

MONTHLY



# Review

**FEDERAL RESERVE BANK  
OF ST. LOUIS • P. O. BOX 442 • ST. LOUIS 66, MO.**

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**VOL. 43 • No. 8 • AUGUST '61**

# The Tempo of Expansion

## Introduction

**B**USINESS ACTIVITY has been rising at a rapid rate since February in contrast to a decline in the previous nine months. Performance of most major indicators of economic activity suggests that the current recovery has progressed at about the same pace as the 1958 recovery but has been substantially more pronounced than during 1954. But while industrial production, employment, incomes, and sales have rebounded impressively since February, the proportion of unemployed in the civilian labor force has not declined.

## Production

The nation's total output of goods and services was approximately 2.8 per cent greater in the second quarter of this year than during the preceding quarter. As Table I indicates, gross national product expanded more sharply during the initial quarter of the current recovery than during similar periods of the two previous recoveries.

Table I  
Gross National Product  
(Dollar Amounts in Billions)

Year	Trough Quarter <sup>1</sup>	First Quarter after Trough <sup>1</sup>	Per Cent Change
1961	500.8	515.0	2.8
1958	437.2	447.0	2.2
1954	362.0	370.8	2.4

<sup>1</sup> For purposes of this article the trough quarters are first quarter 1961, second quarter 1958, and third quarter 1954.

Physical output of mines, factories, and utilities expanded sharply during the first five months of recovery. The rise in industrial production was particularly steep from February through May (nearly 6 per cent), and the expansion continued during June and July at a lower rate. The five-month rise in industrial production was at about the same rate as during the like period of the 1958 recovery (9.5 per cent), but substantially more rapid than during the corresponding phase of the 1954 recovery (6.4 per cent). Chart 1 shows the increases in production during the early months of the current recovery period compared with the 1954-55 and the 1958-59 recoveries.

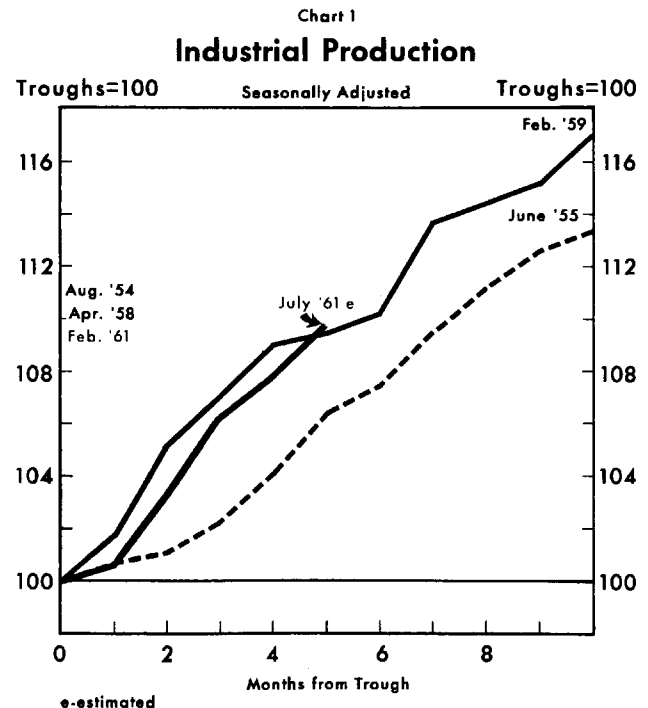
In the first five months of the current recovery, increases in production were sharpest in durable goods, particularly in steel and automobiles. However, output of nondurable goods and of utilities also rose.

## Employment

The recovery in business activity has resulted in a more intensive utilization of the labor force. From mid-February to mid-June the average workweek lengthened by one hour, and average hourly wages rose slightly. As a result, the average weekly pay of manufacturing wage earners increased nearly \$4.00 over the period. Average overtime hours increased by 26 per cent from mid-February to mid-June. The number of workers employed only part time because of economic reasons<sup>1</sup> declined by more than 40 per cent over the period. Preliminary reports indicate that hours worked, average wages, and overtime continued to increase in July.

Notwithstanding these improvements, the proportion of unemployed in the civilian labor force, at 6.9

<sup>1</sup> Persons working part time for "economic" reasons include those who worked part time because of slack work, material shortages or repairs, new job started, or job terminated.



per cent in mid-July, remained near the December-June level. The total number of unemployed was swelled seasonally during the May to July period by an influx of young persons into the labor force. Of the 2.8 million persons under 25 years of age who entered the labor force from mid-May to mid-June, it is estimated that about 900 thousand joined the ranks of the unemployed as of the mid-June survey.

### Personal Income

Reflecting improvements in production and employment, total personal income rose steadily from February through June and probably increased further in July. The 3.4 per cent increase in income from February to June may be compared with the 2.5 per cent and 2.8 per cent increases during similar phases of the 1954 and 1958 recoveries, respectively (Chart 3). Most of the increase in the current recovery was in wages and salaries.

### Spending

Final demand rose at a somewhat slower pace than production during the first quarter of recovery. Total purchases of goods and services for final use, which

Table II  
Changes in Gross National Product by Major Expenditures Categories

Type of Expenditures	First Quarter of Business Recovery					
	1961		1958		1954	
	In Billions of Dollars	Per Cent of Trough GNP	In Billions of Dollars	Per Cent of Trough GNP	In Billions of Dollars	Per Cent of Trough GNP
Personal Consumption	+ 5.3	1.0	+ 3.6	0.8	+4.5	1.2
Gov't. Purchases	+ 2.5	0.5	+ 3.1	0.7	-1.1	-0.3
Net Exports	- 1.8	-0.3	+ 0.3	0.1	+1.9	0.5
Gross Private Domestic Inv.	+ 8.2	1.6	+ 2.8	0.6	+3.5	1.0
New Construction	+ 1.4	0.3	+ 0.7	0.2	+1.4	0.4
Producers' Durable Equip.	+ 0.3	0.1	- 0.4	-0.1	-0.8	-0.2
Changes in Business Inv.	+ 6.5	1.3	+ 2.4	0.5	+2.9	0.8
<b>Total GNP</b>	<b>+14.2</b>	<b>2.8</b>	<b>+ 9.8</b>	<b>2.2</b>	<b>+8.8</b>	<b>2.4</b>

Totals may not add due to rounding.

exclude net purchases for inventory accumulation, rose 1.5 per cent from the first quarter to the second quarter of 1961. According to preliminary data, purchases of services rose at a somewhat more rapid pace than purchases of goods. The increase in final demand accounted for 54 per cent of the expansion in GNP during the initial quarter of the current recovery, 76 per cent of the increase during the first quarter of the 1958 recovery, and 67 per cent of the gain during the first quarter of the 1954 recovery.

