

A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1959 January



Contents

Home building in strong upturn	5
The changing mix of money	9
What's behind recent changes in time deposits?	12
The Trend of Business	2-4

THE Trend OF BUSINESS

The economy ended 1958 on the upbeat. All general measures of activity and, with a few exceptions, the categories within these groupings have been rising. The upward movement of recent months has been pronounced and broadly based.

This situation contrasts sharply with the picture as it appeared a year earlier. At the end of 1957, the economic skies were darkening as evidence accumulated that the business decline, then of three- or four-months duration, was spreading and gathering momentum.

Currently, business managers are preparing for a still larger volume of business. While a year ago, inventories and capital spending plans were being cut back, recent surveys indicate some loosening of the purse strings for investment purposes. Polls of consumer buying intentions and attitudes also suggest a moderate firming of buying plans. Finally, budgets of Federal and state and local governments virtually assure that public spending will continue to move upward. Thus, evidence from each of the broad categories of spending — business, consumers and government — points to further growth.

Although business was declining in early 1958, there was a general expectation that “plus factors” would soon appear. But how much they would influence the situation was, of course, uncertain. Defense spending was slated to rise because of the re-evaluation of the nation’s defense “posture.” In fact, the decline in military ordering already had been

reversed. Business inventory liquidation, which was then picking up speed, could be expected to moderate as the year moved on. Money rates had come down abruptly, and it was to be expected that home building and other construction would soon respond to the stimulus provided by the greater availability of credit. Opposed to these reasons for believing that the end of the decline in general business was not too distant were the evidence of general deterioration in confidence and the expectation that business capital expenditures, which had done a great deal to invigorate the 1955-57 boom, were set for a long decline.

To some observers, the situation at the beginning of 1958 added up to a downswing of one or two years or longer. Even the more optimistic, who correctly placed the trough of the cycle as early as April 1958, which in retrospect has been tabbed as the low point, were somewhat less than emphatic in voicing their views.

At the present time, economic forecasts issued from many quarters put forth the view that 1959 will shape up as a record year, at least as measured by total spending and other dollar aggregates. Figures of 465 billion dollars and higher are suggested for the level of the gross national product. This would compare with 437 billion in 1958 and 440 billion in 1957, the previous high.

As usual, uncertainties exist, however. To a great extent, these arise from the belief that the three major factors which reversed the

1957-58 downturn are running out of steam or will soon do so. Inventory liquidation was at an annual rate of 9 billion dollars in the first quarter of 1958. At the present time, additions to and withdrawals from inventory are probably about in balance. From here, a move to accumulation can be expected. This is the normal cyclical pattern. However, inventory buying policies remain cautious, and there is no indication at this time that accumulation will be heavy. Therefore, the greatest upward push from the inventory sector may already have been absorbed.

It is also pointed out that the prospective further rise in Federal Government spending may be less than the gain which occurred in the past year. Well-publicized efforts are being made to keep these outlays from rising above budgeted levels.

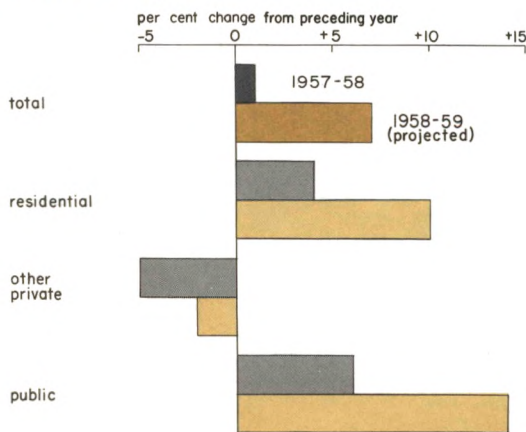
The third consideration is the possibility that the higher level of interest rates and reduced availability of mortgage funds will dampen the rise in residential construction. Over half of the projected 7 per cent in-

crease in construction outlays for 1959 is accounted for by the residential sector (see pp. 5 to 9).

Although most businessmen and consumers seem to expect that business conditions will improve, there is a general feeling that any prospective rise will not be of boom proportions. This is not uncommon in the recovery phase of a "peacetime" cycle. Profit margins doubtless will continue to feel the increased pressure of competitive markets, and facilities and manpower can be expected to be utilized less fully than in other recent years.

There are many important segments of industry in the metal-using lines which have experienced only moderate improvement. In some cases, these firms are not contemplating a vigorous upsurge in the demand for their products. This suggests one of two things: either the generally optimistic forecasts of aggregate activity are overenthusiastic, or the good news of a pronounced revival is still to be heard in many quarters.

Total construction expected to rise this year



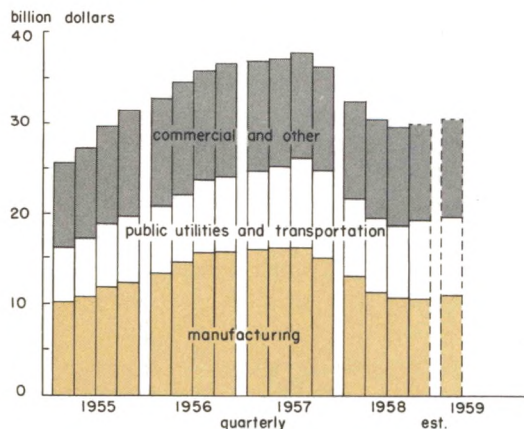
SOURCE: Departments of Commerce and Labor.

