

FEDERAL  
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# Monthly Review

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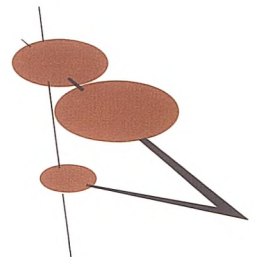
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NOVEMBER 1970

## **Turning Tide**

... GNP increased (even in real terms) in the third quarter, despite weakness in defense spending and business fixed investment.

## **Fostering Growth**

... Policy watchers witnessed unmistakable signs of a thaw in the credit freeze during the summer and early-fall months.

## **Weakening Business**

... The pace of business activity recently has been slower—and jobless rates higher—in the West than in the rest of the U. S.

## **Expanding Deposits**

... Western banks repaired the drain on their investment portfolios—and even built up their loan portfolios—in the third quarter.

**Editor: William Burke**

## Turning Tide

The tide turned (almost imperceptibly) in recent months, as the national economy began to move slowly back towards its normal growth path. Business activity remained beset by the shifting tides of unemployment and inflation, and it could expect some further buffeting in 1971 as the labor scene cools off in autos and heats up in steel. Still, the statistics looked somewhat healthier recently than they did earlier in the year.

Total spending reached \$985 billion during the third quarter. Although most of the \$14-billion increase in GNP was eaten up by inflation, *real* GNP rose at a 1½-percent rate during the quarter. (The gain would have been closer to 2½ percent but for the impact of the General Motors strike.) This increase contrasted with the small declines posted in each of the two preceding quarters, after adjustment for inventory fluctuations.

The \$14-billion third-quarter increase occurred despite the growing weakness of military spending and business fixed investment—the twin foundations of the boom of the late Sixties. Other sectors of the economy generally reported respectable gains during the quarter.

### Military and business . . .

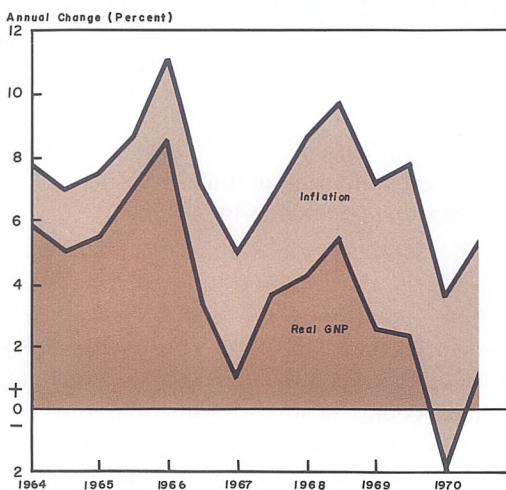
Defense spending fell fairly rapidly, for the second consecutive quarter, after a year of sideways movement following the sharp Vietnam build-up. During the third quarter, spending dropped at a 10-percent annual rate, to about \$75 billion. In contrast, government spending elsewhere increased substantially during the summer period. Federal

non-defense spending jumped at a 15½-percent annual rate, in contrast to a first-half decline, while state-and-local government spending rose at a 12½-percent rate, after a fairly modest first-half increase.

About 900,000 jobs disappeared during the 1970 fiscal year, either in defense-related manufacturing or in military and civilian functions of the Department of Defense—and perhaps 750,000 more jobs of this type will be cut off during the current fiscal year. Behind these statistics lies a sharp decline in military prime-contract awards; new awards are now running about one-fourth below the 1968 peak, and they may fall one-third below that earlier peak by next June.

Business fixed-investment spending, at a \$104-billion rate in the third quarter, has

### Most of GNP growth eaten up by inflation, but real GNP grows too





shown signs of weakness recently after holding level for most of the previous year. As an indicator of future trends, starts on industrial development projects at midyear were 15 percent below the year-ago peak.

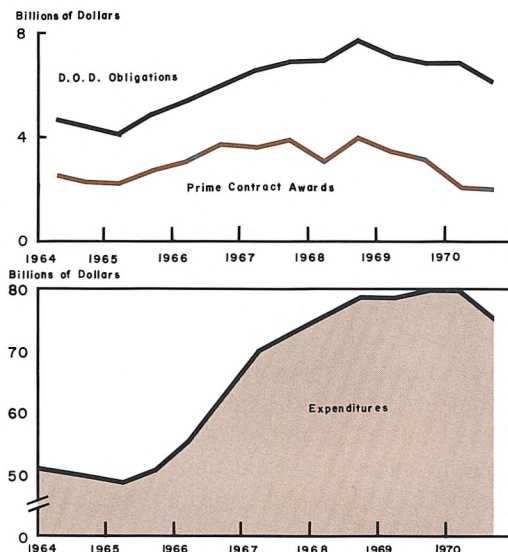
On the minus side, businessmen are now reluctant to build new facilities because of the low level of manufacturing capacity utilization (76 percent in the third quarter), the sluggish movement of manufacturers' sales and new orders, and the tendency to avoid new commitments because of the recent liquidity squeeze. However, the utilities are still building new facilities because of serious shortages of capacity, while some businesses are investing in labor-saving equipment to avoid escalating wage costs, and others are ordering new types of equipment because of anti-pollution requirements.

### ... and other spending

Business spending for inventories has strengthened recently, with stocks increasing at an estimated \$4-billion annual rate during the July-September period. This was only about half the level of stockbuilding of most recent years, partly because of purchasing agents' reaction to the sluggish level of sales and the tightness of cost controls, but it was still a strong advance over first-half '70 levels. (In some cases, of course, the rise in inventories may have been quite involuntary.) Moreover, inventory buying may be at least a temporary element of strength in coming months, because of the likelihood of post-strike stockpiling by automakers and strike-anticipation stockpiling by steelmen.