The pattern of spending during the early phase of the current recovery differed from the two preceding recoveries (see Table II). As the final demand figures indicate, the shift from inventory contraction to accumulation played a more prominent part during this recovery than in either the 1958 or 1954 recoveries. The increase in Government purchases in the 1961 recovery was similar to experience during the 1958 recovery.

Chart 2  
Unemployment  
as a Per Cent of Civilian Labor Force

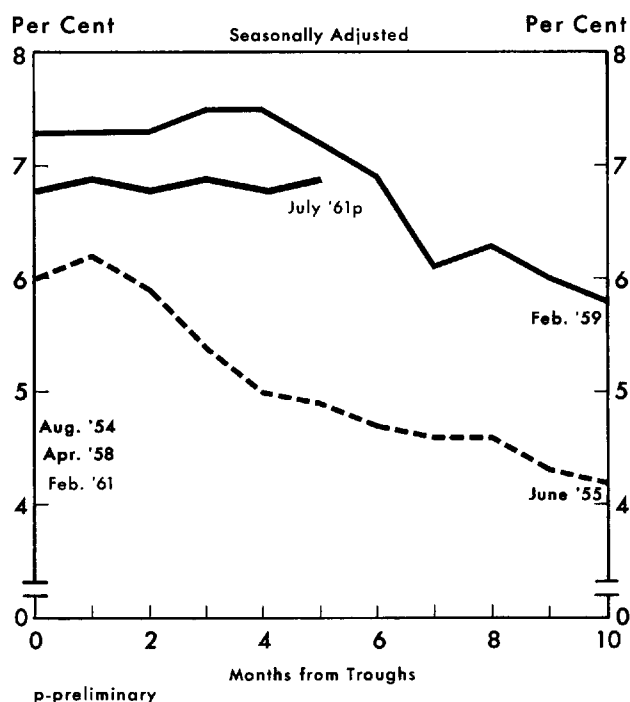
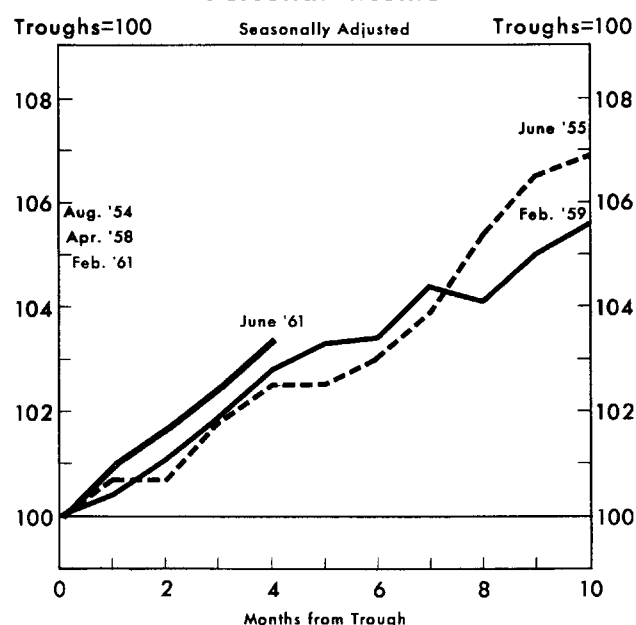


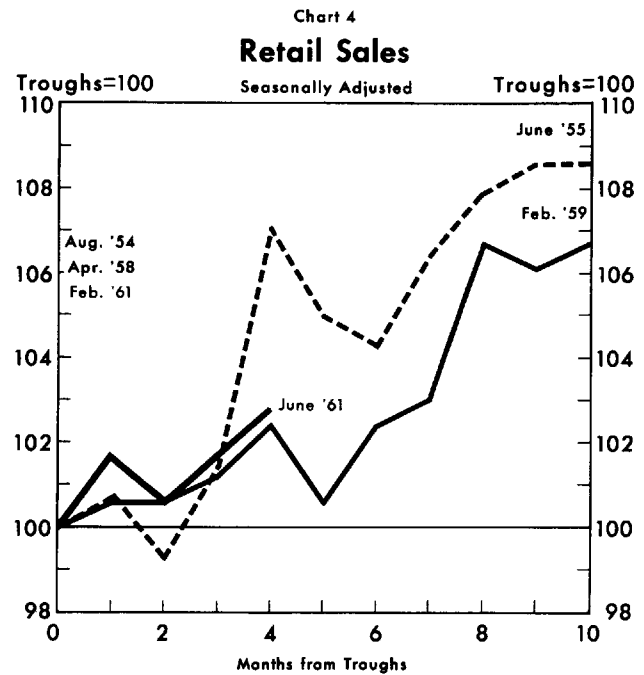
Chart 3  
Personal Income



Retail sales during the first four months of the current recovery expanded 2.8 per cent. This expansion was broadly comparable to the 2.4 per cent increase during the first four months of the 1958 recovery but was substantially less rapid than the 7.1 per cent expansion during the like period of the 1954 recovery (Chart 4). Retail sales probably expanded in July. Sales at weekly reporting department stores during the four-week period ended July 29 were above the corresponding period of 1960. Automobile sales through the first two-thirds of July were strong compared with the corresponding period of recent years.

### Prices

Average prices declined slightly during the initial phase of the recent recovery; hence, the measured expansion in GNP in current dollars represents an increase in real output of at least an equivalent amount. From February to June the consumer price index showed little net change, compared with a modest decline in the first four months of the 1954 recovery and with a slight increase in prices during



the first four months of the 1958 recovery. Average wholesale prices decreased over the period, reflecting declines in prices of agricultural commodities and industrial products.

## Financial Highlights of the Recovery

### Introduction

**T**OTAL MEMBER BANK RESERVES, seasonally adjusted, declined slightly from February to July, the first five months of the present economic recovery. This contrasts sharply with the increase in bank reserves during the early stages of the two prior upturns in business activity. Total bank credit, however, increased at a fairly rapid rate, as banks utilized previously accumulated excess reserves.

The seasonally adjusted money supply, defined as demand deposits and currency, has shown little net change in the past few months. Thus far in the recovery, the rate of expansion in the money supply, so defined, has been below the rate of increase during the corresponding periods of the two previous recoveries. However, time deposits continued to increase markedly from February to July, resulting in an expansion in total deposits plus currency comparable to the growth in this broader measure of money that occurred during the early phases of the 1954-55 and 1958-59 recoveries.

