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# MONTHLY REVIEW

ANNUAL REVIEW ISSUE

**Millennium or Mirage?**

**Elusive Balance**

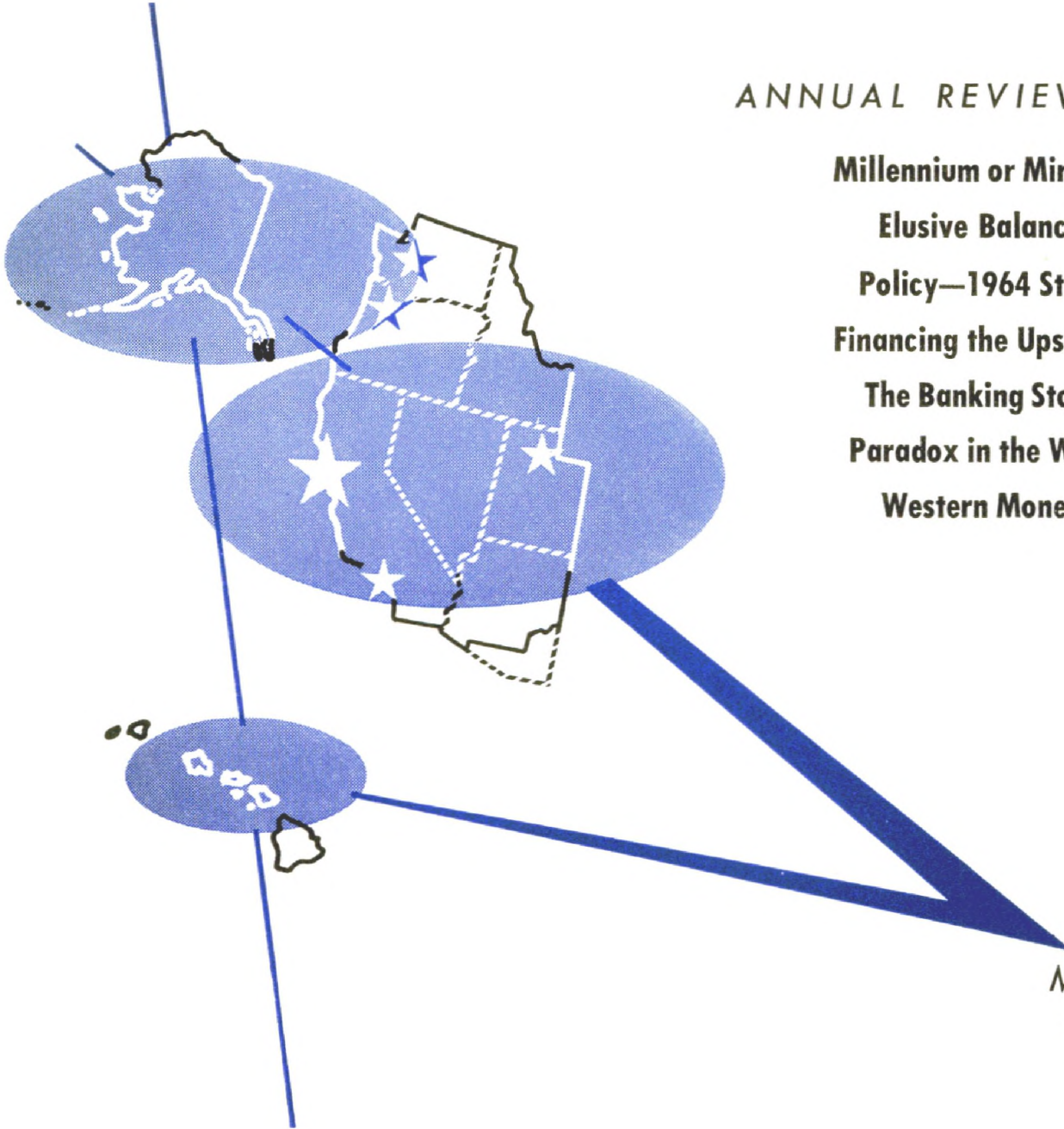
**Policy—1964 Style**

**Financing the Upswing**

**The Banking Story**

**Paradox in the West**

**Western Money**



MARCH  
1965

# 1964 . . . Annual Review

# Millennium or Mirage?

**I**N 1964 the numbers that made the headlines on the business page looked very good indeed. Because of the stimulus of an expansionary public policy and a strong response by businessmen and consumers, the national economy at this mature stage of a prolonged cyclical expansion behaved just as briskly as it did during the early days of the boom. Consider, for example, these gains in some of the broad measures of business activity:

Gross national product—up \$39 billion in 1964, to \$623 billion for the year;

After-tax income of individuals—up \$29 billion, to \$432 billion;

After-tax profits of corporations—up \$5 billion, to \$32 billion;

Non-farm employment—up 1½ million, to 58 million.

And in all cases the increases were at least a third greater than the gains recorded in prosperous 1963.

The breadth and strength of the 1964 expansion were attributable in large part to a major breakthrough in economic policy—a massive tax cut enacted when the budget was already in deficit. To some observers, the manifest success of this tactic suggested that the millenium was nearly at hand. At least, the year's record of rapid growth, achieved within a context of declining unemployment and of relatively stable prices, gave some support to the optimists' contention that a given mix of public and private policies can greatly alleviate our economic ills.

## Youth and zest

The record of 1964 thus led a former chairman of the Council of Economic Advisers, Walter Heller, to claim: "The tax cut has brought youth and zest to a lengthy expansion without sowing the wild oats of inflation." But the same record led another former Council chairman, Raymond Saulnier, to argue: "The American economy is as close to overheating as it is safe to get."

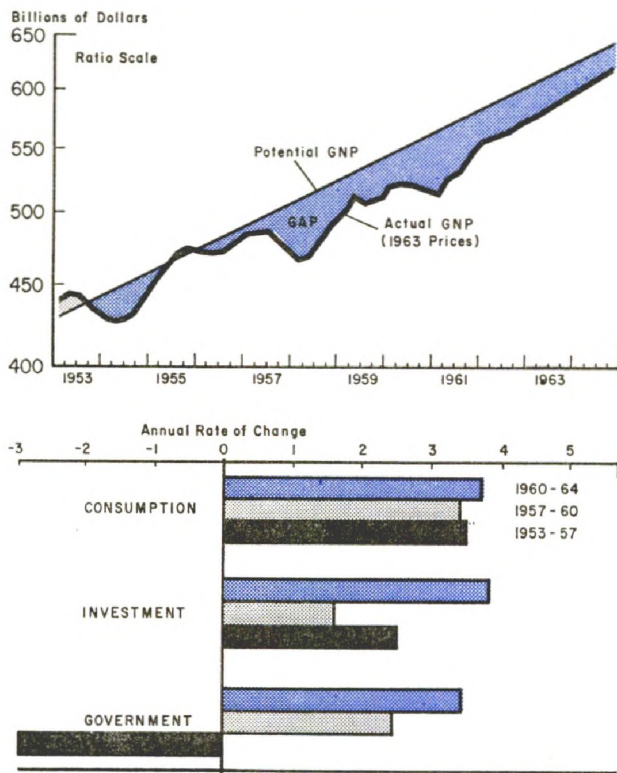
Critics such as Saulnier contended that the policy goals attained in 1964 were achieved only at the expense of future policy failures. They admitted, of course, that expansionary policies had stimulated the sharp gain in GNP and had helped push the unemployment rate down to a more bearable level. Yet, at the same time, they argued that too many stresses had accumulated in the process. The environment at year-end, in particular, gave rise to fears that future pressures on manpower, materials, and money would create an unconscionable strain on the domestic price level and on the international value of the dollar. In this view, 1964 represented not the embodiment of prosperity but rather a mirage.

Nonetheless, the crucial point for most business analysts was that the economy responded in 1964 just as the President's Council said it would. When the tax-cut proposal was first broached, early in this business expansion, the Council claimed that it would help close the gap between the nation's actual output and the potential output attainable under conditions of full employment. In the wake of the tax cut, the fiscal stimulus did precisely this, by putting resources to work and thus lowering the jobless rate from 5.6 to 5.0 percent between the final quarter of 1963 and the corresponding period of 1964. By late 1964, in fact, joblessness among married men was reduced almost to 2½ percent.

## Broad-based expansion

The strength of the boom varied from sector to sector, as the tax stimulus affected some activities more than others and as weaknesses developed in some of the sectors that had led off the expansion several years before. But, all in all, the economy continued to develop an already substantial and broad-based expansion. Between the last cyclical peak and the end of 1964, consumption spending in real terms increased at a 3.7-percent annual rate, or somewhat faster than in either of the

## Tax cut stimulates broad-based expansion and helps close GNP gap



Sources: Department of Commerce, Council of Economic Advisers

two preceding cycles. Investment spending in the 1960-64 period grew at a slightly faster pace than consumption, and government spending at a slightly slower pace; both of those sectors, however, grew far more rapidly in this cycle than in other cycles of the past decade, in real terms.

To a large extent, the 1964 expansion was interlinked with the continued steady growth of basic spending by consumers and their local governments—that is, consumer purchases of food, nondurable goods, and services, plus state-local government purchases. This vast, cyclically unresponsive area of the economy, which amounts to more than two-thirds of total spending, increased more than \$30 billion in 1964, as compared with a \$20 billion gain in the preceding year. Consumer spending for food and for other goods and services increased rapidly, on the basis of continued growth in the number of consumers and, more

important, in the number of dollars at their disposal. State and local government spending also expanded, on the basis of the rapidly growing population's demand for new schools, highways, and health and welfare activities.

Nonetheless, the strengths (and weaknesses) of the 1964 expansion could be discerned more clearly in the achievements of several other sectors which typically generate the expansions and recessions of the business cycle. The record in these categories was somewhat mixed. Briefly, the year recorded substantial strength in consumer spending for big-ticket items (although not for homebuilding), similar strength in business investment (especially plant and equipment spending), and some present and future reductions in defense spending.

### Fickle consumers

The same factors that stimulated consumer spending for daily necessities spurred their buying of items such as automobiles. Auto purchases grew about 7 percent during the year, to a total of more than \$24 billion. The total undoubtedly would have been even larger if production schedules had been maintained at the beginning of the 1965-model year; as it was, about 500,000 units failed to reach the market because of prolonged auto-labor troubles at model-introduction time. But even so, auto sales reached new heights for the third consecutive year. Total sales, including imports, rose to more than 8 million units, as more consumers (especially younger consumers) entered the market, as more dollars found their way into buyers' hands through income gains or through auto loans, and as more and more older cars found their way to the auto graveyard.

Housing, another major consumer "investment," represented one of the few weak spots in the 1964 picture. Although residential construction spending rose 3 percent (to \$26 billion) for the year as a whole, this sector expe-

rienced a persistent decline from the beginning to the end of the year. The weakness was due to market factors and not to lack of financing. In other business cycles of the post-war period, the housing boom was cut off eventually by tightening credit as well as weakening demand; throughout this cycle, however, mortgage credit has consistently been available at low rates. Nevertheless, the appetite of consumers for new housing evidently was somewhat weaker than their appetite for new cars.

Declines occurred in both single-family and apartment construction, but the decline in the latter category was the most noteworthy housing news of the year. The number of starts in multiple dwellings rose from about 250,000 units in 1960 to almost 600,000 units in 1963, but the expansion then began to taper off. In fact, by late 1964, permits for new apartments were running 20 percent below the year-ago level.

**Pentagon and other businessmen**

Another question-mark in the 1964 record was defense spending. The Federal Government spent about \$55 billion for this function—about the same as in 1963—yet here, as in housing, the trend of expenditures was down throughout much of the year. Downward

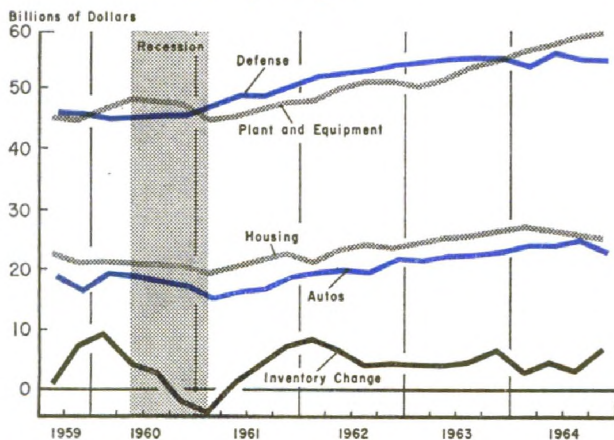
pressure on defense spending reflected, of course, the Administration’s desire to control expenditures at the same time that it reduced tax revenues. The effort was highlighted by Secretary McNamara’s far-famed attack on “gold-plating” and other activities where Pentagon costs could be held down. Basically, however, the reduction in defense spending simply reflected the successful completion of many of the programs which were designed to give the nation a strong military posture throughout the coming decade.

Unlike the businessmen in the Pentagon, business leaders elsewhere in the economy were still in the midst of modernization and expansion programs in 1964. Spending for new plant and new machinery increased more than 10 percent above the already high 1963 level, to \$58 billion in 1964. Moreover, the carryover of expenditures on projects already underway grew from \$7 billion in late 1962 to almost \$12 billion in late 1964.

The capital spending boom has been stimulated by a strong profits situation; profit margins have risen much longer than in earlier expansions and in 1964 were at the highest levels since the mid-50’s. In addition, the rate of capacity-use in manufacturing has remained high for an unusually long period; from 82 percent in 1961, the utilization rate moved steadily upward to 87 percent in 1964. Business firms have also been encouraged to expand because of the wide availability of improved technological processes, the spur of domestic and foreign competition, and the stimulus of Federal tax policy.