The foreign-trade surplus also strengthened in the third quarter, approaching a \$5-billion annual rate—the highest figure of the past three years. Exports were up strongly, reflecting the continued boom in many industrial countries abroad, while imports grew more slowly, reflecting the sluggishness in markets here at home. The surplus in this

### Sharp drop in defense contracts presages continued spending decline



category was still much too low to offset the outflows associated with the overseas spending of investors, tourists, and military men, but it at least represented a measure of progress in the move towards acceptable international-payments balance.

Residential-construction activity increased at a 10-percent annual rate during the summer period, to \$29 billion, after a 15-percent decline from the mid '69 peak. New starts also rose, to a 1.5-million rate, and the outlook generally seemed far improved in this long-depressed sector. Yet, despite the potentially heavy demand generated by demographic and other factors, homebuilders may find it difficult to meet this potential.

Mortgage money remains relatively expensive—even in the face of the upsurge of savings into mortgage-lending institutions and a slight softening of rates—because of extremely heavy demands by corporations and other claimants on the nation's capital market. More important, many home buyers have simply been priced out of the market,

what with 6-to-8 percent increases every year in building costs. Indeed, the current level of activity depends heavily on Federal subsidies; Federal programs supported roughly one-fifth of all private home starts in the January-June period, completely apart from the usual FHA and GI mortgage programs.

### Consumers, savings, and jobs

Consumers maintained a relatively stable level of spending on durable goods during the third quarter, at \$91 billion. Furniture-appliance spending remained high, as it had (paradoxically) during the earlier housing slump, but auto spending fell about 5 percent below the peak level of late 1969. In addition, consumers posted below-average rates of gain for both nondurable goods and services, as both categories rose to the \$265-billion level during the quarter.

Future spending should be bolstered by the high level of consumer savings; this figure, at 7½ percent of disposable income in both the spring and summer quarters, is a full percentage point above the average savings rate of the 1964-69 boom. Right now, it attests to a certain amount of consumer caution, but it also suggests a significant backlog of demand whenever business regains its normal momentum.

The costs involved in the 1970 business slowdown have become increasingly apparent—a one-million decline in nonfarm employment and a two-percentage-point rise (to over 5½ percent) in the unemployment rate. But as a consequence of rising third-quarter output and a reduced workforce, labor productivity has recently improved. Given a continuation of this improvement in productivity, the rise in unit labor costs should be held below the 7-percent increase of 1969. If these costs were to be curbed, a substantial part of the ongoing pay increases could be absorbed through higher efficiency rather than passed on in the form of higher prices.

### Prices and budgets

Altogether, the policy-imposed slowdown has achieved a measure of success in curbing inflation during recent months. The general (GNP) price level rose at about a 4½-percent annual rate in both the second and third quarters—significantly below the peak rate reached around the turn of the year. Yet the problem remains difficult; the price scene brightened around midsummer, but then, in September, both the wholesale and consumer price indexes jumped at a 6-percent annual rate.

The future outlook is not all that bright either. The corn blight may tend to reverse the present easing trend in food prices, by reducing the corn crop 13 percent below earlier estimates and thereby limiting meat and poultry production. New-car sticker prices could rise by the largest amount in postwar history; increases of up to 6 percent were posted at model-introduction time, and further increases may be in store after the strike settlement. On the labor front, meanwhile, expensive “front loading” continues as a feature of new contract settlements; the average first-year increase in wages and benefits approached 15 percent in major contracts signed to date this year, in contrast to 1969’s 11-percent figure.

The Federal budget has reacted sharply to the early 1970 crosscurrents of falling output and rising prices. After shifting from an expansionary deficit of \$10 billion to a restrictive surplus of \$13 billion between mid-’68 and mid-’69, the budget moved even more dramatically to a \$14-billion deficit by mid-’70, and it remains near that deficit level today (national-income basis). This shift generally indicates the impact of the business slowdown on governmental revenues, as well as the impact of rising prices on the cost of government programs.

The revenue decline reflected the downturn in profits and the weakening trend of



consumer incomes, along with the legislative decision to drop the 10-percent tax surcharge and to raise the personal-tax exemption. The expenditure upsurge came about in part because of the attempt to compensate pensioners and Federal workers for the rise in consumer prices. The Federal budget thus has served to help stabilize aggregate con-

sumer incomes—and to support a rise in consumer savings—through both a reduced tax bite and an increased payout of dollars. The cost of this stabilizing influence, however, has been a sudden shift in Federal financing needs, with potentially increased demands on the money market.

*William Burke*

## Fostering Growth

Policy watchers witnessed unmistakable indications of a thaw in the credit freeze during the third quarter. Late-September's ½-percentage-point reduction in the prime rate (the second such cut this year) simply underscored a summer-long decline in market rates. The money supply increased at a somewhat more rapid rate than in the first half of the year, and an increased volume of funds flowed into banks and savings-type institutions. The reserve position of the banking system remained under some pressure, but the degree of pressure lessened over the quarter.