### Member Bank Reserves

During the first five months of the present business recovery (February-July), total reserves of member

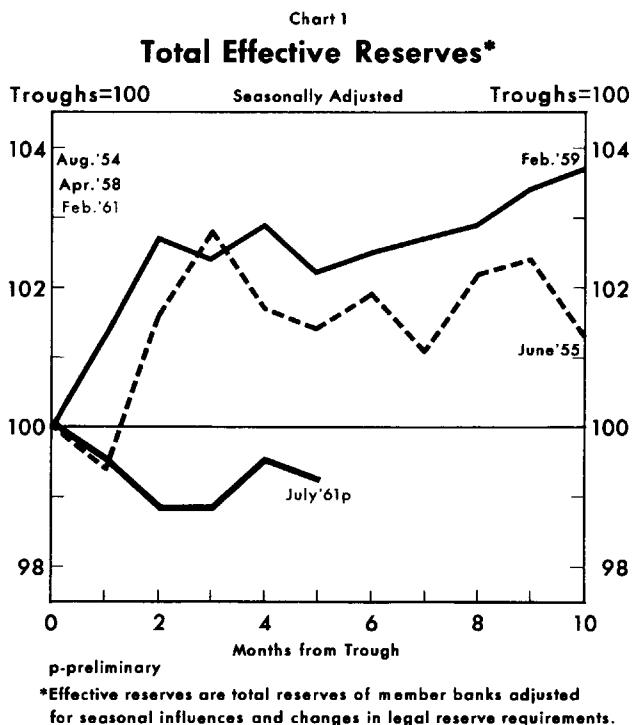
banks, adjusted for seasonal variation, declined slightly. This decline is in contrast to the 3 per cent and 5 per cent annual rates of expansion in reserves that occurred in the first five months following the August 1954 and April 1958 troughs in economic activity.

Changes in total member bank reserves may be viewed as a first approximation of monetary policy. An increase in reserves permits banks to expand bank credit and deposits, while a decrease tends to reduce bank credit and deposits. However, the relationship between changes in bank reserves and corresponding changes in bank credit and the money supply is not precise.

Despite the moderate decline in total bank reserves since February, bank credit and total deposits have increased. There are three chief means by which an expansion in total deposits of the public can occur at a time when reserves are declining or constant. Banks may desire to hold a smaller amount of excess reserves. A shift of funds from Treasury deposits to the public increases the public's deposits without a change in total bank reserves. A shift from demand to time deposits permits an expansion in bank credit and total deposits without a corresponding increase in reserves, because member banks are required to

hold a smaller percentage of reserves behind time deposits than demand deposits.

In order to lend perspective to the decline in total member bank reserves during the present recovery, it should be noted that reserves increased sharply from June to November 1960 and then leveled off for three months. Reserves were increased at a more rapid rate from May 1960 to February 1961 (the terminal dates of the 1960-61 recession) than during either of the previous two recessions. However, as Chart 1 reveals, the expansion in member bank reserves continued into the recovery period of these cycles, whereas thus far in the present recovery reserves have contracted.



As explained in the July issue of this *Review*, the rapid increase in total reserves during the early stages of the 1960-61 recession contributed to an increase in excess reserves. From an average of about \$700 million in the first two months of 1961, excess reserves declined to an average of about \$580 million in the five months ending in July. The net decline in excess reserves thus far in the present recovery was of about the same magnitude as in the comparable stage of the 1954-55 upturn but was greater than the decline in excess reserves that occurred in the early months of the 1958-59 recovery. The bank credit and deposit expansion that has occurred thus far in the present recovery resulted in part from a decline in the level of excess reserves, which had expanded in late 1960, rather than from an increase in total reserves. Because reserve requirements on deposits are now lower than in previous recovery periods, a decline in excess re-

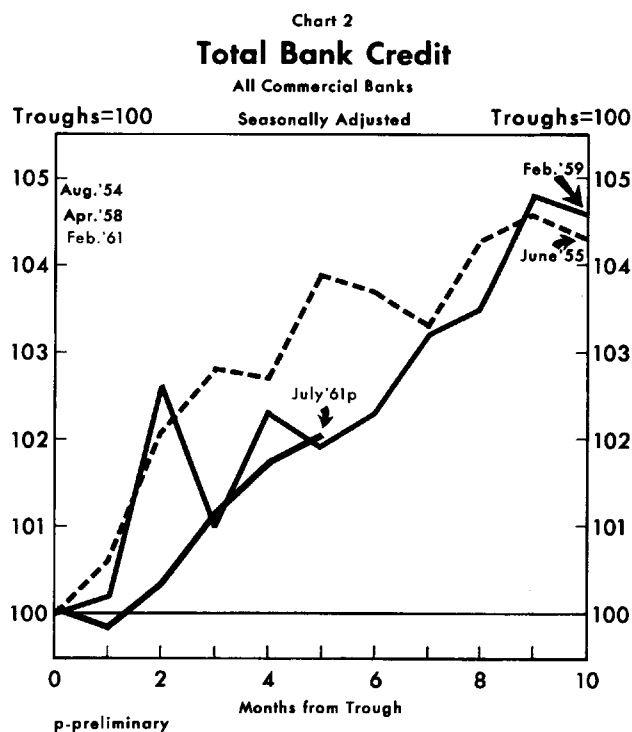
serves permits a larger credit and deposit expansion than a decline of the same magnitude in earlier recovery periods.

System actions may affect the level of total reserves by influencing changes in member bank borrowing as well as through open market operations. Member banks borrow from the Reserve Banks primarily to avoid temporary reserve deficiencies arising from unexpected drains in deposits. As an alternative to borrowing from its Reserve Bank, an individual bank may dispose of assets (usually short-term Government securities), borrow from a correspondent bank, or borrow in the Federal funds market. These adjustments, other than borrowing from the Reserve Banks do not affect the level of total reserves. The relationship between the discount rate and short-term money market rates will have an important influence on the method which individual banks select in adjusting their reserve positions.

Member bank borrowing, which averaged about \$50 million in June and July, has shown little net change thus far in the recovery. During the fourth and fifth month of the two previous recovery periods member bank borrowing rose sharply. The recent low level of member bank borrowing may reflect a weaker demand for bank loans as well as a higher discount rate relative to short-term market rates than prevailed at similar stages of the previous two recoveries.

### Bank Credit

The pattern of bank credit expansion during the first five months of the present recovery has been sim-



ilar in both magnitude and composition to the expansion which occurred in the first five months of the 1958-59 business upturn. From the end of February through July total loans and investments of commercial banks increased at an estimated annual rate of 5 per cent. This was roughly the same rate of expansion that occurred in the comparable period of the 1958-59 recovery but below the 9 per cent annual rate of growth during the 1954-55 expansion.