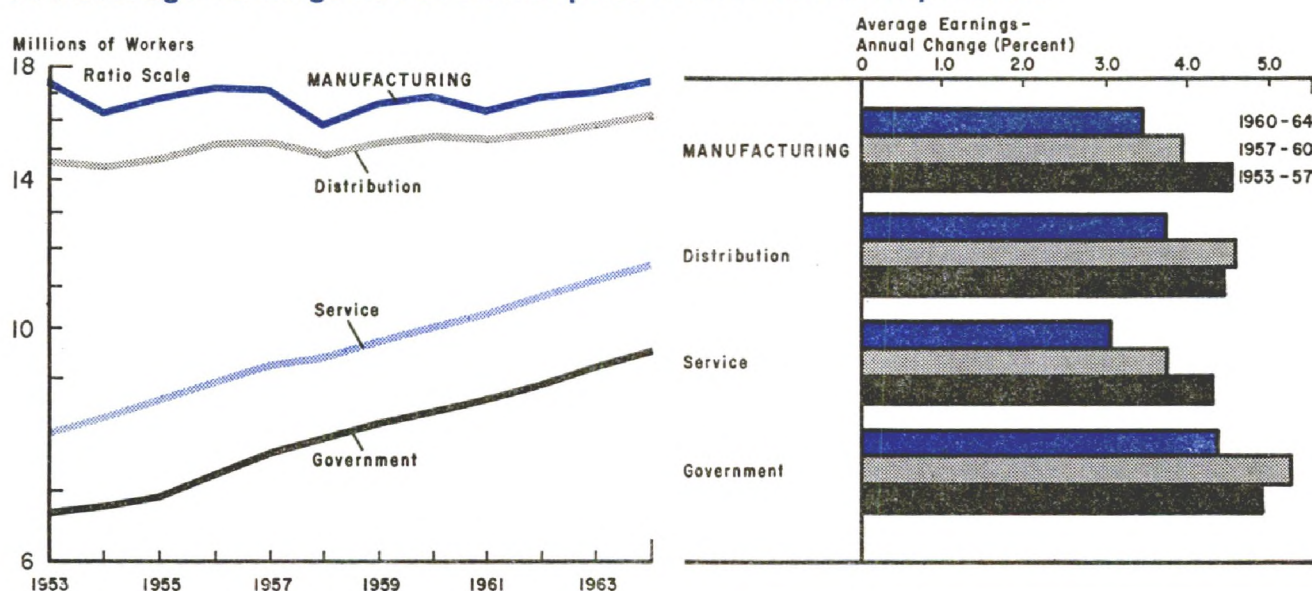
Businessmen, although ready and very willing to spend on plant and equipment, were somewhat reluctant to spend on inventories in 1964. Inventory accumulation amounted to less than \$4 billion during the year—substantially less than in either 1962 or 1963. The stock-building picture shifted toward the end of the year, however; at that time, the recoil in auto production and strike-hedge buying

**Capital goods, auto spending dominate '64 upsurge**



Source: Department of Commerce

**Strong gain in manufacturing jobs highlights 1964 employment picture**  
 . . . average earnings rise at slower pace than in earlier expansions



Sources: Department of Labor, Department of Commerce, Federal Reserve Bank of San Francisco

of steel created a scene reminiscent more of the fluctuating 50's than the stable 60's. But throughout most of the year the low levels of inventory-sales ratios indicated a tight scheduling of production and purchasing—and, in many cases, a level of final demand exuberant enough to sweep the shelves clean.

**Growth and problems**

The generally strong situation in the cyclical areas of the economy and the definitely strong picture in non-cyclical sectors added up to a very satisfactory growth record for 1964. The continuing expansion helped to bring about (in real terms) a 3½-percent annual growth rate or better in each of the major sectors—consumption, investment, government—between the preceding (1960) peak and the end of 1964. Moreover, the year also boasted further progress toward the attainment of other economic goals, despite the still-limited success in dealing with unemployment, and despite year-end worries about the domestic price level and the international balance of payments.

In the labor field, the very respectable gain in employment and the drop in joblessness

were darkened somewhat by the need to find jobs for a flood of entrants into the labor market. The problem was seen at its worst in the area of teenage unemployment; whereas only about 2½ percent of married men were left without jobs at the year-end, the rate among teenagers was about 15 percent. And the problem will continue, of course, since the number of teenagers in the labor force will increase by about a million between 1964 and 1966—or almost as much as in the entire preceding decade.

Among more hopeful signs, the drive toward full employment in 1964 was marked by a substantial gain in manufacturing jobs. Although comparable increases occurred in the fields of distribution, service, and government, an increase by year-end of almost 500,000 jobs in manufacturing strongly suggested that basic industries cannot be written off as a source of employment for new job applicants.

The improvement in employment—and a 3-percent gain in output per manhour—went hand in hand with the favorable labor-cost situation which has characterized this entire cyclical expansion. Despite substantial wage

settlements in several key industries, average earnings in most parts of the economy continued to rise at a slower pace during this expansion than during either of the two preceding business cycles. Even more striking was the continued stability in unit labor costs. Throughout 1964, this indicator remained substantially below the level reached at the preceding cyclical peak; in earlier cycles, by way of contrast, labor costs per unit of output increased considerably after the first year of cyclical expansion.

The 1964 boom also progressed within an environment of stable wholesale prices, but, again, with some pressures evident as the year went on. The wholesale price index continued to move sideways, just as it did during the preceding half-dozen years. But by year-end, spot prices of raw industrial materials were 16 percent above the year-ago level.

This development reinforced the signs of pressure shown elsewhere—by near-capacity operations in several industries, by a 15-percent thickening of order backlogs in durable-goods manufacturing, and so on.

Yet taken as a whole, 1964 was practically a textbook performance, combining as it did a strong fiscal stimulus and a strong consumer and business response to public expansionary measures. In Mr. Heller's words, "At the core of our successful expansionary policy are fiscal measures which have successfully blended consumer and investment stimulus, and monetary measures which have successfully coupled relative ease domestically with relative tightness internationally." But the expansionary policy was validated by the consumers who clamored for goods in the marketplace and by the businessmen who moved swiftly to meet those consumer demands.



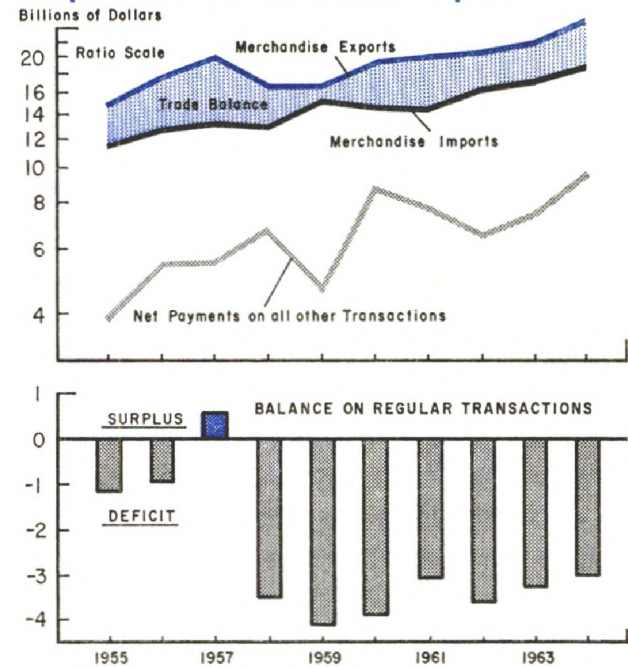
# Elusive Balance

**I**N 1964, our balance of payments position continued to impose constraints on domestic monetary and fiscal policy, despite measures taken in the middle of the preceding year to reduce the deficit by discouraging capital outflows abroad into portfolio and liquid investments. As the following chronology indicates, the recent behavior of our international accounts illustrates once again the constantly changing nature of the influences affecting those accounts and the pitfalls involved in relying on any single set of policy measures to achieve a cutback in the payments gap. Recent events also underscore the necessity for public and private policymakers to pay constant attention to all facets of our payments posture.

Several measures taken in July 1963—the announcement of a proposed tax on U. S. purchases of most foreign securities, the increase in the Federal Reserve discount rate, and the amendment of Regulation Q permitting higher maximum rates on time deposits—contributed to a substantial and rapid contraction in our payments deficit on regular transactions. From a seasonally adjusted annual rate of \$5.3 billion in the second quarter of 1963, the deficit shrank to \$1.5 billion in the third quarter. The improvement then extended into the first quarter of 1964; in that period the deficit reached a low of less than \$1 billion, due partly to unusually large wheat exports to Soviet bloc countries and partly to the carryover of investment-income receipts from 1963 to take advantage of 1964's lower tax rates.

The improvement was not maintained, however, and the deficit widened again to an average of \$2.7 billion in the second and third quarters of 1964. Moreover, preliminary figures for the final quarter of the year indicate a sharp worsening in the deficit because of exceptionally large capital outflows. The def-

## Payments deficit continues, despite substantial trade surplus



Note: Special transactions included in "all other transactions"  
Source: Department of Commerce

icit for the year as a whole consequently has been revised upward to \$3 billion on regular transactions, compared with \$3.3 billion in 1963 and the optimistic \$2-billion deficit originally forecast for 1964.

## Some heartening progress

Despite the sharp deterioration in the U. S. payments position in the fourth quarter of 1964, the year closed with some heartening progress. Most noteworthy was the rise in our trade surplus from \$5 billion in 1963 to \$6.5 billion in 1964. Even more encouraging was the fact that the commercial trade balance (excluding Government-financed exports) accounted for most of the gain in the export surplus, rising from \$2.3 billion in 1963 to a \$3.6-billion rate for the first three quarters of 1964. The almost 15-percent growth in exports was fairly evenly distributed among the various trading areas of the world on a percentage basis, although exports to western



Europe and Canada accounted for about half of the dollar increase.

The strong record compiled by U. S. exports in 1964 attested to the strengthening in the competitive position of American industry. All export categories showed gains, with shipments of capital equipment (particularly machinery and vehicles) and industrial supplies accounting for four-fifths of the increase in export value in the January-October period. U. S. automakers also expanded their sales abroad. Continued high levels of economic activity abroad, exacerbated by labor shortages and production bottlenecks, and relative price stability here at home provided a strong stimulus to U. S. exports. Higher export earnings of primary producing countries also boosted American sales to those countries.

Imports, meanwhile, rose only about two-thirds as fast as exports during the year, although the increase was again shared by most areas except Australia, New Zealand, and South Africa. Imports of capital equipment rose 20 percent as a reflection of the steady expansion in domestic economic activity, but imports of industrial supplies and materials

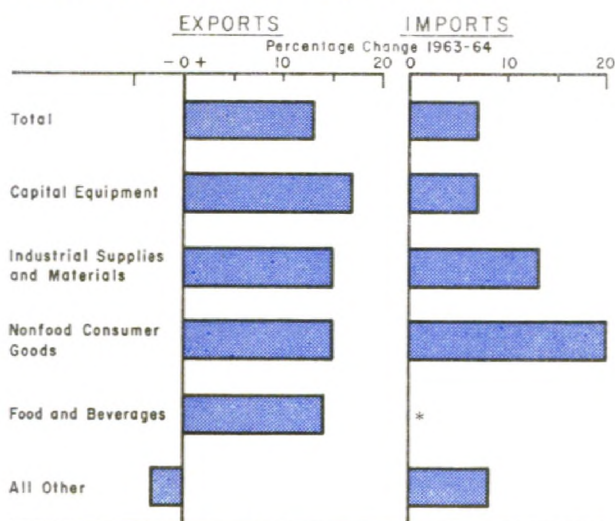
increased more slowly (7 percent), in line with the relatively slow rate of domestic inventory accumulation. Meanwhile, a \$100-million increase in imports of foreign cars somewhat offset the rise in U. S. auto exports. But, on the whole, imports generally increased more slowly than industrial activity, especially during the first half of 1964, and thus helped to swell our export surplus.

The weakening U. K. trade balance contributed to the improvement in the U. S. trade surplus, but at the same time added to pressures on the British balance of payments. (Consequently, in view of the newly imposed system of import surcharges, U. S. exports may receive little support from this source during the current year.) On the other hand, 1964 also witnessed a substantial outflow of short-term capital from the U. S. to the U. K., and a reduced inflow from Britain to this country of longer term funds.

The fruits of earlier U. S. investments abroad were garnered in significantly large amounts in 1964, as investment income rose about \$700 million above the preceding year's total. Income receipts from previous investments in the Middle East, Latin America, Europe, and Canada bulked large in the overall gain. The rate of new investments in Europe, however, still tended to outrun returns on past investments, and thus constituted a current net drain on our payments position. On other service transactions, net payments to foreigners for transportation showed no further reduction over 1963, but the rate of increase in net tourist expenditures leveled off considerably, due partly to a rise in foreign tourism in this country.

Investment in new foreign securities was probably affected more than any other category by the special balance of payments measures announced in mid-1963. The uncertainties produced by the proposed interest equalization tax and the subsequent enactment of the tax in September 1964 effectively checked the outflow of U. S. capital into for-

### Capital goods manufacturers spark nation's successful export drive



Note: Comparisons based on ten-month data for exports and nine-month data for imports. \*Less than 0.5 percent. Source: Department of Commerce

eign securities. Net foreign-security sales in this country were about 30 percent below the \$1-billion figure for 1963. (But new Canadian issues, which were exempt from the tax, were as large as in the preceding year, while international institutions also floated securities in the U.S. capital market in 1964.) The tax also led to some net divestiture of outstanding foreign securities by Americans. In addition, the special tax and more liberal access led to a significant increase in the volume of foreign securities sold in European capital markets, and thus relieved some of the pressure that had previously centered on the U. S. market.

The net result of the financing of the payments deficit was more favorable to the U. S., even though the deficit was not very much smaller in 1964 than in 1963. The U. S. gold stock fell only \$125 million, compared with a \$461-million drop in 1963, while U. S. foreign currency holdings rose \$220 million compared with \$113 million the year before. Foreign bank and nonbank holdings of U. S. liquid-dollar assets increased substantially, and this tended to lessen pressures on our gold reserves. Nonetheless, France made sizeable gold purchases from the U. S., although this was offset by net acquisitions from the U. K., primarily as a consequence of Bank of England operations on behalf of the gold pool during the first half of the year.

### **Some disappointments**

Two balance of payments accounts registered some, but still disappointing, progress in 1964. U. S. military spending abroad declined only slightly, as efforts to reduce the drain from this source produced less of a result than anticipated. On the other hand, U. S. sales of military goods to foreign countries rose slightly. Prospects are good for further increases in military sales and thus for a net reduction in the dollar drain from military spending abroad.

Government grants and credits to foreign countries continued to decline—from \$4.5 billion to \$4.2 billion. But net dollar payments on this account dropped less — from \$0.9 billion in 1963 to a \$0.7 billion annual rate in the first nine months of 1964.