Recovery in the Midwest

The extent of the general rise in spending which may occur during 1959 depends, in large degree, upon spending decisions still to be reached. For the next several months, the new Congress and the Administration will be studying various Government programs, particularly with regard to national defense. The record of the past several years indicates that Government outlays, and receipts as well, often differ widely from the totals originally budgeted.

Business, farmer and consumer decisions to spend on durable goods also are subject to change during any twelve-month period. The extent to which affirmative judgments are reached on new outlays for machinery and equipment, farm implements, auto-

Business capital expenditures begin new upswing



mobiles and appliances will strongly influence total spending, and will be of particular importance to the Midwest centers which contribute a large proportion of the nation's output of these items.

The recently released Commerce Department survey of businessmen's intentions to buy plant and equipment affirms earlier estimates that the low point in this type of spending was reached in the third quarter of 1958. The six-month period, October 1958-March 1959, is expected to see a continuous, if modest, rise in capital spending.

Production of road-building equipment which had been depressed early in 1958 now appears to be set for a substantial rise. Orders for most types of new industrial machinery have been rising for some time. In December, the railroad equipment industry was reporting some revival of new orders from sharply reduced levels.

Construction of new manufacturing plants is expected to decline further in 1959, while commercial and public utility construction may be about the same as in 1958, according

to official estimates. Over-all, plant and equipment spending during 1959 as a whole is now projected by some observers at a level slightly greater than last year, but well below 1956 and 1957.

In the consumer sector, intentions to buy durables are still generally uncertain as indicated by various surveys. However, recent months have produced evidence that consumer takings of major household durables have been higher than earlier in the year. During the summer and early fall it appeared that the rise in production of these items since last spring was largely a reflection of the need to rebuild inventories at the manufacturing and distribution levels.

The auto sales prospects have been difficult to evaluate on the basis of trends during the fall. The low level of stocks of some leading makes of cars in dealer hands is thought to have limited sales, at least until recently. Published aggregate inventory figures had somewhat overstated the rise in cars available for sale because they included the large number in transit during the inventory build-up period. The range of estimates on domestic sales of cars in 1959 is broad, as usual at this time of year, running all the way from 5 to 7 million cars, compared with the estimated sales of about 4.6 million in 1958.

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Home building in strong upturn

Residential construction activity in the U. S. reached a three-year high in the second half of 1958, after rebounding sharply from a slow pace in the opening months of the year. First exceeding the million mark in May, the annual rate of private nonfarm starts moved successively upward to well beyond 1.2 million in both September and October and to more than 1.3 million in November. The twelve-month total, it now appears, will be on the order of 1.1 million units, exceeding 1957's by about 10 per cent. This would be lower than in 1954 and 1955 and, of course, well below record 1950, but a respectable sum by any other comparison.

In a number of the major Midwestern areas, 1958 failed to measure up so well against the prior years, judging from the record for the first three quarters. The late summer and fall, however, saw an upturn

in most centers, and it may have been great enough to offset earlier weaknesses. In the Seventh District's metropolitan areas as a group, the number of new dwelling units authorized during the first ten months was 3 per cent below the figure for the same portion of 1957. This decline contrasts with a 15 per cent gain reported for the U.S. From preliminary indications, the pickup in the big Chicago area, for one, gained enough momentum to bring the eleven-month total of authorized units about 3 per cent over the corresponding 1957 level.

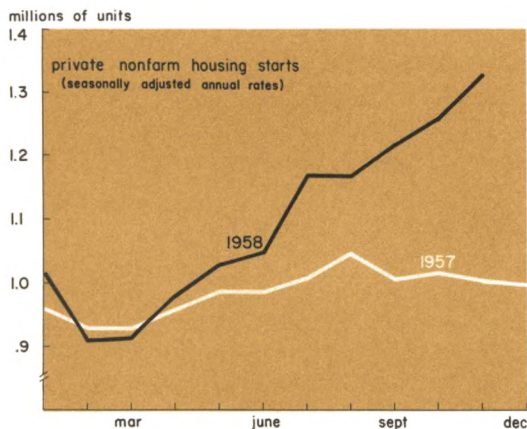
A year-end canvass of builders and lenders in several leading markets in this area turned up impressive evidence of a strong upturn during the fall months. The renewed strength, moreover, is commonly expected to carry over into the near term ahead.

Mortgages find favor

Improvement in the U.S. home-building picture during the past year has been widely attributed to changes in the availability of credit. Yields on corporate and Government securities declined substantially toward the end of 1957 and moved to still lower levels during early 1958. Meanwhile, mortgage rates held relatively firm and looked increasingly attractive to investors as returns on investment alternatives shrank further. The result was a substantial build-up in outstanding lender commitments to take mortgage loans. This development has been cited as a material contribution to the sharp acceleration in building activity as the year moved along.

The "shift" into home mortgages made its

U.S. housing starts climb sharply in second half of 1958



mark conspicuously in a big increase in the volume of FHA and VA financing. By mid-1958, the monthly volume of applications for FHA insurance and VA appraisals was running at twice the rate of a year before. In good part, of course, the reason was that maximum permissible interest rates under both programs had been increased early in the year and discount controls on VA loans entirely removed.