Practically all the expansion in total bank credit thus far in the recovery has occurred in investments. Investments increased at an estimated annual rate of over 5 per cent from February to July 1961, slightly less than the rate of increase in the comparable months of the previous cycles. In this same period, from the end of February through July 1961, bank loans increased at an estimated annual rate of less than 1 per cent. This rate is only slightly less than that in the first five months of the 1958-59 recovery but substantially below the 14 per cent annual rate of expansion in the first five months following the August 1954 trough in business activity.

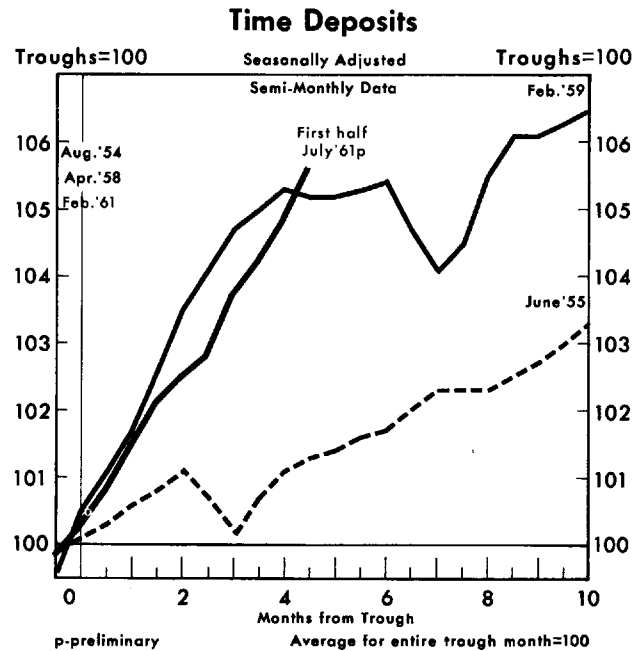
### Money Supply

The seasonally adjusted money supply (demand deposits adjusted and currency outside banks) showed little net change from the second half of March to the first half of July. From February through mid-July, the money supply expanded at an annual rate of about 1 per cent. In the comparable months of the two previous recoveries, the annual rates of increase in the money supply averaged 5 per cent.

Although demand deposits have increased at a very modest rate thus far in the recovery, time deposits have expanded at an annual rate of 15 per cent. The

expansion in time deposits from February through the first half of July was comparable to the rate of increase that occurred in the first four and one-half months of the 1958-59 recovery but was well above

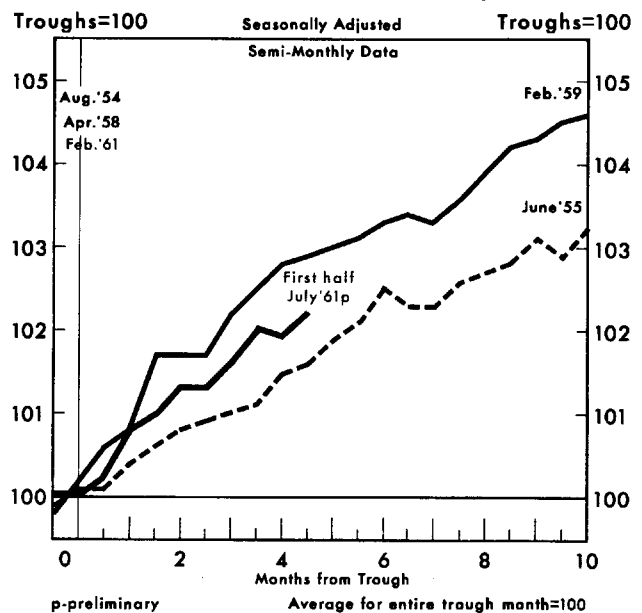
Chart 4



the increase that occurred in the similar phase of the 1954-55 recovery. Furthermore, the recent innovation of negotiable certificates of time deposits by some banks as well as the daily interest now being paid by many banks on savings deposits has probably increased the liquidity of these deposits.

Chart 5

### Money Supply plus Time Deposits

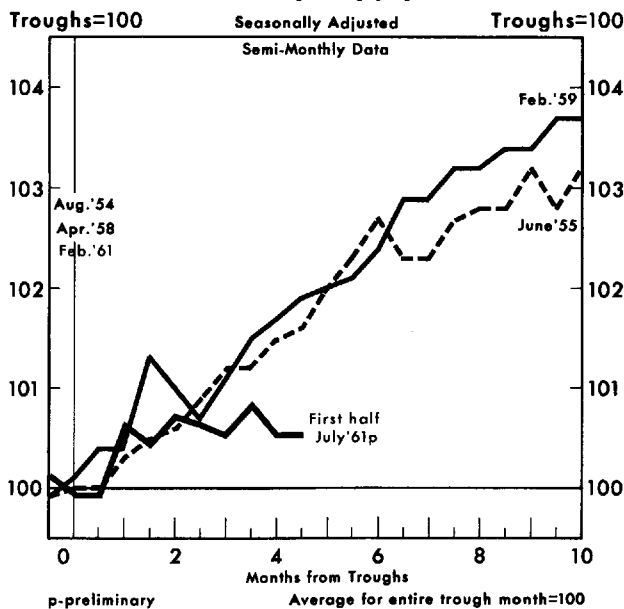


Reflecting the rapid growth in time deposits, money supply plus time deposits has increased at an annual

(Continued on page 11)

Chart 3

### Money Supply



# A Year of Interest Rate Stability

INTEREST RATES on marketable securities have been remarkably steady over the past year. Both the general level and the structure of rates have varied less than at any time since the money market became substantially free of controls in early 1951. Interest rates since July of last year have been higher than during previous postwar periods of recession and early recovery, but they have been lower than rates abroad.

Interest rates might have been expected to fall during the recession from May 1960 to February 1961 and to rise during the subsequent recovery. However, the stability of interest rates in the latter half of 1960 followed a period of marked decline in the first half of the year. Also, interest rates which prevailed in other countries were higher than domestic rates and short-term funds flowed out of the country, reducing the supply of loan funds available in this country and therefore inhibiting interest rate decline. In the first seven months of 1961, when domestic demands for credit were rising, the outflow of funds from the country declined, increasing the relative supply of loan funds and therefore reducing pressure for interest rate increases.