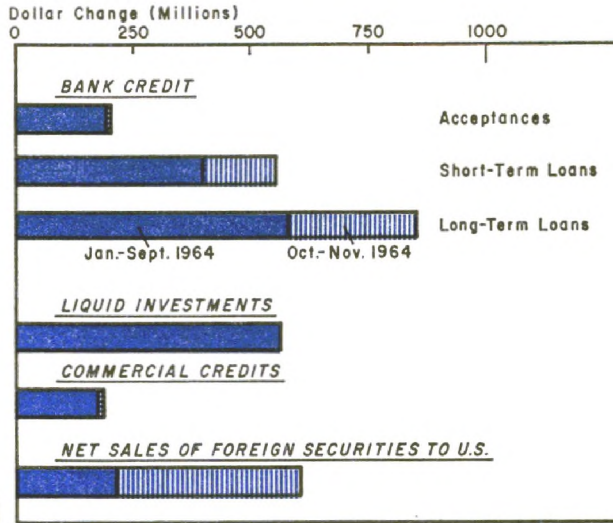
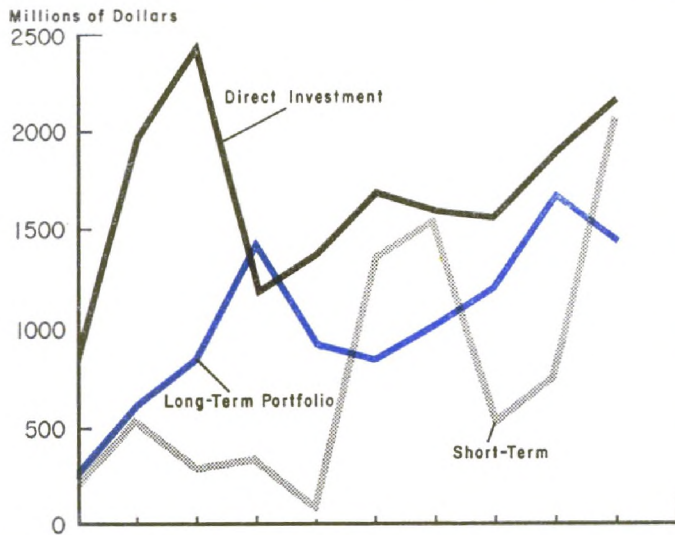
### **And some major setbacks**

Two developments in 1964 constituted major setbacks in the drive to strengthen the U. S. payments position: the sharp increase in term lending by U. S. banks to foreigners and the sizable expansion of short-term capital outflows. U. S. long-term bank loans to foreigners rose by more than \$900 million, and over half of that gain was caused by European borrowers and by other countries subject to the interest equalization tax.

A significant portion of these credits may have financed U. S. exports. On the other hand, the strong upsurge in longer term lending by U. S. banks indicates that these loans may have partly substituted—at least temporarily — for funds that might have been obtained in the U. S. capital market. Other contributing factors were the stepped-up activity by U. S. banks in the international area, the generally adequate availability of funds, and the strong demand from abroad for bank financing. At any rate, the growth in such long-term lending effectively nullified the improvement in our payments position resulting from the cutback in new foreign security issues. Adding to the long-term capital outflow was an advance payment of \$254 million to Canada for cooperative development of the Columbia River basin, which will be offset over the next 30 years by the receipt of goods and services from the completed project.

The other major source of drain on the U. S. payments position was the rise of more than \$1 billion in short-term capital outflows. Acceptance financing—generally tied to U. S. exports but also used for trade between third countries—rose only about one-third as much as in 1963, largely due to a decline in Japan-

**Upsurge in private capital outflows weakens U.S. payments position . . . problem centered in short-term credits and investments and in term loans**



Note: Line chart shows January-September 1964 data, at seasonally adjusted annual rates. Sources: Department of Commerce, Department of the Treasury.

ese financing needs during the course of the year. New short-term bank loans, however, were about \$600 million larger—distributed almost equally among Europe, Latin America, and Asia.

Even larger outflows were recorded for U. S. short-term capital into foreign liquid investments (acceptances, commercial and finance company paper, and other money market instruments), mainly in Canada and the United Kingdom. As sterling weakened after the first half of the year, interest in liquid sterling assets waned, but U.S. investors continued to place sizable sums in Canadian finance company paper and in Canadian time deposits at favorable rates of return. As in the case of longer term bank credits, some of the short-term capital outflow helped to finance U.S. exports. But the shift into foreign liquid assets was largely dictated by the more attractive yields that were obtainable abroad than on comparable U.S. investments.

Accentuating these two sizable setbacks in the U. S. payments position were several other developments: the continued rise in U.S. direct investments in Europe and Latin America (offset partly by a reduced rate of invest-

ment in Canada), a \$250-million decline in foreign long-term investment in this country, and an increase in unrecorded net outflows abroad.

**Some new, and some old, techniques**

Because of the rapidly shifting nature of our payments problem, U. S. authorities not only remained on guard against speculative pressures on the dollar, but also remained alert to any additional steps that might be taken to redress the payments imbalance without disruption of the international economy or interruption of the domestic expansion. For the first time, the U. S. drew foreign currencies from the International Monetary Fund, in a technical operation designed to reduce pressures on the dollar arising from repayments to the Fund by other countries. By the end of the year, the U. S. had drawn \$525 million in foreign currencies, but its net drawings totaled only \$231 million because other countries simultaneously drew dollars from the Fund.

The Federal Reserve discount rate was raised, and Regulation Q again amended, to minimize the possibility of disturbing shifts from dollars into sterling after the British

Bank rate went up to 7 percent in November. The Federal Reserve swap arrangements were also utilized during the sterling crisis, as they were earlier in the year to bolster the Italian lira and on other more routine occasions when temporary exchange facilities were needed by either party to the arrangements. These operations were often undertaken in conjunction with the Treasury. Total swap facilities available to the Federal Reserve were raised to \$2.35 billion by year-end. The U. S. also participated in the massive \$3-billion aid package extended to the U. K. in November.

Treasury debt-management authorities continued to heed balance of payments requirements by helping to maintain the Treasury bill rate at levels not conducive to capital outflow and at the same time not discouraging to domestic economic activity. Federal agencies also continued their efforts to encourage exports and to reduce the net drain of dollars occurring through other types of transactions.

On the international level, the Kennedy Round of trade negotiations moved toward the goal of significantly lower tariff and nontariff barriers. International cooperation moved forward in other fields too: the Group of Ten countries introduced "multilateral surveillance" procedures to improve balance of payments adjustments, and IMF members agreed in principle to a general increase in IMF quotas to meet future needs for increased international liquidity.

### **Some hope for the future**

After all the debits and credits were added up, attainment of payments balance continued to elude the United States in 1964. Some of the favorable developments were attributable to temporary circumstances, but other developments—such as the increase in exports, domestic price stability, and productivity gains—were more than just transitory phenomena, although the gains must now be

consolidated and extended. Some of the adverse developments also were due to temporary factors—for example, the bunching of some foreign security sales due to uncertainties earlier in the year regarding the provisions of the interest equalization tax, and possibly some diversion of borrowing to U. S. banks pending development of substitute sources of financing.

What impact the U. K. situation will have on the U. S. balance of payments is difficult to foresee. The import surcharges may cut U. S. exports both to Britain and to other countries hard-hit by the U. K. levy. On the other hand, for example, the long, hard task of restoring fundamental balance to the U. K. international accounts may inhibit movements of American short-term capital into the U. K. The net effect of these divergent movements is hard to forecast. Restoration of internal and external equilibrium will be the primary concern of the U. K. in coming months. The success of these efforts will benefit the U. S. dollar as well as the pound.

To ensure a significant reduction in our payments deficit in 1965, the Administration announced early in February a comprehensive series of measures designed to implement this goal. The interest equalization tax was extended to bank loans of over one-year maturity under standby authority already granted to the President; direct-investment firms were requested to work with the Department of Commerce to reduce capital outflows; and new tax legislation was to be introduced to encourage foreign investment in the United States. The Administration also reaffirmed its intention to continue and intensify current efforts to hold down the dollar drain. The Administration, moreover, asked the Federal Reserve System (in cooperation with the Treasury) to work with the banking community to limit outstanding credits to foreigners to no more than 5 percent above the December 1964 level of outstandings.

## Policy—1964 Style

THE PRINCIPAL problems confronting the monetary and fiscal authorities in 1964 were not distinguished by their novelty. The domestic economy continued to be troubled with under-utilization of human resources and industrial facilities; meanwhile, our accounts with the rest of the world remained in deficit. Although these problems were not altogether overcome, substantial progress was made on the home front, and for that blessing fiscal-policy actions may claim a large measure of credit. And although monetary policy was less easy in 1964 by the usual measures, it did not preclude a considerable expansion of bank credit.

Perhaps the most remarkable development in the field of public policy was the general acceptance of actions that were deliberately designed to increase the rate of growth of economic activity. Tax reductions were enacted in 1948 and 1954, of course, but the reasoning underlying those reductions was quite different from that advanced for the 1964 action. The earlier actions were largely undertaken for the purpose of reducing tax rates from the abnormally high levels reached during the World War II and Korean emergencies; the fact that the cuts became effective during recession periods was more or less a happy coincidence. But the 1964 reduction and the proposed cuts in excise taxes this year presage the increasing use of tax policy as an anti-cyclical weapon.

### Blessings of tax relief

If the power to tax is the power to destroy, the ability to reduce taxes can also be viewed as the power to create. Thus, the tax reductions which became effective March 1, 1964, played a significant part in making the annual gain in GNP almost 40 percent larger than the preceding year's increase. The largest part of this increase was in consumer spending and business outlays for plant and equipment.

It would be difficult, if not impossible, to attribute specific weights to the reductions in corporate and personal income tax rates as causal factors behind the spending boom. On the other hand, it would be foolhardy to argue that the increases in disposable personal income and in corporate cash flows that resulted from the tax cut had nothing to do with the higher levels of consumer and business expenditures. By increasing disposable personal income and the cash flows of business, the tax cut effectively increased the total demand for goods and services, even as might a rise in government expenditures independent of a tax cut. Moreover, the tax stimulus was self-reinforcing, as a rising demand for goods induced additional business spending to provide the capacity to meet this demand.

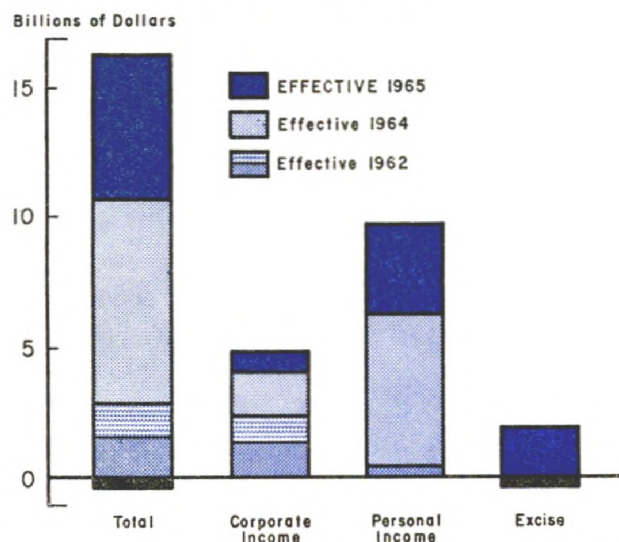
The Revenue Act of 1964 provided for reductions in tax liabilities of \$11 billion for individuals and \$3 billion for corporations over a two-year period. Initially, a \$6.7 billion cut in liabilities of individuals and a \$1.7 billion cut for corporations were scheduled for 1964, but the withholding rate on wages and salaries was lowered to the final 14-per-

### Tax cut reflected in larger budget deficit



Source: Department of Commerce (national-income accounts).

## Widespread tax reductions add to strength of expansion



Note: Reductions in 1962 include new depreciation guidelines and an investment tax credit; proposed changes in excises in 1965 include an increase in highway taxes as well as a \$1.75-billion cut in other excises.

Source: Department of the Treasury

cent level in one step rather than in two. This measure thus concentrated about \$9 billion of the individual tax reduction—and the main thrust of the spending boost—in the year 1964.

Nonetheless, the total impact should be somewhat greater. According to the Council of Economic Advisers, the final effect on consumer spending will be nearly double the original tax cut—or \$18 billion—through successive cycles of spending and respending. The Council calculated that the initial \$9-billion tax reduction boosted spending by a \$13-billion annual rate by the end of the year, so that a potential \$5-billion increase in spending may be attained before the stimulus of 1964's first-stage reduction is exhausted.

For fiscal 1966, the Administration has proposed a reduction of about \$1.8 billion in various (but as yet unidentified) excise taxes. The present structure of Federal excises is a catch-all of taxes imposed for a variety of reasons. Many are holdovers from wartime emergencies designed either to raise a little more revenue or to discourage consumption. Aside from certain taxes which are essentially

user-costs, such as gasoline, motor vehicle, or tire taxes—the proceeds of which are some measure of the benefits received from a system of public roads—there are many other excises which provide relatively little revenue for the amount of expense and bother involved in their collection. But whatever the reasons for the initial imposition of these excises, one major purpose of their reduction or removal will be the creative one of economic expansion.

### Debt managers and the Red Queen

What of the problems of the tax collector? A major Treasury worry, of course, is debt management—a situation best summarized by the Red Queen in *Through the Looking Glass*, where she tells Alice, “It takes all the running you can do to keep in the same place . . . (and) . . . if you want to get someplace else, you must run at least twice as fast as that.”

Extending the maturity of the outstanding public debt is a source of constant concern to the Treasury. The passage of time inevitably brings outstanding securities to the date that they are due regardless of their original maturities. Thus, since 1960 the Treasury has had to face a “floating debt”, that is, debt due within one year, ranging between 38 percent and 46 percent of the total marketable debt.

Against this background, the year 1960 represents a watershed of sorts in Treasury debt management. In June of that year, and eleven more times thereafter the Treasury used a new debt-management technique: the advance refunding operation. This operation was designed to refund near-term issues before the maturity date and to push debt further out in the maturity range, so that the Treasury would not have to come to market so often. From 1960, when the average maturity of the outstanding debt fell to a post-war low of 4 years, 4 months, the average maturity was lifted above 5 years in 1963 and 1964.

In 1964 two advance refundings, conducted in January and July, moved a total of \$12.3 billion of securities falling due in 1964-1967 out into issues maturing from 5 to 23 years. The most recent (and highly successful) advance refunding, carried out in January 1965, swept \$9.7 billion of 1965-1967 issues out into maturities ranging from 5 to 22 years. Consequently, less debt will come to redemption in 1965 than in any year since World War II, as only about \$13 billion of publicly-held notes and bonds must be refunded.

However, in spite of these efforts to extend the debt, the average maturity of the outstanding marketable public debt at the end of 1964 was an even 5 years, down a month from the end of 1963. This development reflected the Treasury's difficulties in reconciling seemingly contradictory policy objectives. In addition to extending maturities, the Treasury has operated to increase the supply of short-term issues, in order to maintain short-term interest rates at levels consistent with balance of payments objectives. But in order to stiffen short-term rates, the volume of bills outstanding was increased by nearly \$17 billion from the end of 1959 to the end of 1964. In addition, in 1964 the certificate of indebtedness was dropped as a public debt instrument and its slot in the short-term area was absorbed by Treasury bills. With the exception of tax-anticipation bills, the volume of

outstanding bills was maintained almost automatically through the weekly tenders of 3-month and 6-month bills and the monthly auction of one-year bills, which replace maturing issues. Consequently, the proportion of bills to total marketable debt due within one year increased from 49.6 percent at the end of calendar 1959 to 69.3 percent at the end of calendar 1964.

