices to the buyer (market prices) and prices obtained by the producer net of excise tax.

TABLE 2

Dollar Effect of Proposed Tax At Different Market Prices*

Market price	Windfall tax in 1974	After tax price obtained by producer in 1974	in 1977	in 1979
(1)	(2)	(3)	(4)	(5)
$12.00	$5.35	$6.65	$8.78	$12.00
11.00	4.50	6.50	8.63	11.00
10.00	3.65	6.35	8.48	10.00
9.00	2.80	6.20	8.32	9.00
8.00	1.95	6.05	7.78	8.00
7.00	1.10	5.90	7.00	7.00
6.00	.43	5.57	6.00	6.00

* Assumes posted base price of $4.00 per barrel.

Because of the steep initial marginal tax rate (85%) on market prices over $6.50 per barrel, after tax prices rise relatively little in the short-run even with a market price rise from $6.00 to $12.00. Given current levels of production of crude oil, one can estimate the revenue yield of the proposed tax in the first year. At a market price of $7.00 per barrel, the tax would initially yield roughly $4.0 billion. If the price were $10.00 per barrel--a price now frequently quoted for oil not subject to price control--the first year yield would approach $14.0 billion. These estimates apply only to the excise tax yield and they need to be reduced by about 38 per cent (after allowance for depletion) to obtain the net tax yield after deducting foregone corporate profits taxes.

INCENTIVES

The timed fade out of the excise tax generates an increasing price to the producer over the fade-out period. Under certain assumptions this could discourage the marketing of crude oil while the tax is high, but under other assumptions there would be no serious disincentives to oil production in the short run. For instance, if the longer run equilibrium price of oil is expected to be $7.00 per barrel, but if the market price for all oil is allowed to rise to $10 in the short run, producers would be obtaining $6.35 initially after the excise tax is imposed and they would expect to obtain $7.00 after three years. Assuming constant production costs of $2.50 a barrel, and allowing for depletion allowances and income taxes, the rate of return on holding oil in the ground, with these price assumptions, would amount to 4.5 per cent per year. This relatively low yield should not be enough to cause producers to keep oil off the market in the short run, especially since some holding costs are involved and also since profit margins are quite large at a net price of $6.35.

Incentives to exploit oil sources involving high costs of exploration and extraction are also of concern. It is frequently assumed that a two to three year development period is needed before production gets underway. If this assumption is valid, a temporary excise tax need not delay or discourage the development of new high cost reserves. As for oil wells that are now being readied for production, one can assume that the decision to activate them was based on a much lower price outlook of around $4.00.

The rate-of-return analysis presented above was based on the assumption that the per barrel market price of crude oil will fall from $10.00 to $7.00 over the three-year tax reduction period. If instead the price does not fall, but remains at $10.00 per barrel, a producer who holds back his oil now for sale in three years and thus foregoes profit today, will find that the foregone profit yields him an attractive annual rate of return of 14 per cent per year over the three-year period that the oil is held (assuming there are no storage costs attached to holding oil in the ground, and also that extraction costs remain constant). Alternatively, if the price were to be established at $7.00 in the near term as a result of controls and were expected to remain at this level in the long run as supply and demand adjust to higher average prices, the annual yield on holding back oil over the three-year period would be 8.4 per cent. Clearly, the incentive effects of this proposal are heavily dependent upon one's assumptions as to the behavior of prices over the fade-out period. Under some assumptions the proposed tax plan would involve severe disincentives to the short run marketing of crude oil.