But there was more to it than this. Banks and life insurance companies, important sources of mortgage money, invest their funds in a wide variety of forms and tend to be relatively sensitive to yield differentials. Among many such investors, Government-underwritten mortgages generally enjoy favor, relative to conventional loans on real estate. A decline in corporate and Government bond yields which prompts an increase in mortgage portfolios gives a special stimulus to FHA and VA home financing.

The comparatively high level of building costs in many Midwest centers places this area at a disadvantage in the competition for FHA and VA mortgage funds. Because of the ceilings on the principal amounts of Government-underwritten loans, down payments nearly as large as those called for in conventional financing are often required. For this reason, an over-all increase in the flow of funds into FHA and VA mortgages is apt to have less leverage on mortgage financing in areas where building costs are relatively higher than in other sections.

Some observers contend that these implications of a fairly general building cost disadvantage are to be held at least partly accountable for home building's relatively unfavorable showing in many Midwest areas during the past year. Probably no less important, however, was the fact that the business recession cut somewhat more deeply in

the durable goods industries — important in the Midwest — than it did over the nation.

The credit problem again

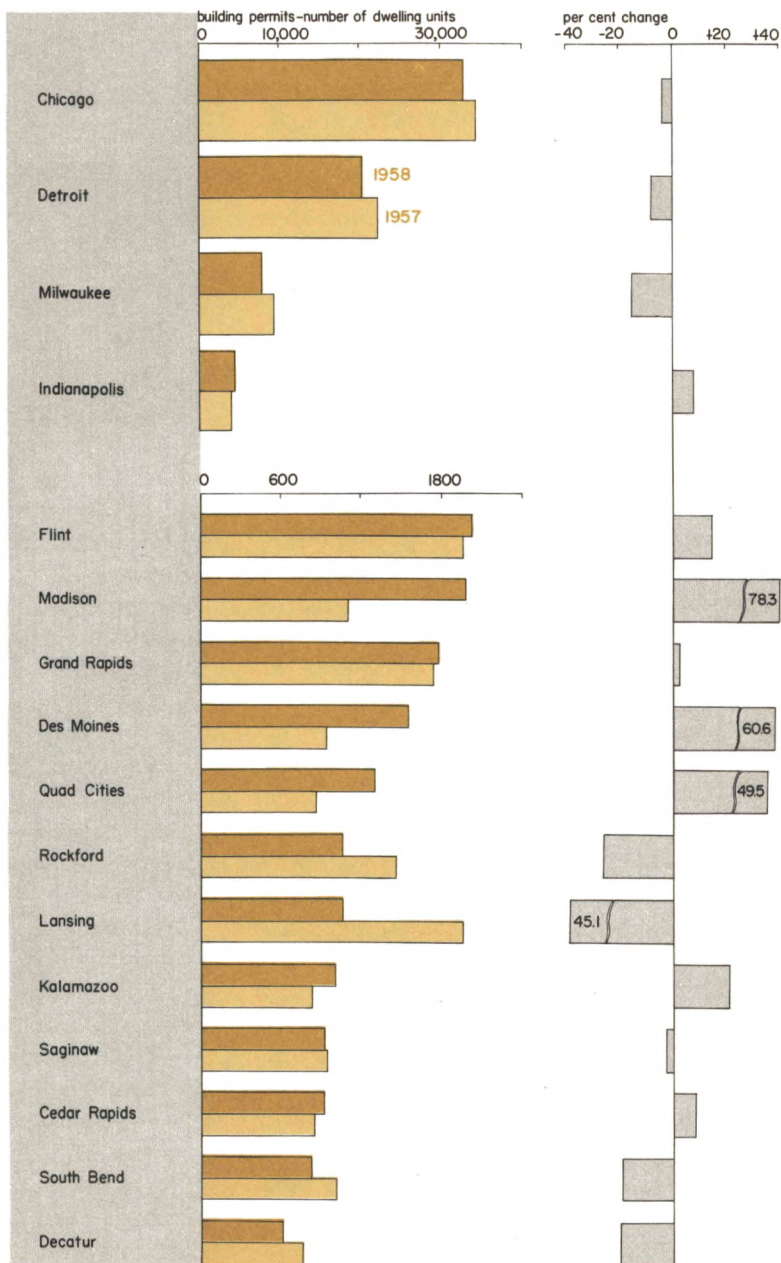
The period of intensified investor interest in mortgage loans ended about as abruptly as it had begun. After a sharp rise that took hold in the second quarter of 1958, yields on corporate and Government securities had virtually recovered their year-before levels by the time fall arrived. Since there was no comparable firming in mortgage rates, lenders soon shifted their attention away from real estate loans and back toward alternative investments. As a result, there now is widespread expectation on the part of industry observers that home building will begin to show softness by the middle of this year. Lenders, it is said, are not as eager as they were a year ago to enlarge their mortgage holdings and will trim their commitments accordingly. Such a judgment is consistent with the home-building projection embodied in the official "Construction Outlook for 1959," released by the U. S. Departments of Commerce and Labor in November. That report suggested that 1959 will show roughly the same number of private housing starts as 1958, but with activity greater in the first half than in the second. Starts in the next few months, of course, will largely reflect investor commitments already made.

To the degree that the impact of a lessened eagerness to acquire mortgages concentrates on the Government-underwritten varieties — just as these had perked up most early last year when mortgages were gaining in interest — home building in Midwestern centers may be cushioned somewhat against the effects of renewed credit tightness. These centers, in other words, may have somewhat less to lose than those in other sections of

the country from a shrinkage in the supply of funds seeking investment in Government-underwritten loans.