On balance, the average maturity of the outstanding debt has lost much of its significance as a measure of the maturity structure of the debt, in view of Treasury policies of the past five years designed to move maturing and near-term maturities further out in the maturity spectrum, while increasing the supply of Treasury bills in the market. If adjustment is made for the increase in the volume of Treasury bills outstanding, the regular and advance refunding operations of the past five years have certainly extended the average maturity of Treasury coupon issues outstanding and given the debt managers sufficient freedom of action so that they no longer have to run twice as fast to get someplace.

### A policy for all seasons

Monetary policy in 1964 was again called upon to perform double duty: to support an expansion in domestic economic activity and to attempt to bring about some improvement

#### AVERAGE MATURITY AND PERCENTAGE DISTRIBUTION OF MARKETABLE PUBLIC DEBT, 1959-1964

End of Year	Under 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total	Average Length	
							Years	Months
1959	42.5	32.7	11.8	8.8	4.2	100.0	4	4
1960	39.8	37.5	9.9	7.0	5.8	100.0	4	7
1961	43.8	33.0	10.1	6.2	6.9	100.0	4	7
1962	43.1	30.4	16.7	2.2	7.6	100.0	4	11
1963	43.1	28.2	17.2	4.0	7.5	100.0	5	1
1964	38.3	34.0	17.1	2.9	7.7	100.0	5	0

Source: Treasury *Bulletin*.

in our balance of payments deficit. In the realm of domestic monetary policy, free reserves of the member banks averaged \$171 million in 1964, or about \$30 million below the level for the previous year. Moreover, a move in the direction of less ease developed in the second half of the year, so that net borrowed reserves were registered in November for the first time in over four years.

Late in November, two actions were taken in quick response to the increase in the British Bank rate. The discount rate was raised from 3½ percent to 4 percent, and maximum interest rates payable on time and savings deposits under Regulation Q were increased. These moves were “. . . aimed at countering possible capital outflows that might be prompted by any widening spread between interest rates in this country and the higher rates abroad and also at ensuring that the flow of savings through commercial banks remains ample for the financing of domestic investment . . .”, according to an official statement of the Board of Governors made at the time. In a separate but related statement, Chairman Martin emphasized that the hike in the discount rate did not signal a move in

the direction of credit restraint in the domestic economy.

### Credit available . . . price right

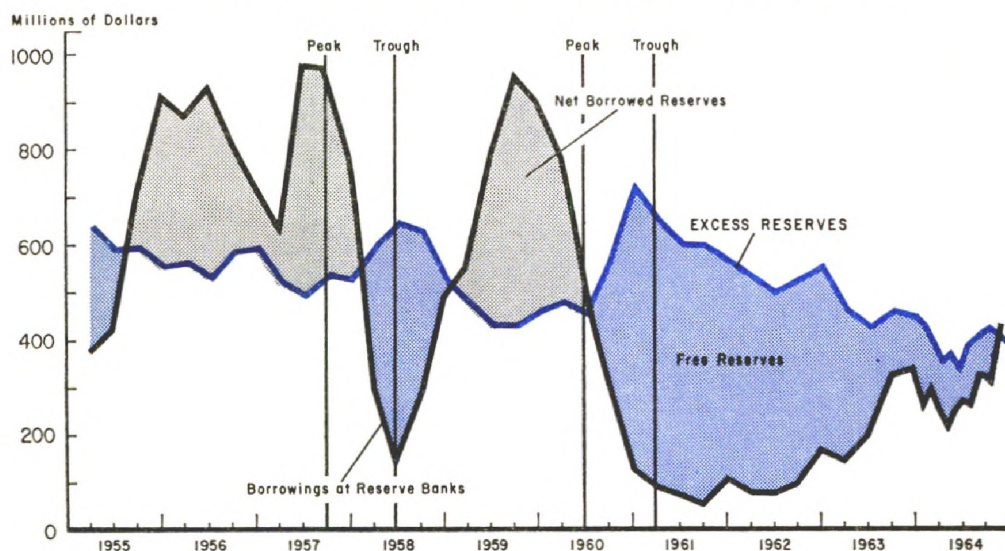
Bank credit rose by over \$20 billion in 1964, increasing by about 8 percent for the year—the same relative increase as in 1963. Banks continued to acquire securities, principally tax-exempt issues, but their holdings of state and local securities increased less than in 1963, while their portfolios of U. S. Government issues contracted less than in the preceding year. Business loans increased by a greater amount than real estate loans for the first time since 1960. Consumer borrowing from banks expanded at a slower pace than in 1963.

The costs of credit were virtually unchanged in 1964. For the year, the structure of interest rates showed the greatest degree of stability of any year in the present expansion. Only in the latter part of the year was there any noticeable upturn in rates, and this was largely confined to the short-term area in the wake of the discount-rate increase.

The flows of long-term investment funds were sufficiently abundant to absorb the sup-

ply of mortgages and tax-exempt securities without change in the level of yields on these instruments. The competition for mortgages among banks and non-bank financial institutions, coupled with the weakening in residential construction, contributed to some softening in mortgage rates. Meanwhile, yields on top-quality corporate bonds moved up about nine basis

### Free reserves narrow during 1964, as monetary policy works to curb payments deficit while supporting expansion



Source: Federal Reserve Board



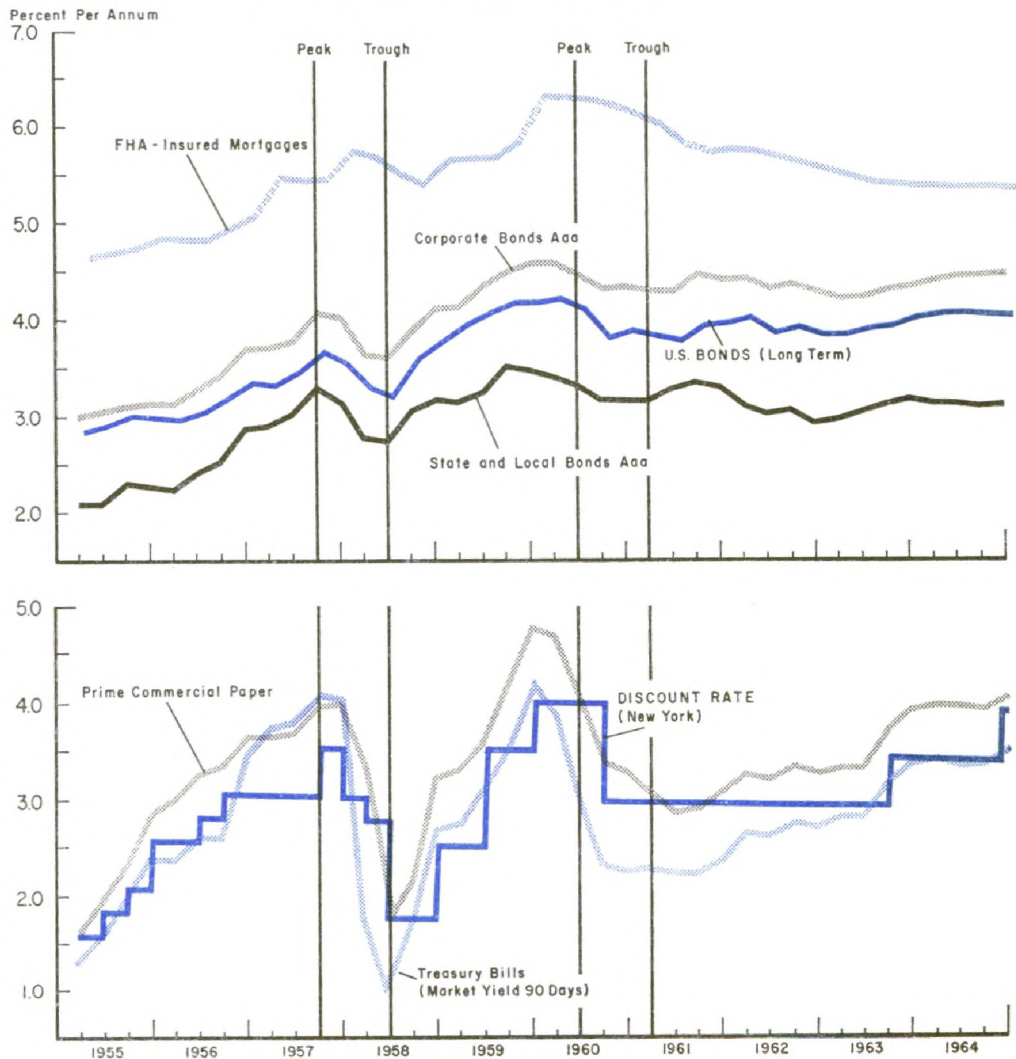
points in the course of the year, with most of this increase occurring in the first and fourth quarters. The average yield on U. S. Government bonds was about unchanged from the first of the year.

Short-term interest rates increased during the year, but as noted, much of the rise took place in late November and December following the change in the discount rate.

Commercial paper and finance paper, the issuing rates for which are keyed to the yield on 3-month Treasury bills, followed the bill rate upwards in December after moving within a narrow range throughout the preceding twelve-month period. The most remarkable evidence of stability in the short-term area was provided by the average interest rate on short-term bank loans to business. This rate has centered about the 5-percent level ever since 1961, varying only two or three basis points on either side of that figure.

The relative stability of interest rates in the fourth year of a cyclical expansion is most unusual. This stability may be due partly to a monetary policy which has provided the banking system with adequate reserves through the course of the expansion. It may also be due to the large flow of savings funds into financial institutions, which was adequate to

**Interest rates steady across board in 1964, until November change in discount rate**



Source: Federal Reserve Board

absorb the volume of new debt instruments offered to the market during 1964. In any event, since interest rates considered as a price in the credit markets reflect the balance of demand and supply forces, it would appear that a quite satisfactory equation of those forces was reached in 1964.

**Like money in the bank**

The total amount of liquid assets held by the public increased by \$34.6 billion in 1964, or about \$1.7 billion less than in 1963. The smaller rate of gain in 1964 was almost entirely due to a reduction in public holdings of U. S. Government securities maturing within one year. The bulk of the increase in public

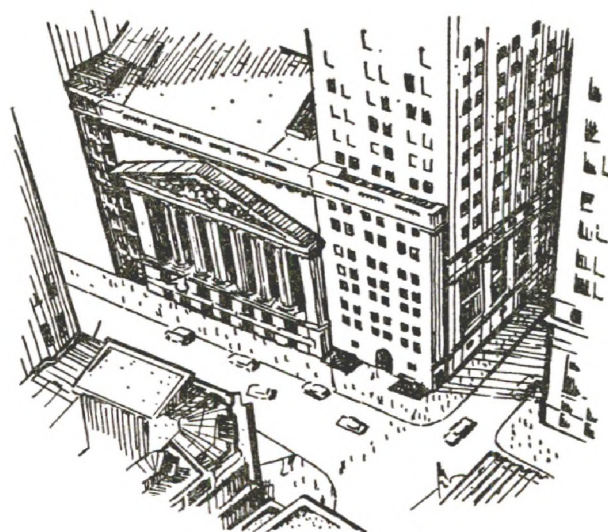
## FEDERAL RESERVE BANK OF SAN FRANCISCO

liquidity found its way into time deposits of commercial and mutual savings banks and shares of savings and loan associations. As a consequence of the overall increase, the ratio of liquid assets to GNP reached 82.9 percent in the fourth quarter of 1964, the highest level in ten years.

The narrowly defined money supply (demand deposits plus currency) as a percentage of GNP continued its downward trend. However, that is not the whole story. The money supply as thus defined contributed nearly 19 percent to the public's increased store of liquid assets in 1964—the largest relative gain for any year in the current expansion. (In absolute terms, the money supply increased \$6.2 billion — the largest gain in over a decade.)

Although bank time deposits and savings and loan shares accounted for most of the

gain in liquidity, the growth of savings-type institutions was no greater than in 1963. This development has interesting implications, in view of the rise in disposable personal income and business cash flows brought about by the tax cut. Obviously, the recipients of tax relief did not put all of their gains in after-tax income into savings. The relative rise in active cash balances (that is, demand deposits plus currency) suggests that the public is quite willing to translate income gains into spending; if so, the tax cut would appear to have been successful in raising the level of total demand in the economy. Yet in spite of the hesitation in savings-type flows, the ratio of public liquidity to GNP increased. This suggests that there remains a margin of potential demand that has not yet been tapped by the tax cut or by other inducements to spend.



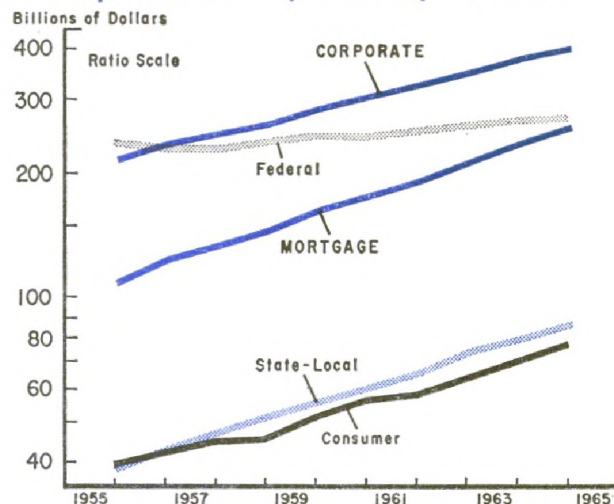
# Financing the Upswing

CONSUMERS, businesses, and governments all participated with vigor in the nation's credit markets in 1964, just as they did in the preceding year. All sectors enjoyed higher levels of income, but they continued to supplement their earnings with increased borrowings to help finance their purchases of goods and services. On balance, the \$39-billion rise in gross national product was accompanied by an increase in debt of approximately \$75 billion—about the same as in the two preceding years and equal, in percentage terms, to the 6.5-percent rise in GNP.

Consumers, notwithstanding a \$29-billion rise in disposable income, added about \$25 billion to their debt. Corporations, in spite of a \$5-billion rise in net earnings, also increased their debt by about \$25 billion, and other businesses increased their borrowings by about \$12 billion. The Federal government supplemented a slight rise in its receipts with some \$6 billion in new borrowings, while state and local governments augmented a \$5-billion rise in revenues with a \$6-billion increase in outstanding debt.

These changes were accompanied by a continued sharp rise in holdings of financial assets. Moreover, two sectors—consumers, and to a much lesser extent, state and local governments—recorded a greater increase in financial assets than in borrowings. This reflected the “surplus” of these sectors on income account, that is, the margin by which their earnings exceeded their outlays for goods and services. These surpluses—either directly, or indirectly through financial intermediaries—largely “financed” the net deficits (or excess of expenditures over income) of businesses and the Federal government. The latter sectors also increased their holdings of financial assets, but by a smaller amount than their borrowings.