This article reviews interest rate developments during the 1960-61 recession and early recovery period. An earlier article in this *Review* commented on the function of interest rates and the factors determining them and compared the levels of rates during the late 1959-early 1960 period with other times and places when the productivity of capital was high.<sup>1</sup>

## The Behavior of Interest Rates

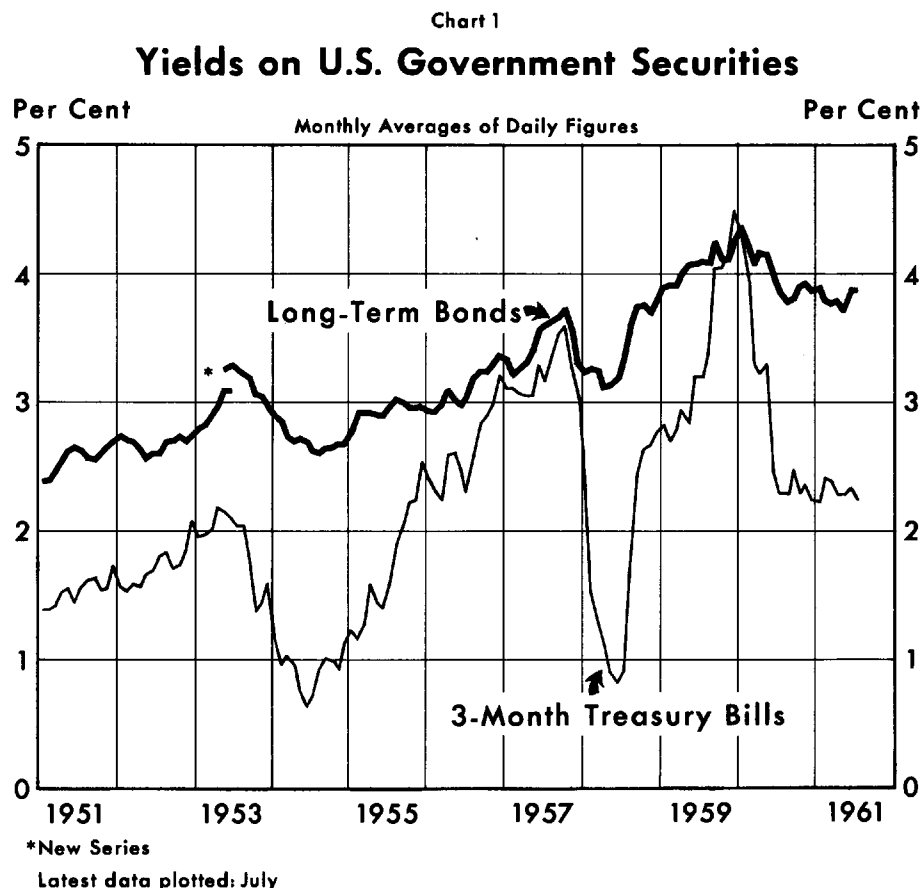
Interest rates on marketable securities were relatively stable

from July 1960 to July 1961 (see Chart 1). Yields on long-term Government bonds remained roughly in the 3.80 per cent to 3.90 per cent range, and those on three-month Treasury bills fluctuated around 2.30 per cent.

Yields on other types of securities were, likewise, characterized by a high degree of steadiness over the past twelve months. Interest rates on highest grade corporate bonds stayed in the 4.25 per cent to 4.40 per cent range. Over the same period interest rates on medium-grade corporate issues fluctuated about the 5.15 per cent level. Yields on state and local government securities changed only slightly, and the prime commercial bank rate on business loans has remained at 4.50 per cent since late last summer.

## Historical Comparison

The general level of interest rates has been higher over the past year than during the previous postwar recession and early recovery periods (see Chart 1).



<sup>1</sup> See "Interest Rates in Perspective" in the August 1960 issue of this *Review*.

The average yield of 2.32 per cent on three-month Treasury bills in the twelve months ending with July compares with 1.93 per cent and .94 per cent in the corresponding twelve months of the 1958 and 1954 recessions and recoveries, respectively. In the twelve months through July this year the average interest rate on long-term Government bonds was 3.84 per cent as against 3.38 per cent and 2.69 per cent in the comparable periods of the two previous cycles.

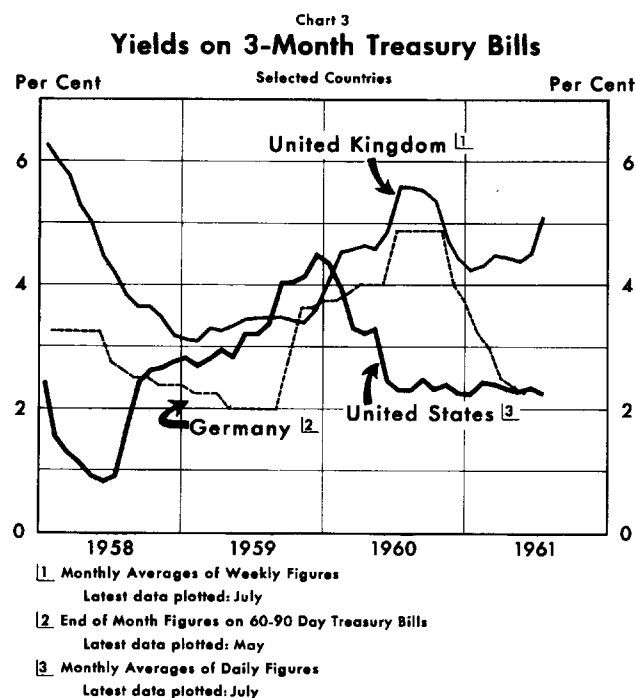
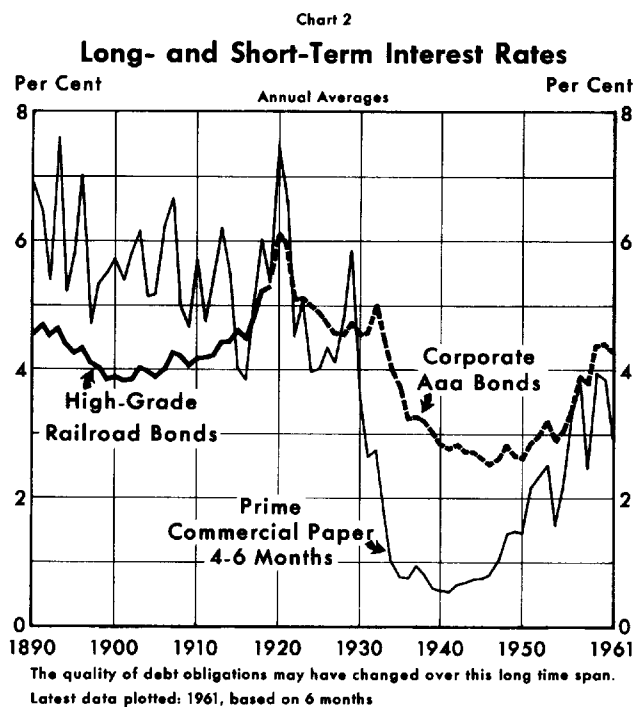
Unlike the experience of the past year, interest rates declined markedly during the previous postwar recessions and rose in the early recovery periods.<sup>2</sup> In addition, significant shifts in the relative levels of interest rates of various maturities occurred as yields on short-term issues declined more sharply than those on longer term securities. Yields on three-month Treasury bills, for example, declined from about 3.50 per cent in late 1957 to less than 1.00 per cent in early 1958, but they rose to about 2.75 per cent by the fall of the year. Over the same period, yields on long-term Government bonds went from 3.75 per cent to 3.15 per cent and back to about 3.75 per cent.