### Policy: using the tools

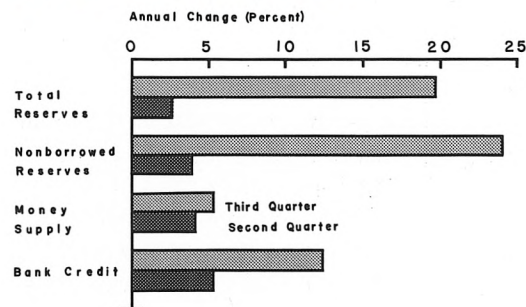
At the June 23 meeting of the Federal Open Market Committee, the Committee concluded that a 5-percent annual rate of growth in the money supply during the following quarter would be in line with its long-run objectives. This growth target was above the 4-percent target rate adopted at the Committee's May meeting, which in turn equalled the actual rate achieved during the first half of the year. As it turned out, however, the money supply actually increased at slightly above the targeted 5-percent rate during the third quarter.

Total bank credit (loans plus securities)

increased at a 13-percent rate in the July-September period, with most of the gain occurring in net acquisitions of securities. Total loans, in contrast, rose at a 9-percent rate, and business loans increased at a 2-percent rate. (In each case, the figures are adjusted for loans sold out of portfolio to bank affiliates.)

In order to foster growth in the monetary aggregates, the Federal Reserve used a variety of the policy tools at its command. In June, the Board of Governors suspended ceilings on short-maturity (30-89 days) large negotiable certificates of deposit—admittedly, to alleviate the disturbed condition of the commercial-paper market subsequent to the

### Monetary aggregates exhibit signs of thaw in the credit freeze



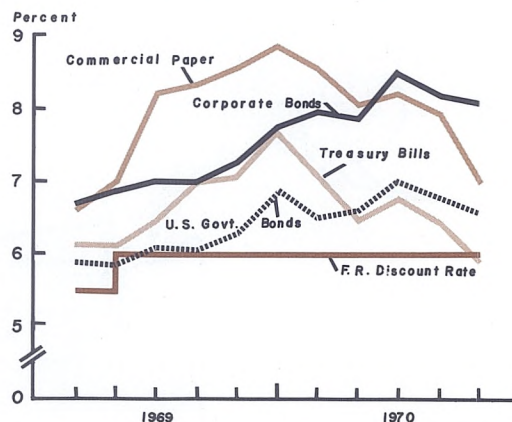
Penn Central bankruptcy. By directing short-term borrowing from the paper market to the banks, this action tended to increase the growth of *bank* loans and total *bank* credit, although at the expense of credit extensions elsewhere in the economy.

In August, the Board reduced reserve requirements, from 6 to 5 percent, against time-and-savings deposits in excess of \$5 million, and simultaneously placed a 5-percent reserve requirement against receipts of commercial-paper sales by bank affiliates. The net effect of this action, made effective October 1, was to supply almost \$500 million of bank reserves. Finally, the Federal Reserve supplied reserves through net purchases of securities for the System Open Market Account, amounting to about \$2 billion between June and September.

### Reducing nondeposit dependency

Large commercial banks increased their outstanding CD's by more than half in the quarter following the suspension of ceilings on short-term certificates, and this permitted them to reduce their dependence on non-deposit sources of funds. Banks reduced their commercial paper outstanding by about \$3 billion in the third quarter, partly because of the imposition of reserve requirements on such funds, and partly because of the overall weakness of the commercial-paper market. Banks also reduced their Eurodollar borrowings by over \$2 billion during the quarter,

### Interest rates decline in all sectors in recent months



because of the increasing availability of domestic sources of funds.

Interest rates declined across the board between the beginning of July and the end of September. Corporate-and municipal-bond rates had already fallen 50-60 basis points prior to the reduction in the prime rate. Yields on medium- and long-term Treasury issues had decreased 30-40 basis points before the prime-rate cut, and fell another 20 basis points after the cut. Short-term rates also reacted to the prime-rate change, the 91-day Treasury bill rate declining by 40 basis points to below 6 percent—reaching that level for the first time in over a year and a half.