## All sectors increase gross debt to help finance expanded purchases



Source: Department of Commerce

## Conspicuous consumers

Consumers added to their debt with as much zeal in 1964 as in the preceding year, despite the substantially larger increase in their disposable income. The composition of this growth in household debt also was much like that of the preceding year; mortgage debt rose by about \$16 billion, and short- and intermediate-term debt rose by about \$7 billion.

The increase in mortgage debt primarily reflected 1964's high but stable level of expenditure on new housing, but the continued disproportionate growth of such debt showed that other factors were involved. One such factor was the continued use of mortgage money for non-housing purposes—that is, the financing of new automobiles, travel, education, and medical expenses. Not surprisingly, much of the growing concern over the “quality of credit” centered on the tendency of some institutions in the mortgage lending field to encourage borrowing for such non-housing purposes. Real-estate financing developments provided the main source of worry, however, and this worry was heightened by a rise in foreclosures to a 26-year high.

At the same time, consumer loan delinquencies at commercial banks fell to a rate considerably below that of the early postwar years. This development, along with the strong rise in financial savings, suggests that households generally have not found the burden of their debts excessive. (The significance of any such aggregate phenomenon is complicated, of course, by the consideration that borrowers and savers generally are quite different people.) In any event, consumer short- and intermediate-term debt increased by a substantial \$7 billion in 1964—a gain that was slightly faster than the 1963 pace, despite a smaller rate of gain in the key auto-loan and personal-loan categories.

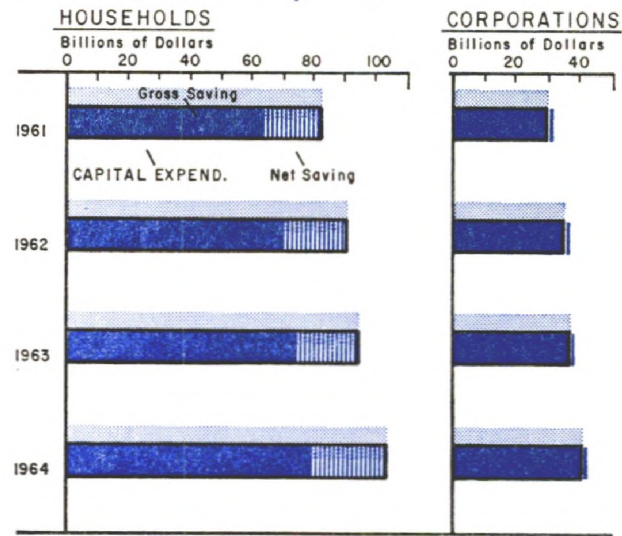
In the face of rising debt levels, consumers added roughly \$24 billion (net) to their financial assets in 1964. This was a new record, well above the previous highs of about \$20 billion in 1962 and 1963. A larger portion of the additional assets took the form of demand deposits and currency, and (in contrast to 1963) consumers also added to their corporate stock holdings in the face of a relatively low level of yields. At the same time, consumers continued to show a heavy preference for such liquid but high-yielding assets as savings deposits.

**Busy business**

Rising expenditures by consumers, governments, and indeed, by business itself, meant more sales—and higher profits—for the nation's corporate enterprises during 1964. In fact, preliminary data indicate that both pre- and after-tax profits recorded their sharpest gains since the beginning of the current expansion. For the year as a whole, pre-tax profits increased roughly 12 percent, while after-tax profits responded to the tax-cut stimulus with a whopping 18-percent gain, to \$32 billion.

Equally significant was the widespread nature of the profits boom. Virtually all business sectors reported widening profit margins

**Spending and saving both increase in each year of expansion**



Source: Federal Reserve Board

(measured in terms of net earnings to sales), to levels unheard-of since the mid-1950's. Moreover, preliminary data indicate wider margins than in 1963 for every one of the twelve major durable-goods industries. This happy profits picture has been based on several important developments—for example, the sustained rise in business sales, the reduction in Federal taxes and, in the manufacturing sector at least, continuing stability in unit labor costs.

Stockholders were delighted by this profits surge, as dividend payments registered the largest increase on record (\$1.7 billion) to almost \$20 billion. But corporate treasurers were also pleased, since retained earnings rose to \$12 billion and—with assistance from rising depreciation allowances — boosted the total volume of funds generated internally to a record \$41 billion. At that level, internal funds again exceeded corporate outlays for plant and equipment, in spite of the headlong advance in business capital spending.

The corporate demand for funds from external sources naturally was limited somewhat by the continued outsize growth of cash flow, but other developments nonetheless led to substantial activity in 1964 in the credit and

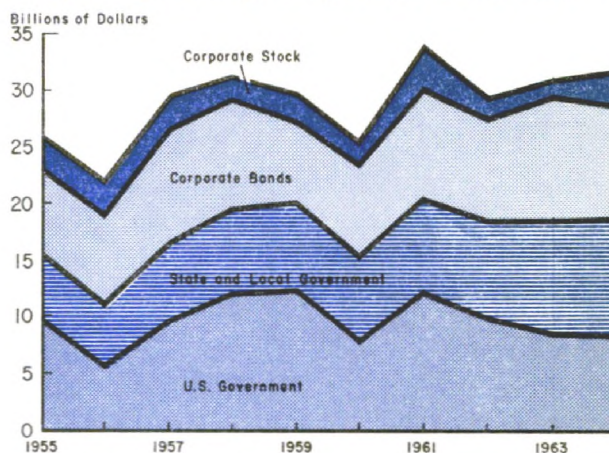
equity markets. Thus, corporate issues for new capital and refunding totaled about \$13 billion, 6 percent more than in 1963. Bond offerings, although smaller than in 1963, again generated most of the proceeds; stock offerings, on the other hand, were about double their 1963 level. But a large part of the increase in total corporate securities resulted from two special issues in the communications industry and from a large volume of offerings by financial corporations. Otherwise, several major industry sectors, including manufacturing, issued a smaller volume of securities than in 1963.

**Government issues**

In the public sector, the Federal government's happy news for the nation's taxpayers had other implications for the tax collector. While the continued business expansion made possible a \$2.4-billion rise in cash receipts (notwithstanding the tax cut), this amounted to only half the 1963 revenue gain. Combined with an even greater rise in outlays, this resulted in a \$5.8-billion cash deficit and a slightly smaller deficit on income and product account. In financing this deficit, net acquisitions of Federal obligations by individuals, state and local governments, nonprofit institutions and pension and trust funds more than offset a net reduction in holdings by banks, insurance companies, and corporations in general.

State and local governments enjoyed an even larger rise in receipts than in 1963, and, thanks to increased transfers from the Federal government, they again recorded a small surplus (\$2.4 billion) on income and product

**New security issues rise moderately despite growing corporate cash-flow**



Source: Securities and Exchange Commission

account. Nonetheless, 1964 was another record year with respect to external financing, as sales of municipal obligations exceeded \$10 billion and net outstanding debt grew by more than \$6 billion. School bonds accounted for about one-third of the volume of new tax-exempts, and water and sewer bonds for another one-sixth.

Prices of tax-exempt securities held fairly steady through 1964, but with some updrift noticeable by year-end. Several factors could have been expected to undermine this price firmness and to push yields upward—for example, the reduction in Federal income-tax rates, the lower volume of purchases of municipal securities by commercial banks, and the rise in the discount rate. Nevertheless, a continued active interest on the part of the public generally—including a stepped-up interest on the part of individuals—was sufficient to bring about a firming of prices and an attendant decline in yields.

## The Banking Story

**T**HE nation's commercial banks found 1964 to be in many respects a retelling of the 1963 story. But the story certainly was far from dull; 1964, like 1963, was a year of intense competition for commercial banks, and many of them responded by introducing new financing techniques as well as by utilizing proven techniques more efficiently. Yet the conclusion of 1964's banking story was not at all unhappy, as was evidenced by the generally rosy hue of the year-end earnings reports.

The banks apparently accounted for a slightly smaller proportion than in 1963 of the total volume of funds supplied to the nation's credit markets. But the net gain in total bank credit outstanding—loans adjusted and investments—nonetheless was substantial. At \$20 billion, the rise in bank credit exceeded 1963's increase by more than \$1 billion, and roughly matched the 1963 percentage gain of 8 percent.

### Businesses borrow more

In terms of its composition as well as its broad dimensions, the gain in bank credit generally followed the pattern of both 1962 and 1963. Total loans (exclusive of interbank loans) rose by \$17.5 billion, topping 1963's increase by a respectable margin. Perhaps the most significant gain was a \$5.6-billion rise in business loans; credit demand from business firms not only was stronger than in 1963 but was also stronger than any other loan category in 1964. Most of this increase occurred during the latter half of the year, as a reflection of a stepped-up rate of inventory accumulation, and possibly also as a reflection of expectations regarding reduced credit availability and firmer borrowing terms in the months ahead.

While the buoyancy in business loans during 1964 was itself noteworthy, the increase

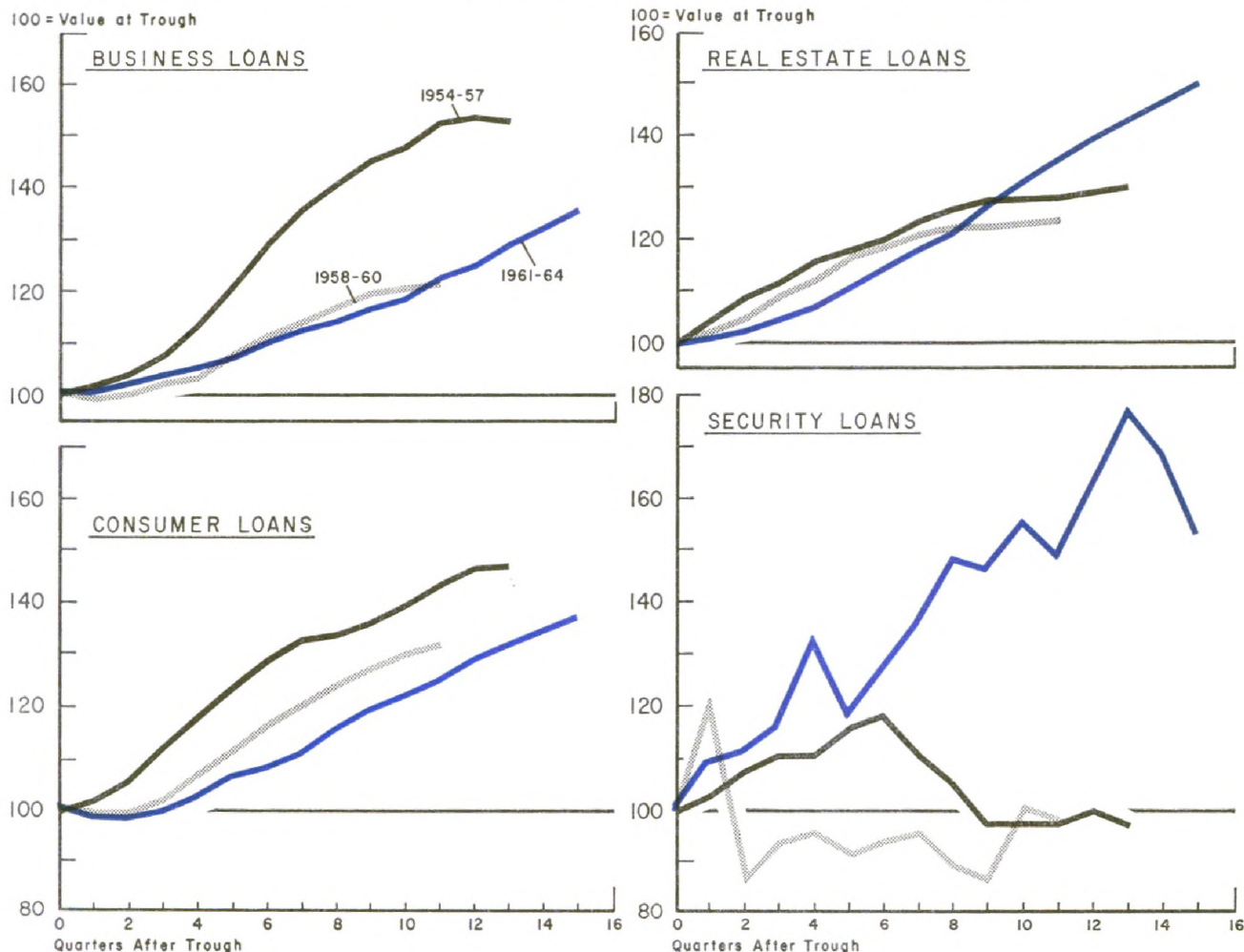
was really no greater than that recorded during several other expansionary years, such as 1956 and 1959—and it was considerably less than the gain in 1955, when both the level and the increase in business spending for plant, equipment, and inventories were less than in 1964. The explanation lies partly with the sustained growth of internal funds (retained earnings and depreciation allowances), which have remained at a high level in relation to fixed capital expenditures. Unlike other postwar cycles, the recent expansion has benefited from the ample supply of funds available to corporations from internal sources, but this factor also has moderated business demands for credit at banks as well as in the credit markets generally.

Financing needs of specific industries also varied during the year, so that the pattern of business borrowings differed from the 1963 pattern. Several major industry sectors which had borrowed heavily a year ago—notably commodity dealers, trade concerns and textile and apparel producers—either reduced their new borrowings or effected a net reduction in their outstanding loans. On the other hand, several industries which in 1963 had been net repayers of bank loans or small net borrowers—notably the metals and petroleum industries—increased their borrowing very substantially. In any event, preliminary data indicate that banks accounted for a larger proportion of the total volume of funds supplied to business than they did in 1963.

### Other borrowers less demanding

Banks also continued to expand their mortgage loans at a vigorous pace, but the \$4.4 billion increase fell short of 1963's record gain. The reduced rate of expansion reflected a commensurate slowdown in the growth of time and savings deposits—the primary source of the funds which banks normally commit to

**Strong gain in business loans** dominates bank-credit picture . . . mortgage and consumer loans rise at slower pace; security loans decline



Source: Federal Reserve Board

long-term assets such as mortgages—and it also reflected the leveling off in homebuilding, following 1963's strong expansion. Nevertheless, the increase in total mortgage debt held by all lenders during 1964 almost exactly matched 1963's gain, so that the commercial banks' share of the total declined slightly, from 16 to 15 percent.