Viewed in longer perspective the level of interest rates has been moving upward over the past decade. Interest rates on long-term Government bonds rose from about 2.40 per cent in early 1951 to over 4.25 per cent in late 1959 and early 1960 (3.88 per cent in July 1961). Yields on three-month Treasury bills rose from about 1.40 per cent in early 1951 to over 4.25 per cent in late 1959-early 1960 (2.25 per cent in July 1961). The rise in interest rates over the past decade was not steady. Rates generally rose during periods of economic recovery and boom and declined in periods of recession, but each decline was less than the previous increase. As a result of this upward trend, interest rates have been relatively high over the past two years compared with those prevailing in this country during the previous three decades. However, rates are not inordinately high compared with rates from 1890 to 1930 (see Chart 2). It might be noted that some questions have been raised regarding the comparability of these data over such a long time span.

### Comparison with European Rates

During the past year short-term interest rates in leading European countries have been substantially higher than those in the United States (see Chart 3). In England, short-term Government issues were yielding about 5.60 per cent from July to September of 1960. Late in the year, short-term rates in

<sup>2</sup> It might be noted that interest rates declined substantially in the January-July 1960 period which immediately preceded the past twelve months of comparative stability. For an analysis of this decline in rates see the August 1960 issue of this *Review*.



England declined to about 4.40 per cent and stayed at about that level until mid-1961. By comparison, three-month Treasury bill yields in the United States fluctuated in roughly the 2.20-2.40 per cent range during the past twelve months. In Germany short-term interest rates averaged about 4.90 per cent in the June-October 1960 period. From October last year to June this year they have declined almost steadily to about 2.20 per cent.



Interest rates on long-term bonds in most industrialized nations were also higher during the past year than those in the United States, just as they have been during most of the postwar period (see Chart 4). Yields on long-term Government securities in the United States which averaged 2.19 per cent in 1946 rose to 3.82 per cent in the first half of 1961. Over the same period similar rates in the United Kingdom went from 2.60 per cent to 5.85 per cent.

### Influences on Rates

An examination of the factors of supply and demand for funds gives some insight into the relative stability of interest rates that occurred in the United States from July 1960 to July 1961. The total supply of available funds rose in the period. Indications are that the rate of saving was augmented. It is estimated that personal saving increased from an annual rate of about \$25 billion in the second quarter of 1960 to about \$29 billion in the third quarter and has since fluctuated near the higher level. In addition, the money supply of the country expanded about 2 per cent from early July last year to early July this year. Defined broadly to include time deposits, the money supply rose about 6 per cent over the same period. An increase in the supply of loan funds from the greater rate of saving and the creation of money tends to cause interest rates to fall.

However, there was a substantial movement of funds out of the country during the fall of last year. Hence, some of the impact of the increased supply of funds in that period was felt in markets in other countries rather than in the domestic market. The outflow of funds, particularly of short-term funds, may be attributed in part to the wide gap in interest rates on high-grade short-term securities between the United States and certain other countries. This outflow in quest of better yields elsewhere added materially to the total deficit in the balance of payments, a weakness of the dollar in world markets, and an outflow of gold.

On the demand side, also, stability of interest rates last fall probably reflected some offsetting factors. On the one hand, there was a relatively large volume of corporate and municipal bond financing during the period. On the other hand, there was a decline in the demand for real estate financing.

During the first seven months of 1961, the stability of domestic rates reflected a rise in both the demand and supply of funds. The outflow of funds from the United States declined markedly, increasing the domestic supply. This resulted in part from an improvement in this country's balance of trade and in part from a narrowing of short-term interest rate differentials between this nation and other countries, as

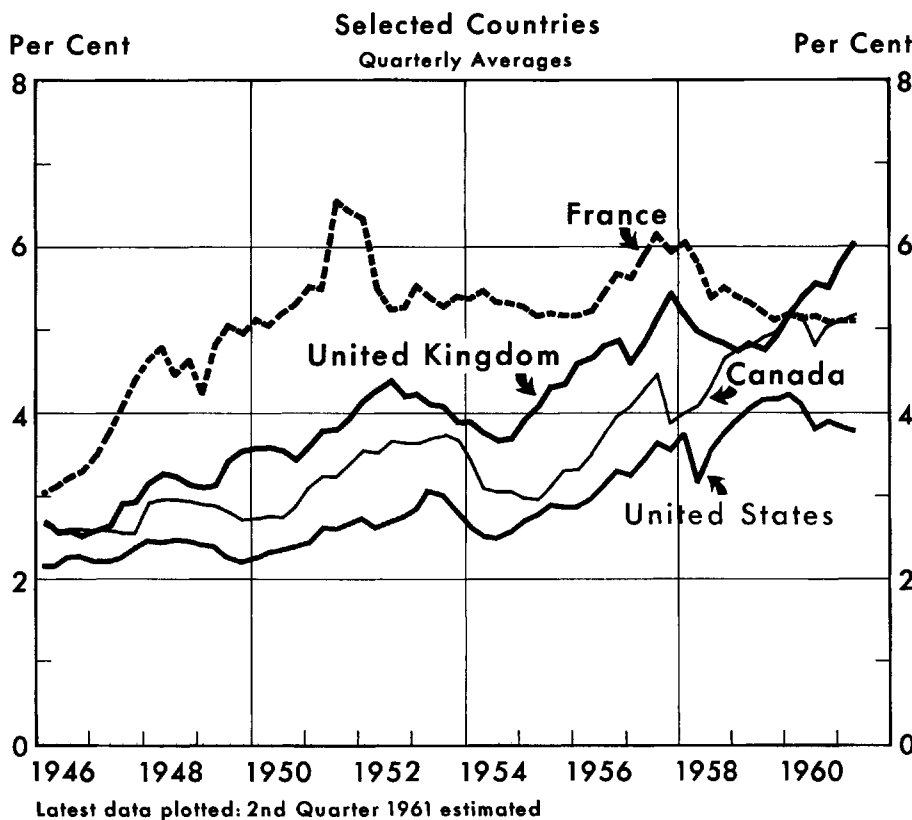
rates in some other industrial countries declined. The domestic demands for funds rose. With the pick-up in business activity more credit was sought by businesses. Also, the Federal Government shifted from a cash surplus of \$4.2 billion in the last half of 1960 to a cash deficit of about \$8.0 billion (seasonally adjusted annual rates) in the first seven months of 1961.