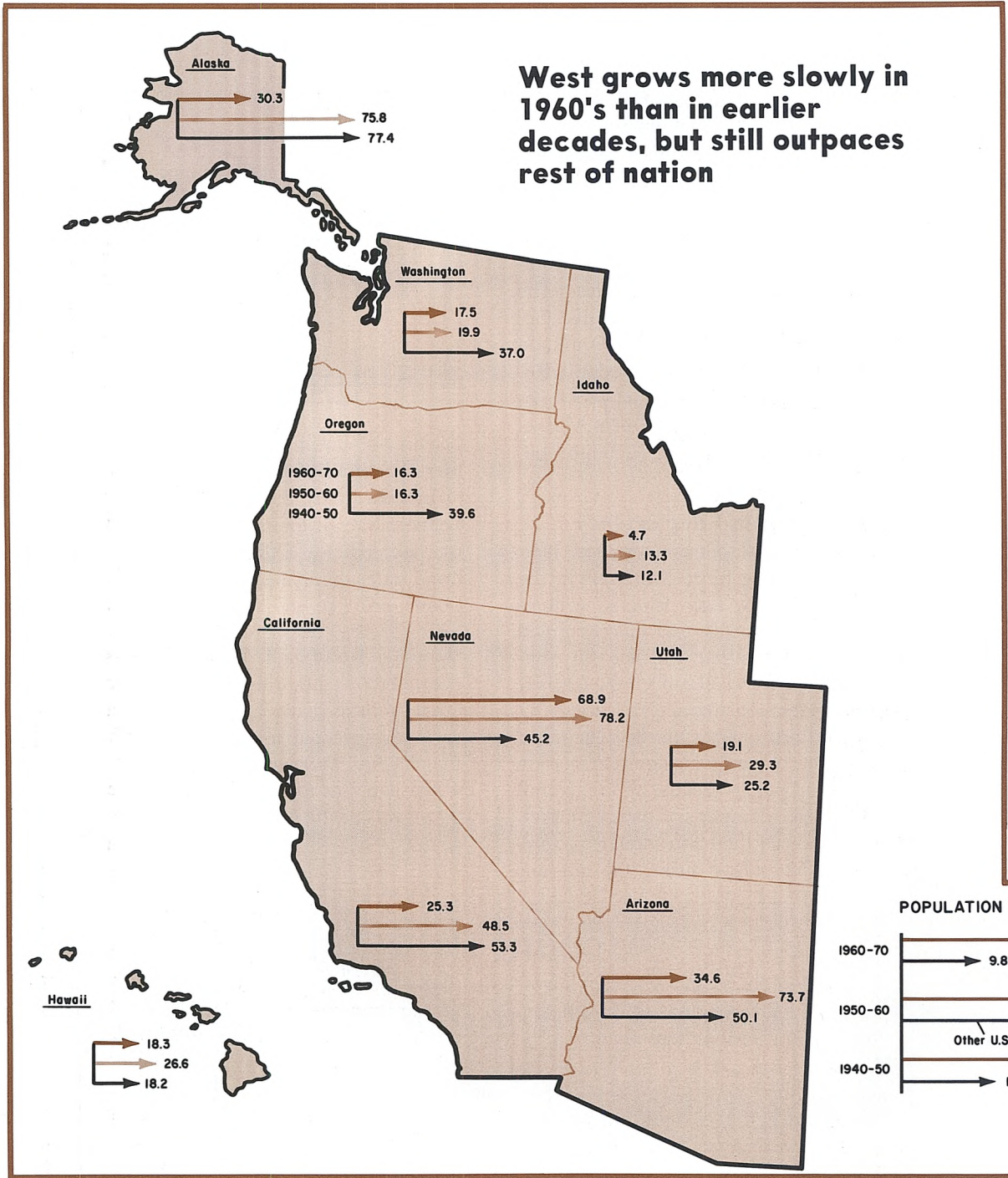
*Herbert Runyon*

## Discount Rate Cut

The Federal Reserve System lowered the discount rate in early December to 5½ percent—the second ¼-point reduction in less than a month. The Board of Governors announced that “the move was in recognition of the further downward trend in short-term interest rates in recent weeks.” . . . In another action, the Board announced steps to strengthen the inducement for American banks to retain their Eurodollar liabilities, and thus moderate the pace of repayments of Eurodollar borrowings—primarily by raising the reserves required from member banks against Eurodollar borrowings that exceed their reserve-free base.



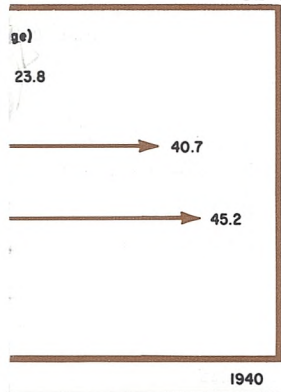
**West grows more slowly in 1960's than in earlier decades, but still outpaces rest of nation**



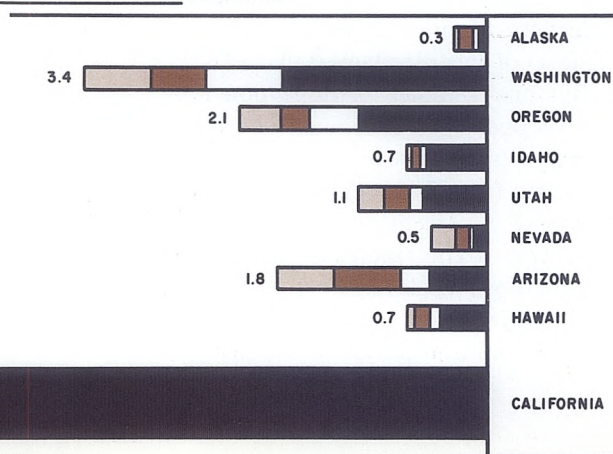


# Western Census

The West contained 30 million of the nation's 200 million citizens on 1970's Census Day, according to preliminary figures recently released by the U.S. Census Bureau. Thus, Twelfth District states accounted for 15 percent of the nation's population, as against 13½ percent of the total just a decade ago. This rising share reflected a 24-percent population growth for the West between 1960 and 1970, in contrast to a 10-percent gain recorded elsewhere. Even so, the region grew far more slowly during the Sixties than in either the Forties or Fifties. . . . California accounted for 19.7 million of the West's 30.1 million this past April, as the nation's No. 1 state added 4.0 million people over the decade. (But this gain was only about half as large as California's increase in either of the two preceding decades, in percentage terms.) California has added more people since 1940 than the entire District contained on the eve of World War II. . . . The West's next most populous states—Washington, Oregon, and Arizona—each added 300,000 to 500,000 people over the decade of the Sixties. In addition, Arizona outpaced all other District states (except one) in percentage growth, with a 35-percent growth between 1960 and 1970. It was outshadowed only by Nevada, which with its 69-percent increase, grew faster than all other Western states for the second decade in a row. But all Western states except Idaho (with its 5-percent increase) grew faster than the national average over the decade. . . . In April 1970, the Pacific Southwest accounted for 10.2 percent of the nation's population—9.8 percent in California and 0.4 percent in Hawaii. Pacific Northwest states contained 2.8 percent, and Mountain states 1.9 percent, of the national total.