As 1958 drew to a close, there were few reports in the area of any real "shortage" of mortgage money, although rates had been firming up slightly since early fall. Last September, the average rate on conventional (not guaranteed or insured) home mortgages in the Chicago area, for instance, was about $5\frac{1}{2}$ per cent. Indications are that it is somewhat higher now. Interest in VA mortgages had all but vanished and FHA's had lost much of the attractiveness they had had earlier in the year. This development has been commonly ascribed to the widening of discounts on VA and FHA mortgage loans. Government-underwritten mortgages tend to be discounted when the interest rates they carry begin to lag behind market yields. In short, a lender will be willing to advance to

Home building in most Midwest centers for first ten months in 1958 lower than year before



a borrower something less than the face amount of, say, a 4¾ per cent loan if conventional mortgage and other investment yields are appreciably higher than 4¾ per cent. Sellers are reluctant to absorb discounts, borrowers are not permitted to do so and lenders frequently shun discount transactions. The Government-underwritten loans being closed toward the end of 1958, therefore, mostly reflected forward commitments that lenders had entered into months before. Meanwhile, however, funds for investment in conventional mortgages were ample.

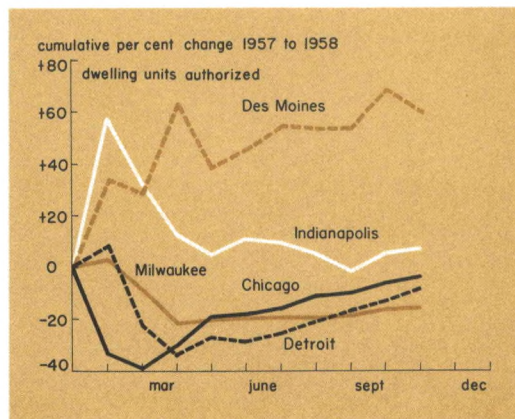
A good year ahead?

Widely expressed in Midwest builder and lender circles is the view that the flow of funds available for conventional financing will continue to grow and, moreover, that appreciable further tightening in the long-term market is hardly to be expected. Still, as is inevitable at this season, lenders are somewhat prone to "wait and see." Investor allotments for the year ahead have yet to firm up, so the picture is somewhat obscure, as far as the credit factor is concerned.

From builders there are numerous reports of a continued shift to multi-family units and to the use of prefabrication, trends widely expected to persist for some time. The emphasis on apartment construction in some instances occurs despite a rise in rental vacancy rates.

Home buyers reportedly are still expressing a general preference for units having 3 and 4 bedrooms, extra half or full baths and garages or carports. But several builders in the Chicago area cited a revival of interest in 2-bedroom houses, which have not been built in volume for several seasons. This tendency appears to be related to the recent emphasis on apartment units in the middle price range, that is, at monthly rentals

Home-building rates in big Midwest centers reflect differences in recession's severity



averaging something like 30 dollars a room.

Developers in the larger markets — Chicago and Detroit, particularly — continue to be concerned about the virtual disappearance of improved vacant lots, and some of the suburban-area builders report difficulty in keeping abreast of increasingly stringent building code requirements. Upgrading and tightening of official regulations relating to minimum lot size and details of construction were mentioned as a factor likely to nudge costs higher, not only in the coming season but for the indefinite future.

On the other hand, rising productivity in construction is looked to by many in the industry as an offset to effects of the further advance in building wage rates foreseen for 1959. If material prices hold firm, as is widely anticipated, any advance in prices in the coming season is expected to reflect product upgrading motivated by a combination of shifting buyer preferences and tightening in community standards for new construction.

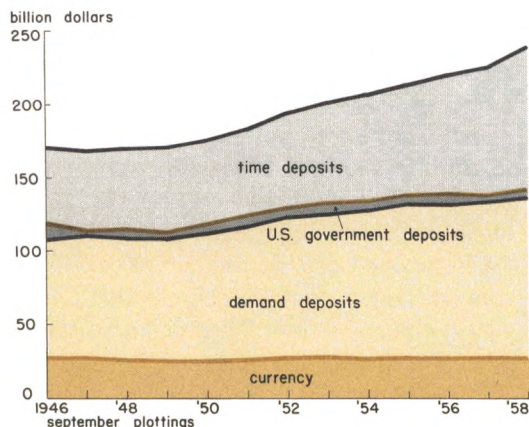
The latent desire that people have to own their own homes or to move to better rental quarters is generally thought by Midwest builders to be about as strong as ever. With

business on the upgrade at year end, moreover, they expect the income factor, over-all, to be favorable to housing expenditure during 1959.

The changing mix of money

In the twelve months ended September 24, 1958, total deposits of the banking system plus currency outside banks rose 13 billion dollars, or almost 6 per cent. Except for the war years, this is one of the largest annual increases in cash balances on record. Reserves provided by the monetary authorities permitted banks to acquire securities in substantial excess of the decline in their loan portfolios — a money-creating process. Thus, cash holdings increased despite the contractive effects of the business recession in late 1957 and early 1958.