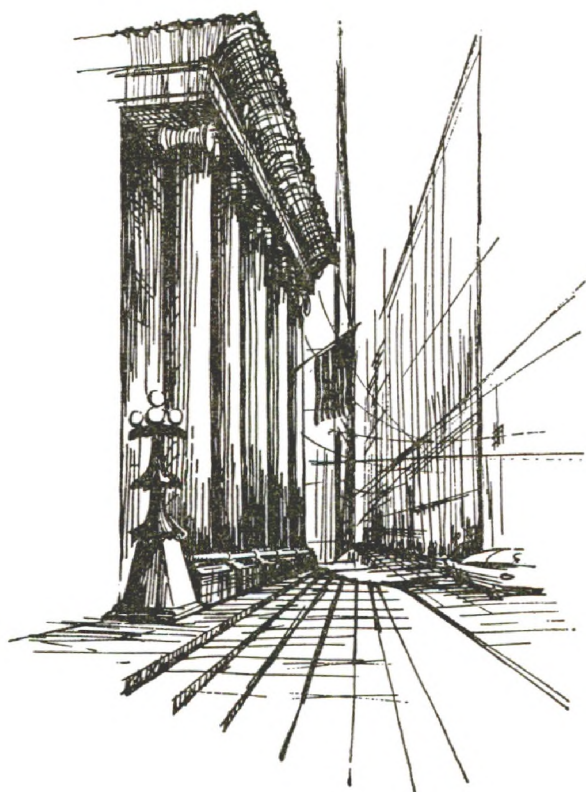
At year-end, after the Federal Reserve Board (and the FDIC) raised the maximum permissible ceiling on interest rates which banks may pay on their time and savings deposits, some renewed interest in mortgage lending became evident. This development pointed up the possibility of increasingly vigorous competition for mortgages among vari-

ous lending institutions in the months ahead. But even during 1964—which incidentally, was the third consecutive year in which the net gain in mortgage financing exceeded expenditures on new housing—the pressure of such competition was evident in a slight downward pressure on mortgage yields, in generally lower fees, and in some further liberalization of non-price terms of lending.

Consumer borrowing from banks, like mortgage borrowing, expanded at a reduced pace during 1964. At \$2.6 billion, the gain fell short of 1963's increase and was no greater than that of 1962. The major explanation was 1964's tax cut, which made it possible for consumers to finance a considerably

higher level of expenditures with an increase in total debt only slightly greater than that of 1963. Even so, the banks' share of consumer debt financing decreased slightly during the year, to a little less than 40 percent of the total.

Banks handled their investment portfolios in 1964 much as they did in the previous year. Holdings of U. S. Government securities registered a net decline, but at a little over \$1 billion, the reduction was only about a third as great as in 1963. Furthermore, the reduction centered in intermediate and some longer term issues, as bank holdings of Treasury bills and other issues maturing within one year recorded a net increase. In part, this shift occurred in response to the narrowing of the yield spread between short- and longer-term debt instruments, but it also reflected portfolio adjustments made out of deference to liquidity considerations. Bank holdings of other securities showed a substantial (\$3.4 billion) increase, although the gain was appreciably less than that of the previous year.



The total volume of credit market instruments floated by state and local governments was somewhat higher in 1964 than in 1963, but the banks continued to absorb a very large part—almost two-thirds—of the debt issues emanating from this sector.

### Strong deposit gains

On the supply side of the ledger, the banks' principal source of funds — deposits — also showed changes much like those of 1963. Demand deposits (less interbank deposits and cash items in the process of collection) grew faster than in 1963, with an almost \$5-billion gain. That increase, together with a further rise in currency, accounted for a greater-than-usual share (19 percent) of the public's increased holdings of liquid assets. This could be expected, however, in view of the larger working balances which consumers and businesses normally require during an economic expansion in order to finance their rising levels of activity.

Time and savings deposits, with a gain of \$14.2 billion, again accounted for the vast bulk of the growth in total bank deposits. This substantial growth continued to exert an important influence upon bank credit policies, including the allocation of a substantial portion of these high-cost funds into longer term and higher yielding assets such as mortgages and tax-exempt securities. Nor was the heavy growth in time and savings deposits without its implications for open-market policy; the relatively low reserve requirements for these deposits permitted the expansion in bank credit to be achieved with a considerably lower volume of open-market purchases of securities than would have been necessary had the deposit growth centered in the demand categories.

The growth in total time and savings deposits, although substantial, was still about \$1 billion short of 1963's increase. In fact, the public's total holdings of liquid assets increased by about \$1.7 billion less than in



1963, in spite of the higher levels of total financial saving by the public generally. This development reflects the previously mentioned decline in the public's holdings of short-term Government securities, and it also reflects a falling off from 1963's very rapid growth of negotiable time certificates of deposit.

CD's increased "only" by about one-third during 1964, partly because rising interest rates generally reduced their relative attractiveness as an investment outlet for businesses with surplus funds. But the still-substantial size of that increase attests to the continuing popularity of CD's, especially in view of such features as flexible maturities and the availability of a secondary market for their purchase and sale.

### Competitive moves

On balance, commercial banks suffered some competitive deterioration in 1964 with respect to competitors capable of offering higher rates of return—savings and loan associations, and mutual savings banks in particular. The share of savings deposits acquired by mutual savings banks increased from less than 11 percent to almost 15 percent, in response to an increase in rates offered by these institutions. Meanwhile, the savings-and-loan share declined slightly to 38 percent, and the commercial-bank share dropped somewhat more, to 48 percent. (The banks' share had been as high as 56 percent in 1962.)

Competitive pressures, along with earnings considerations, prompted a number of banks to introduce various new credit market instru-

ments during the year. One was the much-publicized unsecured capital note, first introduced by a major eastern bank during the third quarter of 1964. Like debentures, these notes represent a debt offering and thus constitute a form of borrowing; unlike CD's, they are subject to neither reserve requirements, FDIC premiums, nor the interest rate ceilings imposed by Regulation Q. As of year-end, only a few banks had issued unsecured notes (in amounts probably aggregating somewhat less than \$150 million). Their future may well depend upon favorable market developments as well as favorable changes in the laws governing their use by state banks.

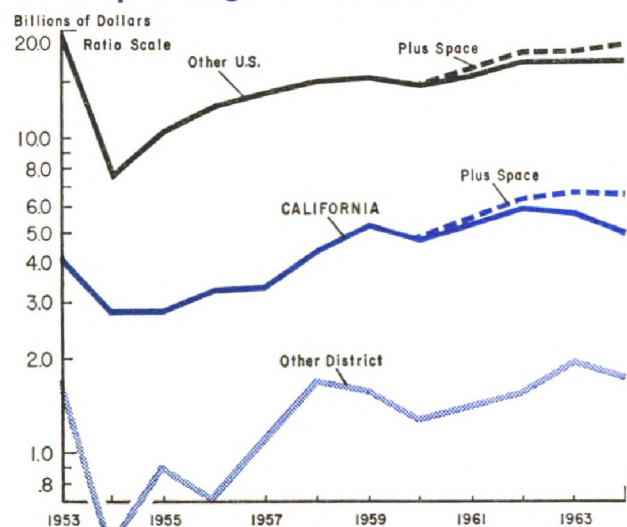
Perhaps the most significant recent development—significant at least in terms of its implications for 1965—was the late-November change in Regulation Q. By increasing the maximum permissible rates which banks might pay on their time and savings deposits—from 3.5 to 4.0 percent on savings deposits held for less than a year, from 1 to 4 percent on other time deposits payable in less than 90 days, and from 4 to 4.5 percent on such deposits held for 90 days or longer—that action helped narrow considerably the rate differential between bank and non-bank financial intermediaries. In the context of an economic environment where (among other things) residential construction is relatively stable and the supply of new mortgages is not particularly plentiful, the altered competitive relationship between banks and non-bank institutions suggests that 1965, like 1964, will be a year of interesting financial developments indeed.

## Paradox in the West

**W**ESTERN BUSINESS in 1964 represented something of a paradox. Personal income in Twelfth District states made another out-size leap to reach \$80 billion during the year, and this 7-percent gain substantially exceeded the strong 5-percent gain recorded elsewhere in the nation. Job opportunities also increased at least as rapidly as they did elsewhere—but with all that, unemployment remained uncomfortably high, with 5.8 percent of the civilian labor force unsuccessfully seeking jobs.

This paradoxical situation—an unprecedentedly strong business boom taking place within a context of persistently high unemployment—largely reflected the diverse trends in the Federal budget. Employment, income, and sales in the West, as in the rest of the country, expanded strongly on the heels of 1964's substantial tax cut—with of course the usual support from the West's continuing population boom. At the same time, employment in the District's key "export" industry—defense manufacturing—declined considerably in response to cutbacks on the expenditure side of the Federal Government's ledger.

### West obtains fewer defense dollars while spending rises elsewhere



Sources: Department of Defense; National Aeronautics and Space Administration

### Expansions and contractions

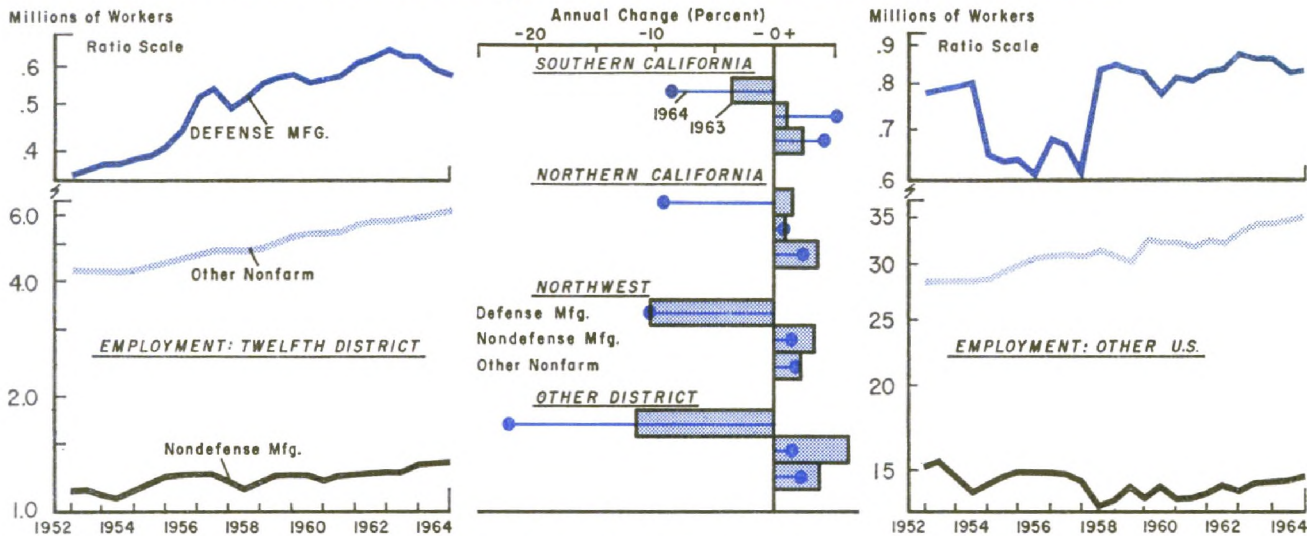
Retail merchants throughout the West felt the full impact of the tax stimulus. Total retail sales expanded a healthy 8 percent over the 1963 level, whereas sales in the rest of the country increased only about 5 percent during the year. The tax effect was felt in increased spending levels for food, apparel, and other nondurable goods, but the strongest gains occurred in the consumer durable-goods sector.

New car registrations in the nine Western states reflected the buoyant sales trend; registrations increased about 12 percent above the 1963 level, while in the rest of the country auto registrations ran only about 5 percent higher. The same story occurred in department store sales; the District increase in this category was about 12 percent, as compared with roughly a 10-percent increase elsewhere.

Employment gains outside of manufacturing strongly supported the spending boom. Finance and service activities employed 5 percent more people than in 1963, and governmental agencies added 4 percent to their rolls. Trade and other distributive industries expanded less rapidly, but still grew faster than their counterparts elsewhere.

This buoyancy looked all the more remarkable in view of the employment cutbacks initiated by defense-contract reductions. Between the end of 1962 and the end of 1964, the work force in the West's defense-space sector declined about one-eighth, to about 570,000 in December 1964. Job losses, which were concentrated in the most recent twelve-month period, would have been even larger if there had not been a recovery in shipbuilding after midyear. Moreover, the cutbacks caused a decline in total manufacturing employment during the year—unlike 1963, when total manufacturing jobs held up in the face of the defense decline.

**Employment gains in other sectors of economy offset defense decline . . . but most Western areas see growth rate curbed as decline continues**



Sources: Department of Labor; State Employment Security agencies

**Less money, smaller share**

The defense-space sector (excluding ship-building) employed about 550,000 at year-end, after suffering losses of about 48,000 jobs during the year. Job losses were heaviest in California, where most of the District's aerospace firms are located, but declines were also substantial in Washington and Utah. In fact, the 5,000-decline in Utah represented a loss of roughly one-third of that state's defense employment.

The employment cutbacks reflected both a decline in the nation's defense budget and a deterioration in the West's competitive position in aerospace manufacturing. District firms suffered a one-fourth decline (to \$4.7 billion) in Department of Defense prime-contract awards between January-September 1963 and the comparable period of 1964; in contrast, the volume of awards to firms elsewhere increased slightly during the same period. Consequently, the District's share of total defense contracts dropped from one-third to one-fourth during this recent period.

One especially worrisome development is the reduction of the nation's defense spending in several sectors which have been crucial to the West's recent growth. Research and de-

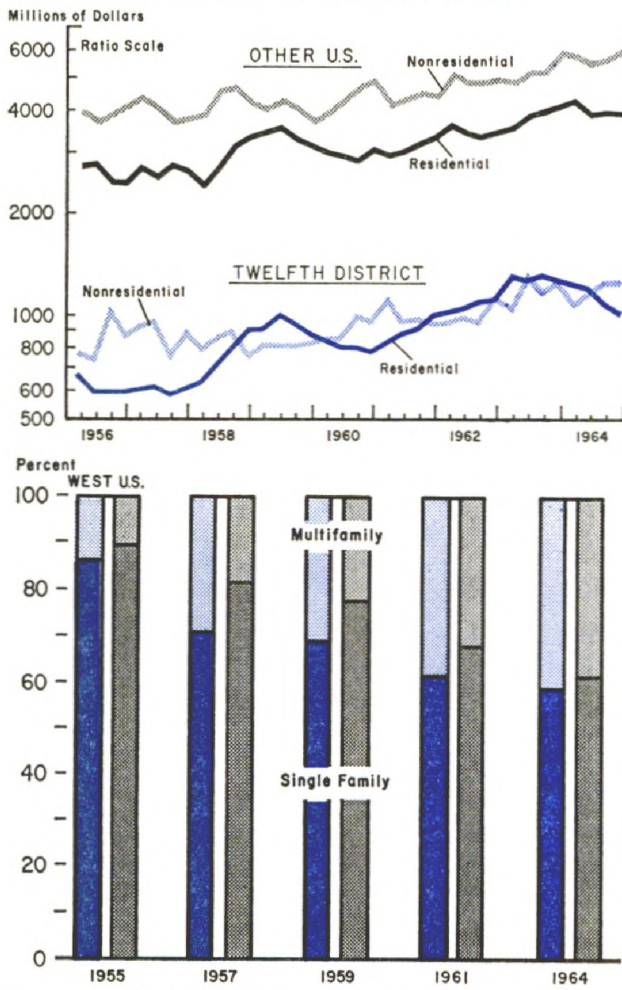
velopment contracts—which are highly prized because production contracts generally follow in their wake—declined significantly in the District in 1964. Moreover, the proposed Federal budget for fiscal 1966 indicates spending declines both in this key sector and in the field of procurement, which similarly has been dominated by District firms. Some of the projected reductions should be offset by increases in space-spending, but Western firms, on balance, anticipate little improvement in their sales and employment situation in the immediate future.