POPULATION (Millions)



## Weakening Business

There were a few glimmers of hope in the Western economy early this fall, but overall, the business scene appeared fairly weak. Housing starts rose sharply during the third quarter, and petroleum-refining activity and farm marketings both picked up. On the other hand, aerospace employment continued to decline and jobless rates continued to rise.

Nonfarm employment declined in the West as elsewhere during the third quarter, falling at a 1.0-percent annual rate in Twelfth District states and at a 0.5-percent rate in the rest of the nation. In the West, employment fell in almost all of the major industrial sectors, but primarily in defense-manufacturing and construction.

In line with the weakening employment trend, the unemployment rate rose between the second and third quarters, from 5.7 to 6.5 percent in California and from 6.3 to 6.8 percent in the rest of the District. Elsewhere in the nation, the jobless rate edged upward (4.5 to 4.7 percent). By October, moreover, jobless rates everywhere were considerably above these third-quarter averages.

On the basis of a healthy early summer pace, retail sales ran about 4 percent above last year's figures, matching the nationwide rate. Because of price increases, however, the real level of spending lagged the year-ago pace. But one glimmer of hope noted by Western shoppers was a summer slowdown in the rate of price increases. Third-quarter boosts ranged from 2 percent in Seattle and Portland to 4½ percent in Los Angeles, at annual rates. (The increase nationwide matched the Los Angeles figure.) Relief was apparent in most budget categories, particularly apparel and transportation costs.

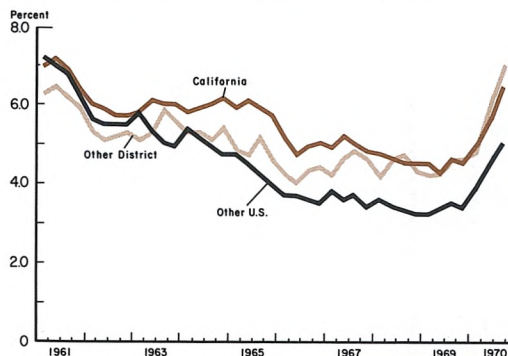
### Slowdown—except in housing

District aerospace manufacturing firms continued to cut payrolls during the third quarter, although at a slower pace than in the previous quarter (23,400 vs. 43,000). Total employment at summer's end numbered about 567,000—near the pre-Vietnam level and 25 percent below the December 1967 peak. Washington aerospace employment has dropped almost by half in the last two years, however, and as a result, the jobless rate in the Seattle area has jumped from 4.3 to 11.5 percent over the past year.

The weakening in aerospace employment stemmed in part from the recent cutback in military spending. District firms received \$1.3 billion (16 percent) less in prime contracts in fiscal 1970 than a year earlier, although they continued to account for almost one-fourth of the national total of awards. Firms in Washington, Nevada, and Idaho were particularly hard hit by the cutbacks.

Housing starts in the West rose by about 28 percent during the July-September period

### Unemployment rates soar, reflecting nationwide job decline





to a 341,000-unit annual rate. (The September rate of 369,000 units was the highest level in well over a year.) Moreover, an even-sharper gain in permits issued, in conjunction with an increased availability of mortgage funds, pointed to a fairly strong level of homebuilding activity in the months ahead. Despite continuing weakness in the Pacific Northwest and some areas of Southern California, the West's third-quarter gain was about double that recorded elsewhere. Considerable strength was present in several Northern California areas, and in Phoenix, Las Vegas, Salt Lake City, and Boise.

Non-residential and heavy construction activity declined slightly in the third quarter, following a fairly sharp drop in the previous period. The decline reflected reduced outlays for manufacturing plants, educational and public buildings, hospitals, and water-supply systems. On the other hand, awards increased for commercial buildings (mainly banks and office buildings), recreational facilities, and dams and reservoirs.

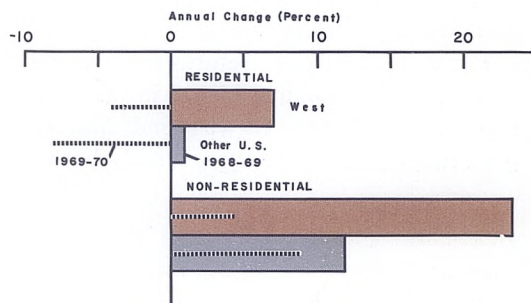
The demand for lumber at Pacific Northwest mills still reflected the earlier slump in housing activity. For the year to date, Douglas-fir production was about 3 percent below year-ago levels, while Western-pine output ran about 7 percent lower.

### Lagging pace in metals

Western steel production ran about 6 percent below the year-ago pace, reflecting a slowdown in non-residential construction and other steel markets. The decline in the West equalled that in the nation, even though the Western industry was largely unaffected by the General Motors strike. (Steel is shipped in from other areas of the country for Western auto assemblies.)

Pacific Northwest aluminum producers recently reduced their production because of a decline in shipments to the aerospace and other industries. In late September, the District's largest reduction plant announced a

## Construction still lags behind earlier pace, despite housing upturn



6-percent (16,000 ton) cutback from year-ago output levels. Another company announced the temporary shutdown of a 28,000-ton-per-year potline, and a third producer delayed start-up operations on a new 30,000-ton potline.

Copper shipments nationally lagged behind the year-ago pace, due to the General Motors strike and generally sluggish demand. Overseas, the price on the London Metal Exchange dropped in October to a 1970 low of 49 cents a pound, despite widespread strikes and production problems. Then, in late October, domestic producers lowered their price from 60 cents to 56 cents a pound.

Silver consumers remained generally unruffled by the prospect of the November cessation of Government silver sales. The New York silver price, although rising from \$1.61 to \$1.72 an ounce between late June and mid-October, still remained far below the mid-1968 high of \$2.56 an ounce.