As total money stock has grown, its composition has changed slowly



Money is not a homogeneous entity. There is not even general agreement as to just what items "money" should include. Whether an asset is or is not considered money appears to be chiefly a function of its liquidity. However, the concept of "money" does not usually extend beyond liabilities of the banking system. Private demand deposits and currency and coin outside the banks are usually considered the "active money supply" even though it is known that a portion of these balances are "idle." But there are other items which may logically be included in "money" for some purposes. U. S. Government balances, for example, are not available for private expenditure although the initial monetary effects of credit expansion are often reflected in Government deposits.

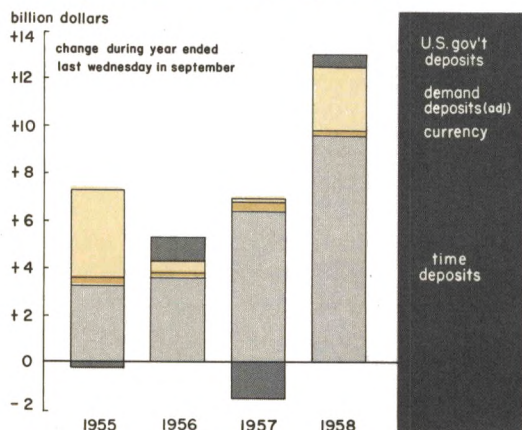
The other major bank liability is time deposits. Sometimes these balances are classified with savings-type assets, such as savings and loan shares and savings bonds, as "near money" because, like those assets, they have to be converted into currency or demand deposits before they can be spent. On the other hand, it is often more meaningful to include them with money. This is true particularly of time accounts other than individuals' pass book savings — certificates of deposit and open time accounts held by businesses, local governments and foreign-

ers. Such accounts are likely to be regarded by holders as part of funds available for expenditure—to be turned into cash in times of credit need.

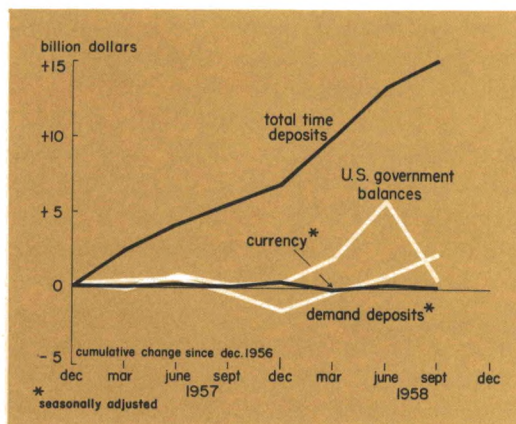
At the end of the third quarter of 1958, total deposits, including demand (except

interbank), Government and time, plus currency outside banks amounted to 238 billion dollars. This total will be referred to for present purposes as the *money stock*. Its largest component is demand deposits—the working balances of individuals, businesses, other private agencies and local governmental bodies. To avoid double counting, these deposits are adjusted for checks in process of collection. Time deposits are second in magnitude, while currency and U. S. Government deposits are relatively small.

While time deposits have accounted for most of the annual addition to money stock in recent years . . .



demand deposits have risen sharply since early 1958



Which kind of money

While expansion or contraction of bank loans and investments produces changes in the total volume of deposits and currency, the composition of the money stock depends on the decisions of individual holders. As indicated in the accompanying charts, currency and U. S. Government deposits change little from year to year, though, in the short run, these are often quite volatile and may temporarily distort the normally close correspondence between bank credit and demand deposits. U. S. Treasury balances are, of course, intentionally kept within fairly narrow limits, and variations in the amount of currency are largely seasonal.

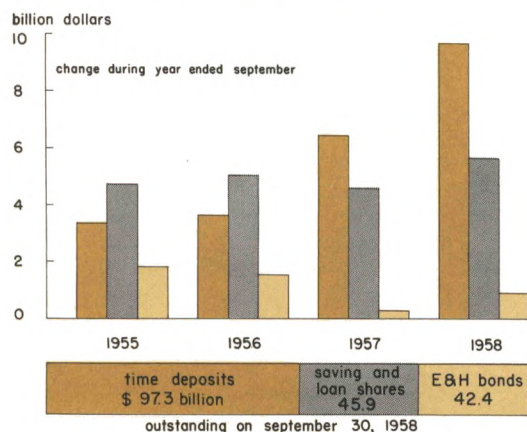
The distribution between demand and time deposits, on the other hand, shows rather large changes in response to cyclical forces as holders reappraise their needs for “medium of exchange” and “store of value” monies. In the longer run, the relative proportions are also influenced by changes in institutional arrangements. In September 1958, demand deposits accounted for 45 per cent of money stock compared with 50 per cent ten years earlier. Time deposits, on the other hand, had grown from 33 to 40 per cent of the total.

In the past five years, three-fourths of the

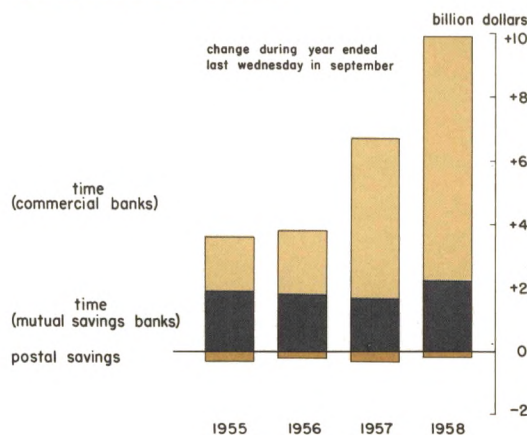
rise in money stock has been in time deposits. The growth in time accounts was particularly large in 1957 and 1958.