**. . . and fewer houses**

The ramifications of the defense decline were also felt in the District's important construction industry in 1964. Construction contract awards dropped 7 percent during the year, to \$9.1 billion, primarily because of a slump in homebuilding. The decline was not completely unexpected, since total construction spending had grown at a perhaps-unustainable 13-percent annual rate over the 1960-63 period, but the situation pointed up the weakness in defense manufacturing.

The housing decline was related to the employment losses in aerospace. In defense-

**Housing slump pulls down Western construction activity . . . apartment share of market rises**



Sources: F. W. Dodge; Bureau of the Census

oriented Southern California, which accounts for about half of District housing activity, residential construction slumped drastically over the year. In Washington, the drop in housing roughly matched the decline in aerospace activity. But housing declines also occurred in other parts of the District where defense-spending is less important.

Apartment-building, which had dominated the previous housing boom, dropped 11 percent during the year. But, strangely enough, single-family starts fell even more sharply. The latter decline reflected rising numbers of unoccupied houses, and perhaps rapidly increasing land costs as well. But the vacancy problem remained concentrated in apart-

ments, and at year-end continued to cast a shadow on that segment of the market.

Despite the 1964 decline, the Western housing industry remained optimistic about its future. It could count on rapid population growth, on continued high levels of income, and probably also on the availability of mortgage financing. Moreover, the long-term factors which stimulated the recent apartment boom are still present in the outlook. These include the growth of younger and older age groups that prefer apartment living, new apartment ownership privileges (cooperatives and condominiums), easier building-code and tax-law provisions, and higher land costs and commuter transportation problems.

Western contractors also remained optimistic about nonresidential construction prospects. Recent flood damage in Oregon and Northern California has added several hundred million dollars to the construction backlog. Highway damage may take up to two years to repair, and railroad, industrial, and utility installations must also be replaced or repaired. In addition, the plant-equipment spending boom should continue at the regional as well as at the national level—except of course in aerospace. In the public sector, meanwhile, a number of projects are either scheduled or likely to go on stream. These projects include a third power plant at Grand Coulee Dam, a Pacific Northwest-Southwest power intertie, an \$800-million San Francisco Bay Area rapid transit system, and an aqueduct system linking Northern and Southern California.

**Brighter notes**

The depressing 1964 record in aerospace and construction contrasted sharply with the bright situation in the metals industries. For instance, District nonferrous producers strained capacity throughout 1964 and yet found it difficult to keep up with the record pace of orders and consumption arising from the durable-goods boom. Nonferrous inven-

tories, which had been uncomfortably large in other recent years, consequently dropped close to the low levels of the mid-1950's. The price of copper, which had remained at the 31-cent level for over two years, rose to 34 cents a pound during 1964 in response to a tight strike-aggravated supply situation. In like fashion, zinc, lead, and aluminum prices also increased sharply.

District steel producers increased output sharply (13 percent) in response to the boom in manufacturing and commercial construction. This increase was particularly impressive since Western producers—unlike those in the rest of the industry—did not benefit to any great extent from the auto boom or from year-end inventory hedge-buying.

The District lumber industry, despite the softness in residential construction, recorded a 5-percent increase in output for the year. Production and price increases narrowed toward year-end, however, as the housing

downturn inevitably took its toll of new orders. The early 1965 picture, of course, was dominated by speculative buying created by flood damage to mills in California and Oregon; the disruption of transportation and the shortage of logs are expected to keep lumber prices firm for the next several months.

Western petroleum refineries increased their operations slightly during 1964. The market for refined products was somewhat stronger, however, so that in-shipments from domestic and foreign refineries substantially exceeded 1963 levels. (Not surprisingly, the rate of growth in Western gasoline consumption continued to outpace gasoline usage nationally.) Meanwhile, District crude-petroleum production failed to expand, so that refineries in the area relied more heavily on foreign supplies during the year. In fact, over one-third of the crude petroleum processed by District refineries was from Canadian and other outside

### INDEXES OF INDUSTRIAL PRODUCTION—TWELFTH DISTRICT

(1957-59 = 100)

INDUSTRIAL PRODUCTION	1958	1959	1960	1961	1962	1963	1964p
Copper	101	86	112	119	127	128	129
Lead	92	93	76	99	105	103	96
Zinc	94	96	86	97	101	98	95
Silver	102	94	91	105	105	105	104
Gold	104	90	99	92	86	86	84
Steel Ingots	94	92	102	111	100	117	132
Aluminum	87	101	101	97	107	118	135
Crude Petroleum	98	96	95	96	96	97	97
Refined Petroleum	96	101	104	108	111	112	115
Natural Gas	96	104	112	121	126	143	152
Cement	99	108	101	105	111	116	121
Lumber	98	109	98	95	98	103 <sub>r</sub>	109
Wood Pulp	98	103	106	109	114	110	122
Douglas Fir Plywood	98	118	120	132	142	160	177
Canned Fruit	91	112	111	114	119	105	137
Canned Vegetables	107	95	101	89	106	96	108
Meat	95	101	107	111	112	115	125
Sugar	91	108	105	107	113	120	138
Flour	102	102	102	99	101	94	96
Creamery Butter	96	102	112	120	119	103	104

p—Preliminary. r—Revised.  
Source: Federal Reserve Bank of San Francisco.

## FEDERAL RESERVE BANK OF SAN FRANCISCO

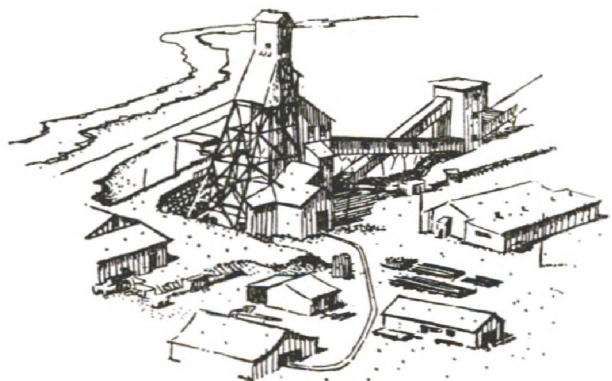
sources. But even with the additional outside supplies, Western refineries operated at only about 80 percent of capacity.

District canners took advantage of a bumper supply of raw materials to process a bumper pack of fruit and vegetables. A 20-percent increase in the pack of clingstone peaches was only the most notable of the many increases reported by fruit packers, while a substantial gain in the output of tomatoes and tomato products dominated the vegetable picture. Marketable supplies of both canned fruit and canned tomato products increased significantly during the year, despite an unusually small carryover from the preceding year.

The income of District farmers continued to advance during 1964. Marketing returns increased about 2½ percent during the year in the face of a slight decline elsewhere in the country, and a rising volume of government payments helped boost the flow of gross farm income to a record level. Heavy crop marketings — especially in California and Washington—accounted for this rise in cash receipts, since livestock receipts declined slightly during the year. The rise in receipts,

along with a smaller-than-usual increase in production expenses, thus resulted in a net income considerably above the \$1.6-billion figure recorded in 1963. But the income situation for many District farmers was clouded by the termination of the bracero program at the end of 1964. The ability to secure suitable replacements for the braceros will influence the crops to be produced and the eventual level of farm income, especially in Arizona and California, where most of these foreign laborers have been employed.

In sum, the Western paradox remained unsolved at year-end. Throughout most of the District, employment, income, and spending continued to grow at comfortably higher levels than elsewhere in the nation. At the same time, unemployment remained at a level uncomfortably above the national rate. Certainly, the West's strong orientation toward growth was a dominant feature of the 1964 scene, as it has been throughout the entire expansion of the 1960's. Nonetheless, many observers feared that the softness in the crucial aerospace and construction industries, if long continued, could eventually undermine that basic Western orientation.



# Western Money

**T**WELFTH District member banks turned in a solid performance in 1964, expanding their loans and investments by over \$3 billion and their deposits by over \$2½ billion—and, in the process, breaking all previous profit records. Yet, for the year, District banks recorded smaller percentage gains than did their counterparts elsewhere. Nonetheless, over the whole span of the 1961-64 expansion, they outperformed other banks in both loan and deposit growth.

## Stringency and liquidity

District banks operated under slightly more reserve pressure in 1964 than in the preceding year. Borrowing increased at the Federal Reserve Bank discount window, from \$16 million in 1963 to \$26 million in 1964 (daily average basis), and borrowed reserves slightly exceeded banks' excess reserves. Thus, reserve positions shifted from average "free" reserves of over \$6 million in 1963 to average net borrowed reserves of \$4 million in 1964. Moreover, District banks were frequent net purchasers of Federal funds on interbank transactions during late 1964, and some of these borrowed funds were also used to meet their reserve requirements.

Total deposits increased more slowly than total loan and security portfolios, so that the margin of funds available for lending was narrowed. This tightening was reflected in a loan-deposit ratio which reached 68.5 percent by the end of the year—up from December 1963's already high level of 66 percent. But another measure of liquidity—the ratio of short-term U. S. Government securities to deposits—showed improvement in 1964. Banks' net additions of short-term Treasury issues raised the security-deposit ratio to 6 percent—somewhat higher than in December 1963 and well above the low of 1.6 percent

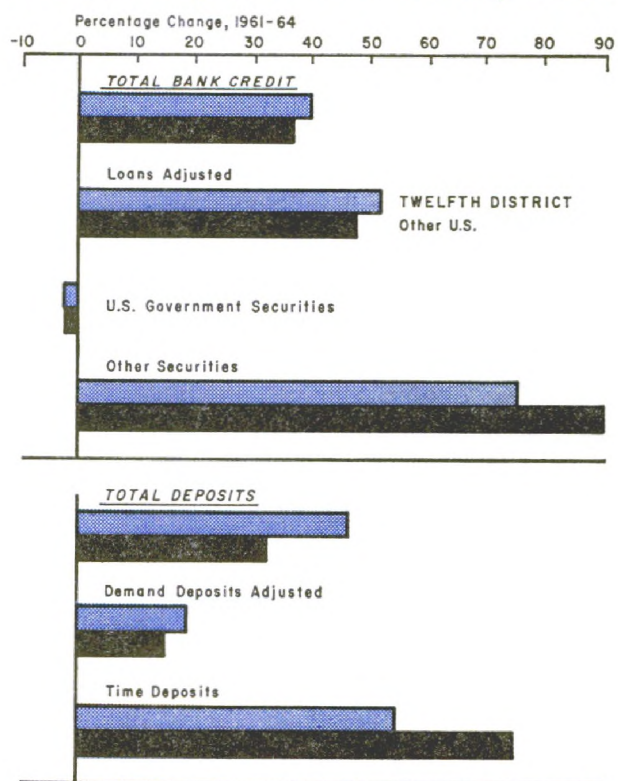
reached at the peak of the previous business cycle.

## Shifts in loan demand

Loan expansion at District member banks, in 1964 as in 1963, was characterized by a more-than-seasonal increase in the first half of the year and by a less-than-seasonal gain in the last half. For the year as a whole, however, loans expanded at a slower pace than in 1963. Moreover, some shifts occurred in the distribution of credit among the various types of borrowers.

Business borrowing at weekly reporting member banks showed unusual strength in the first six months of the year; after mid-year, however, demands from the business sector were somewhat less than seasonal, although borrowing over the quarterly tax dates re-

## Western banks outperform others over whole span of 1961-64 expansion



Source: Federal Reserve Bank of San Francisco

mained high. For the year as a whole, business loans increased by a third more than in 1963—and they also increased more rapidly than at banks elsewhere in the nation.

In 1964, as in 1963, the reduced volume of credit extended to transportation-equipment manufacturers reflected the cutback in District defense contracts. Other durable-goods manufacturers, however, borrowed more than in 1963, with demand strongest in the first half of the year. Demand for credit from non-durable-goods manufacturers, on the other hand, was concentrated in the last six months of the year, mainly as a result of heavier-than-seasonal borrowing by food, liquor, and tobacco dealers. But the year's largest gains in the business-loan category were in bankers'

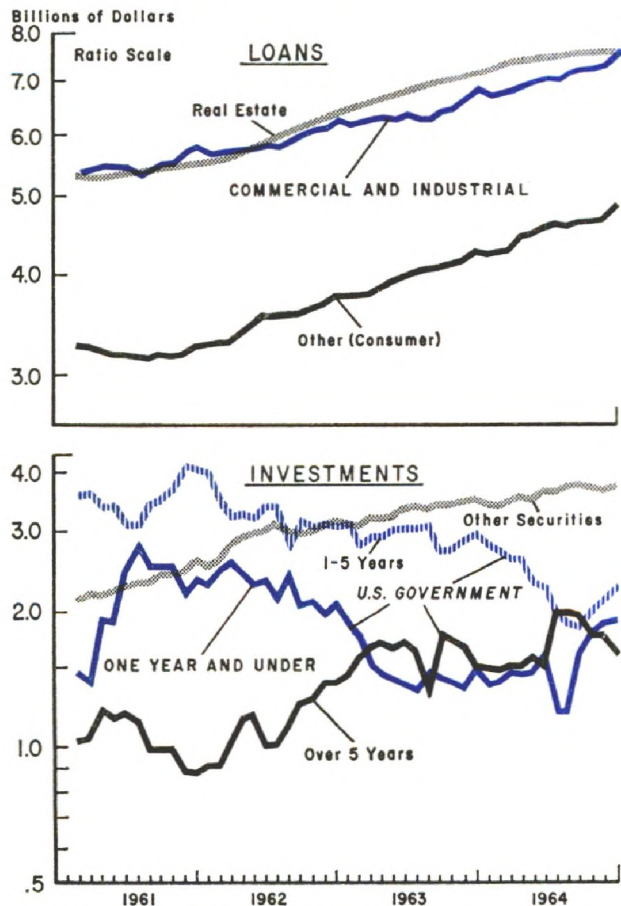
acceptances and in loans to construction and service industries.