Petroleum refining activity picked up in the third quarter, as District firms processed an estimated 1,706,000 barrels of crude oil per day and operated refining facilities at almost 90 percent of capacity. With the increased refining activity, District crude-oil supplies were about 447,000 barrels per day short of requirements, prompting heavier imports.

Western farmers fared reasonably well during the third quarter. Receipts from farm

marketings were about 6 percent higher than a year ago, largely due to heavy July marketings, whereas receipts elsewhere were up only about 2 percent.

For the year to date, returns from marketings have been running higher in the nation than in the District. By year-end, however, the situation should change, largely because

of the effect of the corn blight on mid-West crop prospects. District farmers, in contrast, will probably produce about the same volume of crops in 1970 as in 1969, with increased wheat, hay, and sugar-beet crops offsetting smaller crops of cotton, rice, and deciduous fruits.

*Regional Staff*

## Expanding Deposits

Western banks had an active summer this year, as a net injection of \$3.0 billion in deposits led to an expansion of \$4.3 billion in total credit. (This was double the national rate of gain in bank credit.) District banks channelled \$1.7 billion into securities — about evenly divided between U.S. Government and other securities — to further repair the drain on their investment portfolios which occurred during the 1969 tight-money period. They also posted a \$2.6-billion expansion in loan portfolios, reversing the severe decline of first-half 1970.

However, over one-half of the third-quarter loan expansion represented an increase in overnight Federal-funds loans to securities dealers. Furthermore, in September, District banks reacquired a substantial volume (\$458 million) of loans previously sold to their bank holding companies. More than half of the \$888-million third-quarter increase in business loans (as shown on bank balance sheets) was due to these loan transfers, and thus did not represent new extensions of credit to business. (All data seasonally adjusted).

By the end of the quarter, District banks had returned to a more traditional balance-sheet position. The steady inflow of demand and time deposits, mainly the latter, lessened their reliance on nondeposit sources of funds. The late-June removal of ceilings on short-term large-denomination CD's brought about a shift from Eurodollar borrowings to domestic deposit liabilities. Then, the late-September imposition of reserve requirements on commercial paper, plus the simultaneous reduction in requirements against time deposits over \$5 million, encouraged banks to step up their issuance of CD's and to reduce their use of funds obtained from bank-related commercial paper. By the end of September, large District banks recovered the entire loss that they had suffered in large CD's since late 1968. In addition, they benefited from a large contra-seasonal increase in public time deposits during the third quarter.

### Squeeze on earnings

District banks' earnings reports were somewhat mixed for the third quarter, despite



their rapid expansion in assets. Compared to the year-earlier period, a number of the larger banks recorded lower net income, both before and after securities gains and losses—as lower rates of return (and rising expenses) led to narrower profit margins. While banks rapidly expanded their securities holdings during the summer months, yields dropped sharply and thus reduced average rates of return. In addition, loan revenues reflected the full effect of the late-March reduction of ½ percent in the prime rate. (The September prime-rate reduction, also of ½ percent, and November’s two cuts, each of ¼ percent, are now showing up in the fourth quarter’s figures.)

On the expense side of the ledger, interest costs on deposits soared following the removal of rate ceilings on CD’s with 30-89 day maturities. During the quarter, offering rates on these short-term CD’s reached a high of 7¾ percent, although rates moved down significantly in September. Large CD’s accounted for over one-third of the time-deposit inflow at large District banks in the third quarter, and thus heavily weighted the banks’ deposit interest expense. On the other

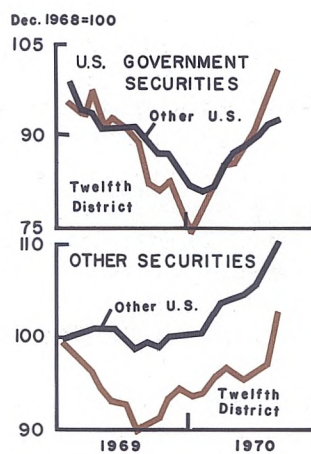
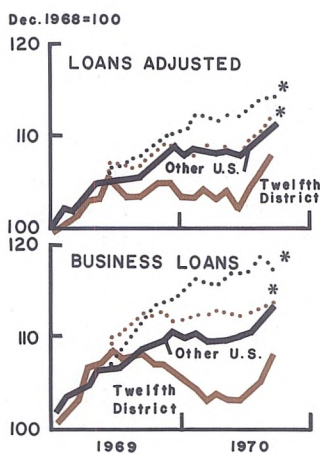
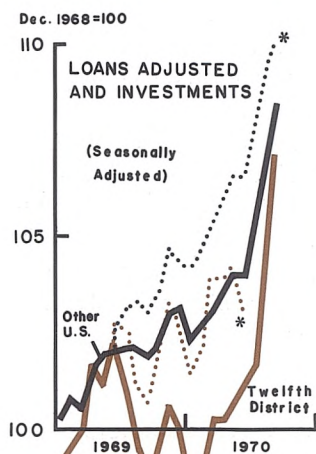
hand, the cost of nondeposit sources of borrowing declined as District banks reduced their high-cost Eurodollar borrowings.

The downward movement in rates on short-maturity, large-denomination CD’s has continued recently, and banks also have continued to reduce their nondeposit forms of borrowing. These developments should help somewhat to counteract the adverse effect of the recent reductions in rates of return on loans and securities.