Examination of the pattern of growth within those years reveals that the sharpest expansion came in the first half of 1958, while the recession was bottoming out. The growth slowed somewhat in the third quarter. Meanwhile, the "active money supply" components — demand deposits and currency — responded more slowly to monetary policy. Demand balances, after adjustment for normal seasonal swings, fell more than 2 billion dollars during the last half of 1957. By June of 1958, expansion in these components barely made up for the earlier contraction despite the fact that bank loans and investments were 14 billion above the year-earlier level. This difference, of course, was due to the "leakage" into time accounts as well as into U. S. Government balances. The latter rose to unusually high levels in June, reflecting the Treasury's cash receipts in that month from both borrowing and tax

Additions to time deposits have exceeded the growth in other near monies in the past two years



The increased growth of time deposits has been largely at commercial banks



payments. After midyear, bank credit and total money stock actually contracted somewhat, but demand deposits rose further as Government balances were drawn down.

Time and "near money"

Time deposits are the oldest form of near money and exceed the other two major forms — savings bonds and savings and loan shares — combined. But while time deposits were rising rapidly in the past two years, these other near monies grew more slowly. Increments to E and H savings bonds outstanding reflected interest accruals almost entirely. While the volume of savings and loan share capital has continued to increase at the rate of about 5 billion per year, the dollar growth in time deposits in 1957 and 1958 was much larger. The rate of growth rose to 11 per cent last year, still less than the 14 per cent rise in share capital.

The total of time deposits consists of three parts — commercial bank time, mutual savings bank time and postal savings

accounts. Postal savings are gradually being liquidated and are no longer a significant portion of the total. Deposits in mutual savings banks account for about a third of the total. Until 1957 they were growing at about the same pace as those in commercial banks. In the past two years, the phenomenal rate of growth has been in corporate, foreign and state and local time accounts. These, of course, are concentrated in commercial banks.

The distinction between money and near

money is tenuous at best, and time deposits, in particular, seem sometimes to fit better in the one category and sometimes in the other. The nature of the recent growth in time balances — reflected in the 3 billion dollar rise from mid-1957 to mid-1958 in corporate, foreign and state and local time balances at member banks — suggests that at least part of these funds have a high degree of moneyness and will be converted into demand deposits at such time as business needs for funds rise appreciably.

What's behind recent changes in time deposits?

To most people, time deposits are synonymous with individuals' savings at banks. However, this is not the complete story, for time deposits take a variety of forms and may be owned by corporations and governmental bodies as well as by individuals. Moreover, although regular savings deposits owned by individuals and nonprofit institutions account for the great bulk of time deposits, the various other types of time accounts have been responsible for a surprisingly large share of the recent rapid changes in time deposits at commercial banks.

The largest segment of the time deposit total is regular *savings* deposits. This type of account at member banks is restricted to individuals and nonprofit institutions. The regular savings account is sometimes evidenced by a written receipt or agreement, but more generally by a passbook which is presented at

each transaction. Normally the depositor can withdraw savings upon request without delay; the bank, however, reserves the right to require a written notice of withdrawal of not less than 30 days.

Time deposits at member banks also include time *certificates of deposit and open-account deposits*. These two types of accounts may be held by corporations as well as by individuals. Their popularity depends, in part, on the promotional activity of the banks that offer them. In some communities, certificates are traditionally preferred by individuals over the more common passbook arrangement. In other communities, certificates and open accounts are used predominantly by businesses and corporations because banks have tailored terms to meet liquidity and cash operating requirements of business firms.

Maturity and interest rate characteristics

of the different types of time accounts are major determining factors affecting the preferences of depositors. A member bank may pay any rate from zero to 3 per cent, the maximum permissible rate, on a regular savings deposit. Interest on other types of time deposits may not exceed the legal maxima of 1 per cent on deposits of less than 90 days and 3 per cent on deposits of 6 months or more.

The record increase

As of September 24, 1958, all types of time deposits at the nation's commercial banks (excluding interbank deposits) aggregated nearly 63 billion dollars. The amount added during the third quarter totaled about

1.2 billion dollars. This represented a slight decline from the postwar peak rate of growth reached during the spring of 1958.

Since the end of 1956, when many banks began to offer higher rates of return on time savings, time deposits at commercial banks had risen at a sharply accelerated pace. The expansion in time deposits at all commercial banks between December 1956 and June 1958 had come to over 21 per cent; at member banks, time deposits were up 22 per cent; at nonmember banks, 19 per cent.

Even larger gains were reported in some of the Reserve Districts. At member banks in the Dallas District, time deposits rose nearly 50 per cent during the December 1956-June 1958 interval. In the Atlanta District, the

gain was close to 40 per cent. However, the rate of increase in the Boston, Cleveland and Chicago Districts was appreciably below the U.S. average. At large Chicago central reserve city banks, the increase in time deposits amounted to only 6 per cent, but it was 17 per cent in the country banks of the Chicago Federal Reserve District.