The most pronounced change in District lending patterns was the reduced rate of expansion of bank mortgage portfolios. Real estate loans at weekly reporting banks increased \$416 million—less than one half the 1963 gain—and the year's 6-percent growth rate contrasted with the 16-percent rate at weekly reporting banks elsewhere. For one reason, the supply of mortgages did not increase in proportion to the funds available for mortgage lending, so that competition with savings and loan associations and other lending institutions intensified, and thereby contributed to a slight easing in both rates and non-price terms of borrowing. At the same time, a slowdown in the savings inflow dampened the enthusiasm of many District banks for long-term assets of this type. Some of these banks sold off a larger-than-usual amount of real estate loans to nonbank financial institutions, as part of a deliberate policy to curtail the rate of expansion in mortgage holdings.

Consumer borrowing grew at about the 1963 pace, with auto financing again providing the major stimulus. The consumer-loan gain at weekly reporting banks was actually greater in 1964 than the gain in their real estate loans. In other categories, loans to nonbank financial institutions increased somewhat but failed to match the rapid 1963 pace, while loans to Government security dealers increased substantially more than in any other recent year. In part, this financing took the form of arbitraging activity, particularly during the third and fourth quarters, as banks purchased Federal funds from correspondent and other banks and sold them to security dealers at higher rates.

In 1964, unlike 1963, District member banks recorded a small increase in total security holdings along with their substantial gain in loans. In both years banks reduced their portfolios of U. S. Government securi-

**Business and consumer loans gain as mortgage lending pace slows . . . also, small net gain in securities**



Source: Federal Reserve Bank of San Francisco



## SELECTED ASSET AND LIABILITY ITEMS OF WEEKLY REPORTING MEMBER BANKS IN THE TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amount in millions)

	Outstanding Dec. 30, 1964	Net Change Dec. 31, 1963 to Dec. 30, 1964		Net Change Jan. 2, 1963 to Dec. 31, 1963	
		Dollars	Percent	Dollars	Percent
<b>Total loans and investments</b>	<b>\$32,835</b>	<b>+ 2,639</b>	<b>+ 8.7</b>	<b>+ 1,663</b>	<b>+ 5.8</b>
Loans adjusted <sup>1</sup> and investments	32,314	+ 2,142	+ 7.1	+ 2,056	+ 7.3
Loans adjusted <sup>1</sup>	22,906	+ 2,131	+ 10.3	+ 2,295	+ 12.4
Commercial and industrial loans	7,581	+ 741	+ 10.8	+ 560	+ 8.9
Real estate loans	7,545	+ 416	+ 5.8	+ 809	+ 12.8
Agricultural loans	1,013	+ 69	+ 7.3	+ 45	+ 5.0
Loans to nonbank financial institutions	1,525	+ 108	+ 7.6	+ 345	+ 32.9
Loans for purchasing or carrying securities					
To brokers and dealers:	320	+ 126	+ 64.9	+ 16	+ 9.0
To others:	136	+ 26	+ 23.6	+ 14	+ 14.6
Loans to foreign banks	306	+ 68	+ 28.6	+ 35	+ 17.2
Other loans (mainly consumer)	4,857	+ 592	+ 13.9	+ 504	+ 16.2
Total investments	9,408	+ 9	+ 0.1	+ 239	+ 2.5
U. S. Government securities	5,696	— 215	— 3.6	— 604	— 9.3
Treasury bills	1,107	+ 412	+ 59.3	— 117	— 14.4
Treasury certificates of indebtedness	0	— 157	— 100.0	— 210	— 57.2
Treasury notes and bonds maturing:					
Within 1 year	787	+ 157	+ 24.9	— 245	— 28.0
1 to 5 years	2,208	— 730	— 24.8	— 119	— 3.9
After 5 years	1,594	+ 103	+ 6.9	+ 87	+ 6.2
Other securities	3,712	+ 226	+ 6.5	+ 365	+ 11.7
Total deposits (less cash items)	32,720	+ 1,812	+ 5.9	+ 1,678	+ 5.5
Total demand deposits (less cash items)	14,142	+ 103	+ 0.7	+ 79	+ 0.6
Demand deposits adjusted	12,850	— 2	— 0.0	+ 273	+ 2.2
Time and savings deposits	18,578	+ 1,709	+ 10.1	+ 1,599	+ 10.5
Savings	13,903	+ 753	+ 5.7	+ 946	+ 7.8
Capital accounts	2,801	+ 323	+ 13.0	+ 178	+ 7.7
<b>Total assets/liabilities and capital accounts</b>	<b>39,918</b>	<b>+ 2,175</b>	<b>+ 5.8</b>	<b>+ 2,139</b>	<b>+ 15.0</b>

<sup>1</sup>Total loans less valuation reserves and loans to domestic commercial banks.  
Source: Federal Reserve Bank of San Francisco.

ties, but the 1964 reduction (2 percent) was considerably below the 9-percent decline of the preceding year. On the other hand, banks recorded a respectable (6 percent) gain in holdings of municipals and Federal Agency issues, even though it could not compare with 1963's substantial rate of acquisition of such securities.

### CD's lead the way

On the deposit side, District member banks in 1964 recorded a slowdown in the rate of growth of private demand deposits—partly as a reflection of the slowdown in District manufacturing activity and the continuation of a difficult unemployment situation. But 1964

witnessed a slightly greater gain in total time and savings deposits, although District banks for the second consecutive year failed to match the national growth rate in this category. Time certificates, particularly negotiable CD's in denominations of \$100,000 and over, again accounted for a substantial portion of the total deposit increase, especially in the first half of the year. At year-end, District banks had \$1.3 billion of these certificates outstanding—a 56-percent increase over year-end 1963. The San Francisco Reserve District thus ranked next to the New York and Chicago Districts in holdings of negotiable CD's, although these certificates still accounted for a relatively small proportion (7 percent) of total time deposits at District banks.

The situation was different in the savings category. The net inflow dropped sharply in the first half of 1964; in fact, net withdrawals in April indicated that individuals were relying heavily on their savings to meet income-tax payments and to exercise stock-purchase rights. While the savings inflow later accelerated, the net increase for the year as a whole was about one-fifth less than the District's 1963 gain.

District savings and loan associations also experienced a slowdown in savings capital growth in 1964, but their net increase of \$3.9 billion far exceeded the gain in savings at District banks. However, the competitive situation may have been altered toward year-end by the revision of Regulation Q. After that action was taken by the Federal Reserve Board, many banks throughout the District raised their interest rate on passbook savings to the 4-percent maximum, whereas most savings and loan associations posted no change in rate for the first quarter of 1965. Thus, the differential in rates of interest offered by banks and savings and loan associations was narrowed by a not-insignificant  $\frac{1}{2}$  percent.

District banks, like their counterparts elsewhere in the nation, made relatively large additions to their capital accounts during 1964, mainly through the issuance of capital notes and debentures. In fact, the rate of capital expansion at weekly reporting banks was nearly double that of the preceding year. In view of the rising pressures on bank resources, banks undoubtedly have become increasingly aware of the need to readjust their capital structure to meet future growth requirements. In the immediate future, meanwhile, banks will also have to study how to realign their asset-cost structure, so as to absorb the greater interest costs which could result from the higher rates on savings and other time deposits.

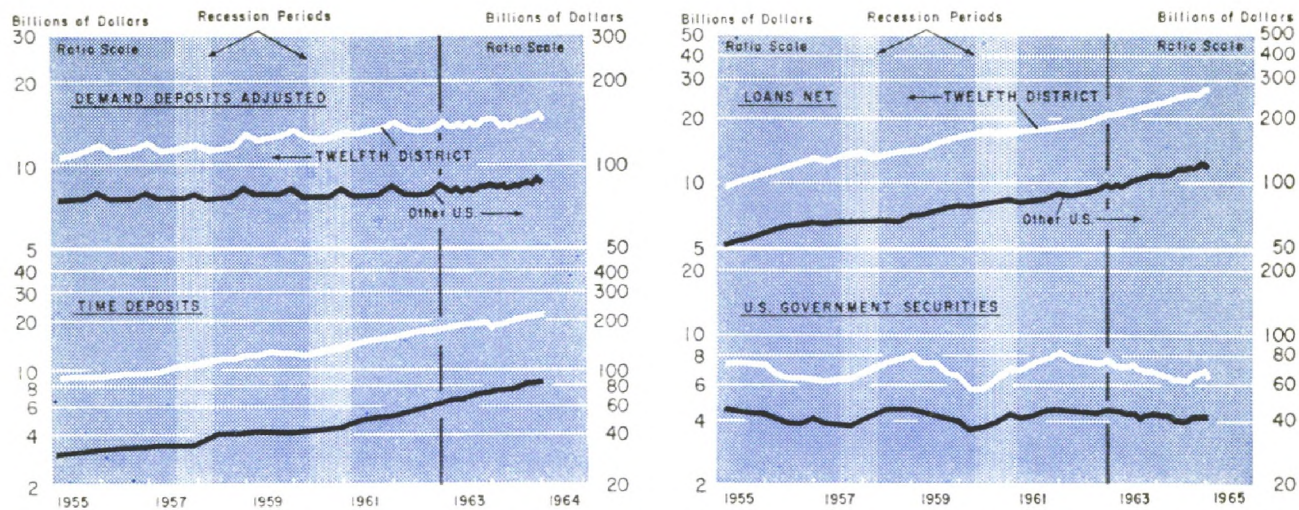
### More growth for S & L's

Savings and loan associations continued to grow rapidly during 1964, as Federally-insured S & L's in District states increased their savings capital to \$23.8 billion by year-end. However, this substantial 16-percent gain fell considerably below the increases registered in most other years of the past decade. Mortgage loan holdings meanwhile increased at about the same pace as savings, to reach \$25.1 billion at year-end.

The gap between outstanding mortgage loans and total savings continued to be bridged by Federal Home Loan Bank advances and by other borrowings. Borrowings by Western institutions, which exceeded \$2 billion at year-end, accounted for about two-fifths of all borrowings from the Federal Home Loan Bank system. The large Western mortgage market also generated a large volume of mortgage participations; sales of such participations by District associations to institutions elsewhere resulted in a net capital inflow of over \$500 million during the first three quarters of 1964.

The S & L's may now encounter some difficulty in finding suitable outlets for their savings inflow, in view of the housing slowdown and the resultant scarcity of prime-quality mortgage investments. In this situation, District associations will be tempted to take advantage of the important new lending and investing powers granted by the Federal Home Loan Bank Board to associations within its jurisdiction. These new powers include authorizations to make unsecured educational loans to college students, to make loans or investments in urban renewal areas, to loan regularly within 100 miles of an office (instead of 50 miles, as previously), to loan up to 5 percent of assets in any metropolitan area irrespective of its distance from the association's office, and to invest in general governmental obligations.

Condition Items of All Member Banks — Twelfth District and Other U. S.



Source: Federal Reserve Bank of San Francisco. (End-of-quarter data shown through 1962, and end-of-month data thereafter; data not adjusted for seasonal variation.)

BANKING AND CREDIT STATISTICS AND BUSINESS INDEXES—TWELFTH DISTRICT<sup>1\*</sup>

(Indexes: 1957-1959 = 100. Dollar amounts in millions of dollars)

Year and Month	Condition items of all member banks <sup>2</sup> Seasonally Adjusted				Bank debits Index 31 cities <sup>5, 6</sup>	Bank rates on short-term business loans <sup>7, 8</sup>	Total nonagri- cultural employ- ment	Dep't. store sales (value) <sup>6</sup>	Industrial production (physical volume) <sup>6</sup>		
	Loans and discounts <sup>5</sup>	U.S. Gov't. securities	Demand deposits adjusted <sup>4</sup>	Total time deposits					Lumber	Refined <sup>8</sup> Petroleum	Steel <sup>8</sup>
1952	8,712	6,477	10,052	7,513	59	3.95	84	73	101	90	92
1953	9,090	6,584	10,110	7,994	69	4.14	86	74	102	95	105
1954	9,264	7,827	10,174	8,689	71	4.09	85	74	101	92	85
1955	10,816	7,181	11,386	9,093	80	4.10	90	82	107	96	102
1956	12,307	6,269	11,580	9,356	88	4.50	95	91	104	100	109
1957	12,845	6,475	11,384	10,530	94	4.97	98	93	93	103	114
1958	13,441	7,872	12,472	12,087	96	4.88	98	98	98	96	94
1959	15,908	6,514	12,799	12,502	109	5.36	104	109	109	101	92
1960	16,612	6,755	12,498	13,113	117	5.62	106	110	98	104	102
1961	17,839	7,997	13,527	15,207	125	5.46	108	115	95	108	111
1962	20,344	7,299	13,783	17,248	141	5.50	113	123	98	111	100
1963	22,915	6,622	14,125	19,057	157	...	117	129	103	112	117
1964	25,561	6,492	14,450	21,300	169	...	...	139	...	...	...
1964											
January	23,233	6,586	14,319	19,304	163	...	119	135	115	111	110
February	23,520	6,818	14,222	19,500	167	...	119	137	114	115	117
March	23,691	6,961	14,272	19,566	165	5.47	119	133	114	113	149
April	23,929	6,563	14,215	19,773	169	...	119	134	102	111	140
May	24,126	6,493	14,199	19,813	166	...	119	139	106	112	139
June	24,443	6,380	14,376	19,896	167	5.46	119	137	105	114	131p
July	24,912	6,161	14,369	20,152	166	...	119	141	113	115	121p
August	24,965	6,212	14,377	20,235	175	...	120	143	107	118	121p
September	25,282	6,480	14,689	20,473	166	5.51	120	137	108	121	129p
October	25,165	6,519	14,587	20,602	173	...	121	139	111	117	132p
November	25,339	6,685	14,503	20,792	178	...	121	150	106	113	149p
December	25,561	6,492	14,450	21,300	167	5.48	122p	142	...	...	140p
1965											
January	25,853	6,337	14,430	21,669	...	...	...	152	...	...	137

<sup>1</sup> Adjusted for seasonal variation, except where indicated. Except for banking and credit and department store statistics, all indexes are based upon data from outside sources, as follows: lumber, National Lumber Manufacturers' Association, West Coast Lumberman's Association, and Western Pine Association; petroleum, U.S. Bureau of Mines; steel, U.S. Department of Commerce and American Iron and Steel Institute; nonagricultural employment, U.S. Bureau of Labor Statistics and cooperating state agencies. <sup>2</sup> Figures as of last Wednesday in year or month. <sup>3</sup> Total loans, less valuation reserves, and adjusted to exclude interbank loans. <sup>4</sup> Total demand deposits less U.S. Government deposits and interbank deposits, and less cash items in process of collections. <sup>5</sup> Debits to demand deposits of individuals, partnerships, and corporations and states and political subdivisions. Debits to total deposits except interbank prior 1942. <sup>6</sup> Daily average. <sup>7</sup> Average rates on loans made in five major cities, weighted by loan size category. <sup>8</sup> Not adjusted for seasonal variation. \*Banking data have been revised using updated seasonal factors. Monthly data from 1948 available on request from the Research Department of this Bank. p—Preliminary. r—Revised.