### Unchanged reserve pressure

Reflecting the increase in daily average deposits, total reserve requirements of District banks increased by \$158 million during the third quarter. However, supplemental reserve requirements declined by \$39 million, as District banks reduced their liabilities to their foreign branches and other Eurodollar borrowings. District banks borrowed \$63 million, on average, from the Federal Reserve Bank—slightly more than in the second quarter—and they had average net borrowed reserves of \$40 million—down \$3 million from the preceding three-month period. (Na-

### District banks expand credit at twice the national pace in third quarter, channelling funds into both loans and investments



\*Includes loans sold outright

tionally, member banks posted a small increase over the quarter in both borrowings and net borrowed reserves.)

In the June-September period, major money-market banks in the District increased their interbank purchases of Federal funds but relented an increased share of these funds to dealers in U.S. Government securities. As a result, their net Fed-funds purchases (*total transactions*) declined by \$47 million to \$209 million. These banks also substantially reduced their borrowings under repurchase agreements with corporations and public agencies.

Large District banks recorded a very substantial—\$2 billion—net increase in funds in the third quarter, as they returned to a more traditional pattern of sources and uses of funds. New inflows of funds came from time and demand deposits, plus a minor amount from increased discount-window borrowing. More than half of these funds were used for building up loan and security portfolios. The remaining new funds were used to reduce borrowings (including Eurodollar liabilities, Federal funds, and repurchase agreements) and to meet higher reserve requirements. Thus, for the second successive quarter, District banks improved their liquidity by reducing nondeposit borrowing and by adding to securities holdings. In addition, for the first time since third quarter 1969, they were able

to make a substantial addition to their loan portfolios.

### Weakening loan expansion

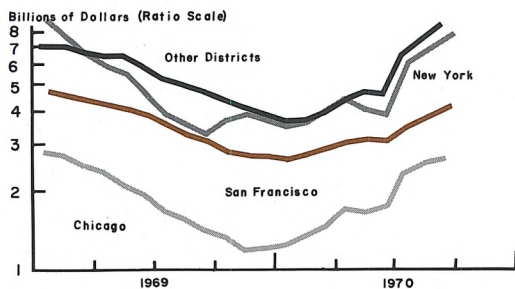
District banks increased their loans and investments in each of the summer months (seasonally adjusted basis). Securities-dealer financing represented a large proportion of the increased lending volume in several months of the quarter. Nonbank financial institutions also increased their bank borrowing more than seasonally during the quarter, as they reduced their reliance upon commercial-paper financing.

Business loans increased in each month of the quarter (especially September) on a balance-sheet basis. However, this summer period witnessed a reversal of the prolonged uptrend of outright sales of outstanding loans. The reduction in these loans accelerated as the quarter progressed, reaching \$458 million in September; in that month, substantial amounts were transferred back to bank balance sheets as bank holding companies sharply reduced their commercial paper to avoid new reserve requirements.

After adjustment for these transactions, District banks' business lending increased in July and August by somewhat less than is indicated on a balance-sheet basis, while the September gain was virtually cancelled out. (Nationally, business loans declined in September, on an adjusted basis.) The adjusted data thus confirm the relative weakness of business credit demand in September.

Western consumers added \$80 million to their consumer instalment debt at large District banks in the June-September period—a reversal of the declines recorded in the first two quarters of 1970. But the 1½-percent rate of increase was well below the 3½-percent gain reported at other large banks in the nation. Relatively high unemployment rates in many parts of the West may account for the more cautious attitude of District

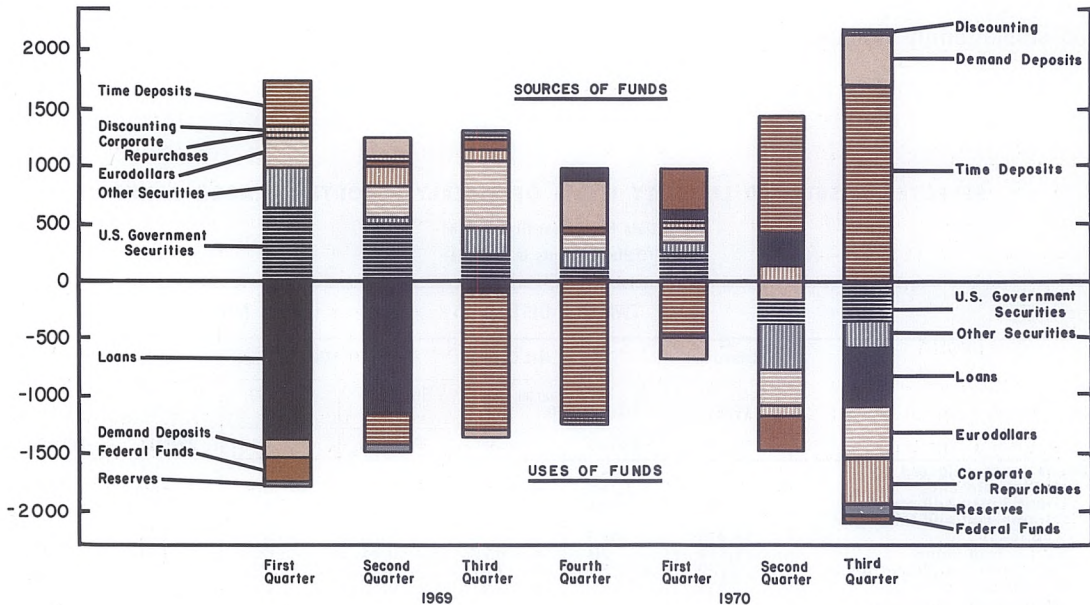
### With ceilings off, Western banks recover earlier loss in large CD's





**Large District banks post very substantial increase in funds, as they return to traditional pattern of sources and uses**

Net Change (Millions of Dollars)



consumers, reflected in an unwillingness to undertake new obligations.