### Monetary Actions and Levels of Rates

The increase of bank deposits, which has been appropriate to the recovery, has enabled the economy to expand thus far without a general rise in the interest rates. The recovery has been facilitated both by the increase of liquidity instruments and by the absence of a rise of interest rates so far. It has been a fortunate circumstance that the increase of money, which was apparently appropriate for economic expansion, has been consistent with a stability of interest rates which also facilitates economic expansion.

Chart 4

## Yields on Long-Term Government Bonds



From early July 1960 to early July 1961, total bank credit rose about 7 per cent, and over the same period the money supply (defined broadly to include time deposits) rose about 6 per cent. It would not have been possible for the Federal Reserve to exert greater downward pressure on the general level of interest rates except by providing for a yet more rapid rate of bank credit expansion.

The Reserve System is primarily responsible for effecting the quantity of bank credit, bank deposits, and money supply which is conducive to an appropriate level of total demand. This amount of bank credit, together with the supply of other loan funds and the demand for loan funds, determines the general level of interest rates. If the Reserve System puts prime emphasis on an appropriate amount of bank credit and money, the level of interest rates follows from this and the other factors affecting the supply and demand for loan funds. If the chief effort of the Federal Reserve System should be directed primarily toward influencing or determining interest rates, the System would lose control over the quantity of bank credit, bank deposits, and money supply.

### *Monetary Actions and the Structure of Rates*

During the last half of 1960 and the first half of 1961 concern was expressed over the relationship between short-term and long-term interest rates. Yields on long-term Government securities remained higher (3.84 per cent) than they had in the 1957-58 and 1953-54 recessions, when they declined to 3.43 per cent and 2.94 per cent, respectively. Low rates on long-term securities may tend to stimulate business investment and thereby contribute to economic recovery. However, if short-term rates in the United States, which were already quite low relative to those on high-grade short-term foreign securities, had declined significantly, the already large outflow of funds from the country might have accelerated. Hence, it was felt that short-term rates should not be allowed to decrease, or perhaps they should even be increased somewhat.

It was suggested that the Federal Reserve System buy long-term securities (and perhaps sell short-term issues) in pursuing its stabilization objectives of adding to member bank reserves, instead of concentrating their purchases in the short-term market. Purchasing securities tends to bid up prices and thereby to lower yields; conversely, selling securities tends to lower prices and to raise yields. Thus, the Federal Reserve, in seeking to obtain the desired bank credit expansion,

might put some direct downward pressure on long-term rates and, at the same time, not contribute to a decline in short-term rates.

On February 20, the manager of the System Open Market Account announced that the System was purchasing long-term obligations. It was stated that "authority for transactions in securities of longer maturity has been granted by the Open Market Committee of the Federal Reserve System in the light of conditions that have developed in the domestic economy and in the U. S. balance of payments with other countries."

From February 20 through July 26 the System purchased net about \$2 billion of securities of over one year maturity. Over two-fifths of the purchases were in the 3 to 5 year maturity range while a substantial volume (\$615 million) had more than five years to run. Some of the purchases of longer term securities were made to provide reserves for the expansion of bank credit and the money supply; other purchases were made to offset a reduction in holdings of Treasury bills and other Government securities with less than one year to maturity.

The purchases of long-term securities and offsetting sales of short-term issues may have had some tendency to narrow the spread between long-term and short-term yields (see table below). In other early recovery periods, however, when the System confined its transactions to short-term securities, the spread between short-term rates and long-term rates likewise narrowed.

Table I  
Average Yields on Three-Month Treasury Bills  
and Long-Term Government Bonds

Month	Three-Month Treasury Bills	Long-term Bonds	Spread
Dec. 1960	2.25%	3.88%	1.63
Jan. 1961	2.24	3.89	1.65
Feb.	2.42	3.81	1.39
Mar.	2.39	3.78	1.39
Apr.	2.29	3.80	1.51
May	2.29	3.73	1.44
June	2.33	3.88	1.55
July	2.25	3.88	1.63

### *Conclusion*

Substantial stability of interest rates during a recession and the early months of the subsequent recovery is unusual. But this experience during the past year does not mean that monetary policy has failed to adjust appropriately to varying needs during

the year. From June 1960 to March 1961 total commercial bank credit expanded at a rate of 6.7 per cent per year, money supply at a rate of 2.5 per cent, and money supply plus time deposits at a rate of 6.0 per cent. This expansion was probably as much as was necessary or desirable to meet the increased liquidity demands of the public, and to implement the turn to recovery, while avoiding a basis for inflation. That interest rates did not decline may be ascribed primarily to the maintenance of a relatively strong domestic demand for loan funds and to the flow of funds abroad.

Subsequent to March of this year bank credit has increased at a rate of 7.8 per cent per year, money supply has been virtually unchanged, and money supply plus time deposits has risen at a rate of 4.7 per cent per year. The corresponding rates during the preceding four months were 9.6 per cent, 4.5 per cent and 9.1 per cent, respectively. Despite the reduction of the rate of monetary expansion and the recovery of business since March, interest rates have not increased substantially. The stability of rates in this period has probably reflected the increase in the domestic supply of funds as a result in part of a reduction in the flow abroad.

Interest rates from time to time are the resultant of numerous factors which bear upon the supply and demand for loan funds. Bank credit expansion is only one of the factors, a factor operating on the supply side. Generally speaking, the periods when monetary expansion is especially needed to meet increasing liquidity demands of the public are also periods of declining demand for loan funds, and the two forces both contribute to interest rate declines. Contrariwise, periods when a lesser rate of monetary expansion is appropriate to meet the public's liquidity demands is generally one of increasing demand for bank credit and interest rates usually rise. In the

recent recession and recovery the rate of expansion of the banks may have been appropriate to the liquidity desires of the public, but the other elements of supply of loan funds and the various elements of demand have been such that interest rates did not move down and then up in the usual fashion. While this has been an unusual development, it has not been undesirable. The demand for loan funds which was so great as to prevent a decline in interest rates, though total liquidity was expanded significantly, helped to bring the turn to recovery. For monetary policy to have forced a greater rate of expansion than the 9 per cent annual rate in the money supply (broad concept) from November 1960 to March 1961 in an attempt to push interest rates down would probably have been undesirable.

The structure of interest rates may be influenced by the maturity of the securities which the System purchases or sells from time to time. By adjusting the volume of its holdings of securities of various maturities the System may have an influence on the rate structure and, at the same time, retain its primary objective of providing for appropriate rates of growth in the public's holdings of liquid assets. However, there is no assurance that the System, in attempting to influence the structure of yields, can do a better job of allocating funds than the interest rates established by the demands and supplies of funds in each sector of the market.