Other divergencies in the pattern of time deposit growth are evident from data submitted by member banks in special supplements to their 1957 and 1958 June call reports of condition. These give a break-

Time balances of individuals and corporations at member banks, by Reserve District

District	Corporate and institutional deposits		Personal savings-type deposits ¹	
	June 6, '57	June 23, '58	June 6, '57	June 23, '58
	(million dollars)			
Total, all Districts	961	1,866	38,344	42,732
Boston	22	36	1,288	1,368
New York	270	387	6,309	7,434
Philadelphia	67	121	2,341	2,559
Cleveland	58	95	4,019	4,303
Richmond	67	115	1,714	1,888
Atlanta	53	123	1,728	2,070
Chicago	88	201	7,574	8,094
St. Louis	20	42	1,230	1,319
Minneapolis	21	41	1,218	1,356
Kansas City	35	57	1,127	1,281
Dallas	101	256	1,130	1,366
San Francisco	157	392	8,665	9,692

¹Regular savings deposits, individuals' (including nonfarm unincorporated business) holdings of certificates of deposits and open accounts, Christmas savings and similar accounts and deposits accumulated for payment of personal loans.

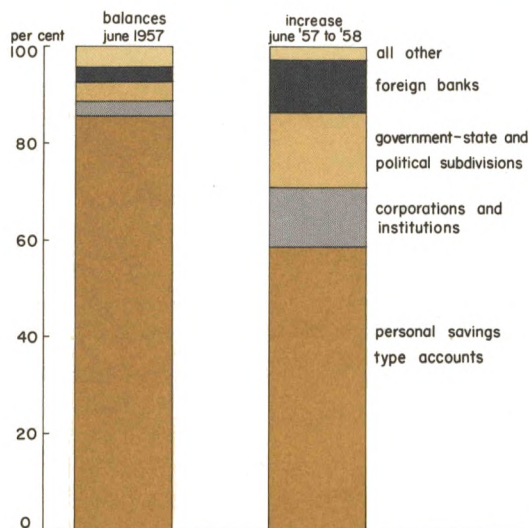
down of time deposits by type and ownership.

In this twelve-month period, total time deposits at member banks rose by about 7.5 billion dollars — a rise of more than 15 per cent. Those held by state and local public agencies increased nearly 1.2 billion dollars, or 55 per cent. And deposits owned by foreign banks rose 61 per cent. Deposits owned by individuals (including unincorporated business) gained 4.4 billion dollars or 11.5 per cent and corporation time accounts advanced more percentagewise than any other category, 94 per cent, for a gain of 900 million dollars.

Regional variation

All personal deposits of the savings type — regular savings deposits, Christmas savings and similar accounts, and individuals' holdings of time certificates and open-account deposits — increased at varying rates

Over 40 per cent of the June 1956-June 1957 growth in member bank time deposits was in "nonsavings" accounts



in different sections of the country. Growth was most rapid in the South and Southwest, reaching 20 per cent, and smallest in the Boston, Cleveland and Chicago Federal Reserve Districts. Somewhat larger gains were reported in these accounts at central reserve and reserve city than at country banks.¹

The percentage increase in deposits of corporations and nonbank institutions at all member banks was considerably larger than for individuals' deposits. At member banks in the San Francisco and Dallas Districts, corporate deposits rose more than 150 per cent. The rise in corporate holdings surpassed the U. S. gain of 94 per cent also in the Atlanta, Chicago, St. Louis and Minneapolis Districts. Much of this growth appears to have occurred during the first six months of 1958.

Expansion in corporate time deposits was widespread. Corporations with accounts in country banks increased their time deposits 289 million dollars, or 89 per cent. Corporate balances at reserve city banks rose somewhat more, from 435 million to 1,009 million, or 132 per cent. The gain at central reserve city banks was only 40 million dollars, or 20 per cent.

The comparative rates of growth in corporate and personal time accounts between mid-1957 and mid-1958 are shown in the accompanying charts which highlight regional differences by comparing them on a percentage basis with the average change for the entire country.

Individuals and businesses respond to

¹Central reserve city banks — for the most part, larger banks in the central business areas of New York and Chicago. Reserve city banks — for the most part, the larger banks in the central business sector of the nation's major cities other than New York and Chicago. Country banks — for the most part, banks in smaller centers and in outlying areas of the nation's major cities.

some of the same incentives to add to their holdings of time deposits—for example, both are motivated by attractive interest rates and maturity arrangements. However, corporations and businesses are undoubtedly more responsive to these incentives than individuals and are more sensitive also to yields available from other kinds of investments.