**Accelerating mortgage pace**

District banks expanded their mortgage holdings by \$30 million during the quarter, or about double the previous quarter's increase. Yet this understates the actual volume of real-estate loans made by banks; in contrast to the decline in *business* loans sold outright, District banks made net sales of \$100 million in mortgages to other investors (including FNMA) during the summer months. Savings-and-loans associations in most District states also expanded their mortgage loans, and at a considerably accelerated pace—by some \$679 million altogether, or three-fourths again as much as during the spring quarter. District S&L's also added \$80 million to their loan commitments, until they reached \$650 million at the end of September—the highest level since early 1969.

A sharp upsurge in savings flows was the major factor behind this improved mortgage picture. During the third quarter, large District banks registered a \$1,304-million increase in consumer-type time-and-savings deposits—over four times the second-quarter inflow. For their part, District S&L's recorded a \$682-million net gain in their savings and certificate accounts—well over double that of the previous quarter—although associations in a few states failed to match their earlier performance. This improvement reflected both a rise in the personal savings rate and a shift of some investor funds from the markets into depository-type institutions, enhanced by the increasing competitive attractiveness of rates payable on savings and certificate accounts.

Reflecting these various developments, mortgage lending rates eased slightly in most areas of the District. In the West as a whole, the average yield on a conventional new

FEDERAL RESERVE BANK OF SAN FRANCISCO

home loan declined to 9.15 percent by the first of September, from 9.25 percent in June and a March-April peak of 9.40 percent. By mid-October, in fact, some lenders were quoting an 8.25-percent prime lending rate on single-family homes. At the same time,

non-price terms of lending (average maturities and loan-to-price ratios) remained fairly stable, at levels somewhat more liberal than those prevailing in the nation generally.

*Ruth Wilson and Verle Johnston*

SELECTED ASSET AND LIABILITY ITEMS OF WEEKLY REPORTING LARGE BANKS

Data Not Seasonally Adjusted  
(Dollar amounts in millions)

	TWELFTH DISTRICT				U. S. MINUS TWELFTH DISTRICT		
	Outstandings	Net Change		Outstandings	Net Change		
	Sept. 30, 1970	Third Quarter 1970		Sept. 30, 1970	Third Quarter 1969		
		Dollars	Percent	Percent		Percent	Percent
Loans gross adjusted and investments <sup>1</sup>	52,648	+ 3,788	+ 7.75	- 3.55	187,831	+ 4.04	- 1.25
Loans gross adjusted <sup>1</sup>	38,430	+ 1,841	+ 5.03	- 3.46	137,197	+ 3.07	- 0.71
Commercial and industrial loans	14,318	+ 422	+ 3.03	- 2.73	66,850	+ 1.80	+ 0.10
Real estate loans	11,114	+ 30	+ 0.27	+ 0.74	22,809	+ 1.56	+ 1.52
Consumer instalment loans	5,522	+ 80	+ 1.47	- 0.72	15,728	+ 4.17	+ 2.58
Agricultural loans	1,354	- 56	- 3.97	- 0.14	656	- 0.91	+ 2.74
Loans to nonbank financial institutions	2,160	+ 445	+ 25.95	+ 0.85	11,071	+ 13.50	- 2.41
Loans for purchasing and carrying securities:							
To brokers and dealers <sup>2</sup>	1,271	+ 939	+ 282.83	- 67.96	3,802	+ 9.76	- 20.57
To others <sup>2</sup>	211	- 7	- 3.21	- 3.22	2,417	+ 6.10	- 3.91
Loans to foreign banks	177	+ 6	+ 3.50	- 12.98	1,251	- 2.80	- 12.19
All other loans	2,390	+ 17	+ 0.72	- 10.97	12,950	+ 0.58	- 2.59
Total investment	14,218	+ 1,947	+ 15.87	- 3.80	50,634	+ 6.77	- 2.77
U. S. Government securities	5,483	+ 1,237	+ 29.13	- 2.35	19,311	+ 10.93	- 1.44
Obligations of states and political subdivisions	7,480	+ 446	+ 6.34	- 4.23	28,016	+ 4.14	- 3.57
Other securities	1,255	+ 264	+ 26.63	- 6.88	3,307	+ 6.30	- 3.65
Total deposits (less cash items)	50,734	+ 3,747	+ 7.97	- 2.34	170,074	+ 11.02	- 2.18
Demand deposits adjusted	16,838	+ 644	+ 3.97	+ 0.74	63,569	+ 2.44	- 0.93
Time and savings deposits	31,827	+ 3,091	+ 10.75	- 4.59	81,814	+ 15.33	- 6.33
Savings deposits	14,879	+ 327	+ 2.24	- 1.22	31,932	+ 0.98	- 2.57
Other time deposits IPC	11,903	+ 2,194	+ 22.59	- 4.50	35,678	+ 29.27	- 8.47
Deposits of states and political subdivisions	3,560	+ 558	+ 18.58	- 21.09	8,047	+ 40.90	- 18.34
(Neg. CD's \$100,000 and over)	3,958	+ 1,123	+ 39.61	- 17.30	18,291	+ 80.37	- 24.56

<sup>1</sup>Total loans gross less loans to domestic commercial banks.

<sup>2</sup>Includes loans made in Federal funds.

Publication Staff: Janis Wilson, Artist; Karen Rusk, Editorial Assistant.

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