Nevertheless, there appear to be times for the System to be properly concerned with the structure of rates. Such a time occurred in the period under review when it was desirable for domestic stabilization policy to expand bank credit and the money supply while our international balance of payments situation indicated that downward pressure should not be exerted on short-term rates.

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### ***Financial Highlights of the Recovery—(Continued from page 6)***

rate of 6 per cent since February. This rate of increase in the broader concept of money was below the growth in the four and one-half months following the April 1958 trough but was above that following the August 1954 trough.

The rate of growth in time deposits has tended to be most rapid during periods of reduced economic activity and a low level of market interest rates. A deposit expansion occurring largely in time deposits may indicate that the public is attempting to increase its holdings of liquid assets rather than spend on goods and services. A low level of market interest rates generally persists during a recession and in the early months of recovery. This tends to increase the rela-

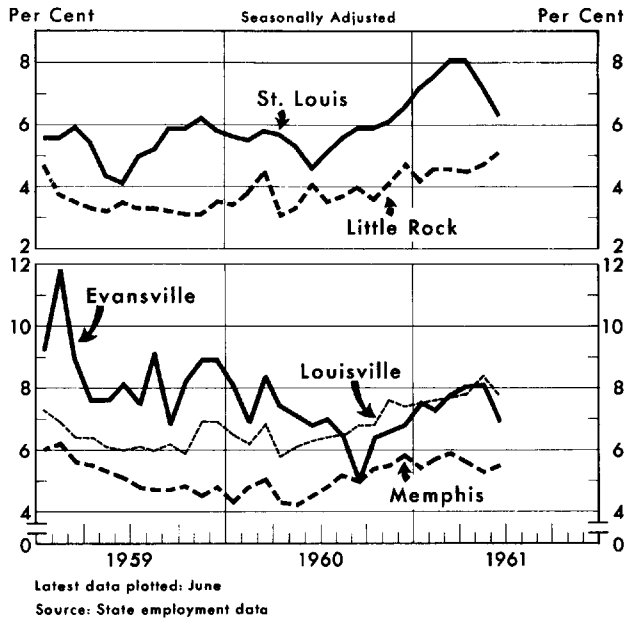
tive attractiveness of holding time deposits. The rate of growth in time deposits began to slacken about two months after the August 1954 trough and about four months following the April 1958 trough.

As past recoveries progressed and the demand for credit pushed up market interest rates above the rates banks were paying on time deposits, the rate of expansion in time deposits slackened. During the present recovery short-term rates have not changed appreciably; yields on three-month Treasury bills have remained at roughly 2.25 per cent. This is about  $\frac{3}{4}$  of a percentage point below the 3 per cent rate which most large banks are paying on time deposits.

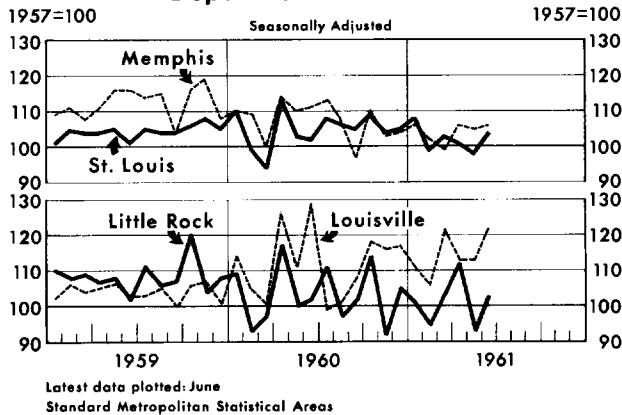
# EIGHTH FEDERAL RESERVE DISTRICT DATA

## Unemployment

as a Per Cent of Civilian Labor Force

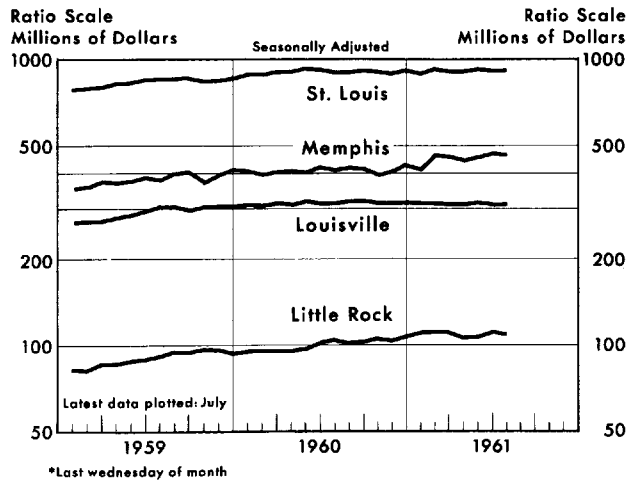


## Department Store Sales



## Total Loans\*

Weekly Reporting Banks-Selected District Cities



## BANK DEBITS<sup>1</sup>

Reporting Centers	Three Months Ending with June 1961 (In Millions)	Percentage Change from	
		Previous Three <sup>2</sup> Months	Like Three Months a Year Ago
<b>Arkansas</b>			
El Dorado .....	\$ 106	+ 8%	+ 5%
Fort Smith .....	210	+ 2	+10
Helena .....	33	- 6	- 7
Little Rock .....	787	+ 1	+ 6
Pine Bluff .....	149	- 2	+ 1
Texarkana .....	84	+ 1	-0-
<b>Illinois</b>			
Alton .....	142	- 1	+ 1
East St. Louis & Nat'l Stock Yds. ....	415	- 8	- 6
Quincy .....	160	-10	-0-
<b>Indiana</b>			
Evansville .....	526	- 7	- 2
<b>Kentucky</b>			
Louisville .....	2,814	- 2	-0-
Owensboro .....	168	- 1	- 2
Paducah .....	117	- 1	+ 2
<b>Mississippi</b>			
Greenville .....	101	+ 2	+ 2
<b>Missouri</b>			
Cape Girardeau .....	65	- 3	- 4
Hannibal .....	42	- 5	+ 2
Jefferson City .....	493	+ 3	+17
Sedalia .....	58	- 7	+ 2
St. Louis .....	8,790	-0-	+ 4
Springfield .....	358	+ 2	+ 3
<b>Tennessee</b>			
Jackson .....	99	- 7	-0-
Memphis .....	2,930	- 2	+13
<b>Total .....</b>	<b>\$18,647</b>	<b>- 1%</b>	<b>+ 4%</b>

<sup>1</sup> Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

<sup>2</sup> Adjusted for seasonal influences.

## Bank Credit

8th District Member Banks