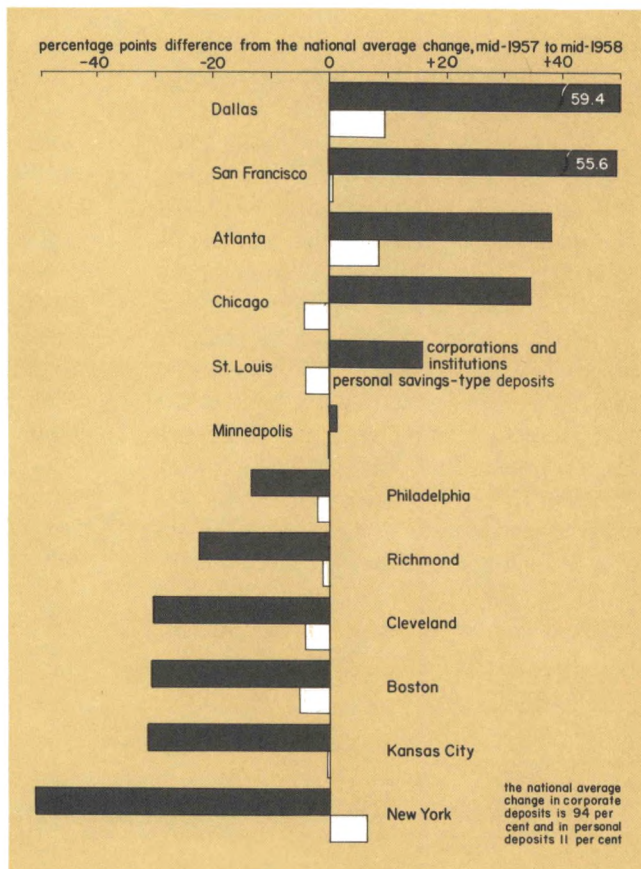
When needs for funds for business operations slacken, as they did during the latter half of 1957, and bank rates are more attractive than yields on Treasury bills and certificates, commercial paper and bankers' acceptances, corporate managers tend to increase their holdings of liquid assets in the form of time deposits. Such investment of cash balances may be from both current earnings and shifts of funds from other forms of short-term investments.

Personal time deposits, on the other hand, though known to respond to interest rate changes, are tied into the saving process. Many people who save in banks consider rates of return to be of secondary importance. Their motivation for saving is to accumulate funds for anticipated future expenditures such as the purchase of "big-ticket" items and to finance children's education, retirement needs and the like.

... in the Midwest

Reflecting in part the sharp drop in personal income in automobile manufacturing centers, the expansion in individuals' time deposits at member banks in metropolitan

Member banks in the Dallas, San Francisco and Atlanta Districts reported above-average gains in both personal and corporate deposits



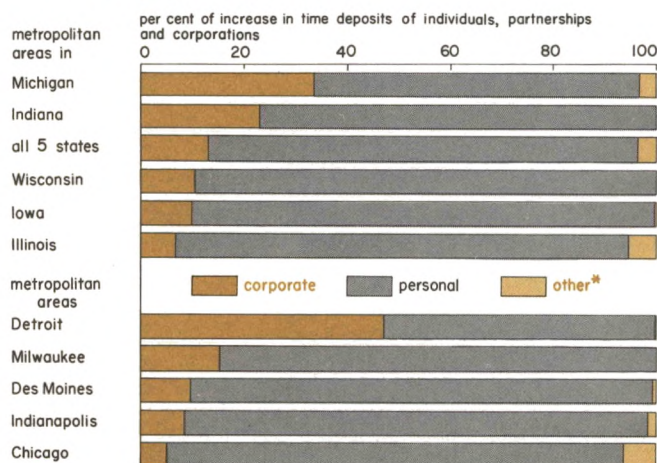
areas between mid-1957 and mid-1958 was less in Michigan than in the other Seventh District states. The Michigan rate was 5 per cent, compared with 17 per cent in Wisconsin, 15 per cent in Iowa, 7 per cent in Illinois and 5 per cent in Indiana.

These growth rates generally exceed those for regular savings deposits alone, due to the rapid pace of the growth in individuals' time saving in certificates. While the growth

in individuals' regular savings accounts at banks in the District's metropolitan areas averaged 6.3 per cent, inclusion of personal saving in the form of time certificates raises the gain to 6.8 per cent. Corresponding figures for metropolitan areas in Iowa are 11 and 15 per cent (a difference of 4 percentage points), reflecting the large role played by time certificates in personal saving in Iowa.

The relative importance of time certificates in individuals' total time deposits, of course, varies by areas. In several Iowa and Michigan centers, these deposits accounted for as much as 18 per cent of total time deposits of individuals. The average for all District metropolitan areas, as of mid-1958, was on the order of 7 per cent, slightly higher than the U.S. average of 4 per cent. In several Midwest areas, therefore, it is necessary to identify changes in time certificates and open-account deposits if movements in individuals' saving are to be measured.

In some Midwest areas, corporate deposits accounted for over 20 per cent of the rise in time deposits at member banks



*Foreign holders other than banks, and deposits of banks' own trust departments.

Moreover, current data on time certificates and open-account deposits help to round out the picture on business deposits. Between mid-1957 and mid-1958, corporate time deposits at member banks in metropolitan areas of Wisconsin quadrupled. They more than doubled in Michigan and Iowa. The increase was over 75 per cent in Indiana and close to 60 per cent in Illinois.

With few exceptions, such as Champaign-Urbana and Madison, where corporate time deposits are of negligible size, the growth in nonsavings type time deposits exceeded gains in personal time deposits in District metropolitan areas. As a result, the rise in total time deposits of individuals, partnerships and corporations in most areas was greater than the rise for individuals.

In terms of the dollar increase, corporate deposits were responsible for almost 20 per cent of the growth in total time balances of individuals, partnerships and corporations at member banks in Seventh District metropolitan areas during the 12 months preceding June 23, 1958, though on this date they represented only about 3 per cent of such balances. Furthermore, in 7 of the District's 32 metropolitan areas, corporations accounted for more than 50 per cent of the total gain, and in 9 additional areas between 20 and 50 per cent. Thus, developments in a relatively small segment of time deposits have had a significant influence on the rate of change in the aggregate figures. Such evidence indicates that fluctuations in business holdings of time deposits, as well as in personal saving, must be considered in any evaluation of changes in total time deposits.