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Increased Money Supply Could Hurt U.S. in World Markets

Gaylord A. Freeman, Jr., chairman of The First National Bank of Chicago, addressed the accompanying remarks (at right) to some 1,100 executives of over 700 companies attending the bank's annual year-end review and business outlook session. In his remarks he



G. Freeman

stimulation of the economy, which is the purpose of the current increase in the money supply, may undermine America's competitive position in world markets. The easier money, he said, "may entail payment of a substantial price."

George E. Keck, president of United Air Lines sees "some modest improvement for the transportation industry but by no means a boom year" in 1971. He said the "earnings crisis" of the airlines calls for increased fares and tight cost control.

H. Chandlee Turner, Jr., chairman of Turner Construction Company, predicts the dollar value of construction volume in 1971 should approximate the 1970 figure, but due to higher costs the number of new starts may be 5%
(Turn to back page, please)

This is one time when the short-term outlook for interest rates seems fairly clear.

They are headed downward.

For the months immediately ahead, demand for funds should slacken. Bank borrowings reach a peak at about this time in December, and then after Christmas they generally trend downward until February.

The continued fear of unemployment will cause many of our people to continue to save at the present high rate and to limit their spending. This means continued dull retail sales and, consequently, moderate rates of plant utilization which, in turn, may delay further expenditures for plant expansion. Federal government outlays will increase but less rapidly than in recent years.

Only state and local expenditures will rise at a more rapid pace as lower interest rates permit the undertaking of construction projects previously postponed because of high money costs.

The relatively static effect of this continued sluggish demand will be converted into downward pressure by a probable further increase in the supply of money. Recently revised figures indicate that the money supply has been increasing at an annual rate of nearly 6 per cent for the past nine months. With its obvious concern about high and perhaps rising unemployment, the Federal Reserve will almost certainly continue, and perhaps accelerate, the expansion of the money supply.

So, for at least the next three to six months, we will probably have a weak demand for money and an increase in the supply, with the result that interest rates will move a little lower.

To date, the decline has been most evident in short-term rates—Treasury bills, federal funds, C/D's, commercial paper, Eurodollars and, of course, the prime rate. Municipal and U. S. Treasury securities have also had distinct declines from the highs of last May of about 1¼ and 1½ percentage points, respectively. The least responsive rate, so far, has been the long-term corporate rate which has declined only slightly over one half a point. We would expect this rate to decline more rapidly in the next few months. The resultant increase in the refunding of corporate debt will further reduce bank borrowings from their present level which,

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IOWA NEWS

CEDAR RAPIDS: Gary D. Ernst, assistant trust officer, Peoples Bank & Trust Company, has been advanced to trust officer. Dorothy E. Hahn and Robert E. Leinart were named assistant cashiers.

DUBUQUE: Stockholders of the Iowa National Investment Company rejected on December 15 an agreement by Hawkeye Bancorporation of Red Oak to take over operation of the Key City Bank & Trust Company through an exchange of stock. LaVerne Schiltz, chairman of the bank, termed the vote "decisive." Elected to three-year terms on Iowa National's board at the same meeting were Hal Reynolds, Arthur Trausch, Sr., and Erwin Hafeman.

Final rejection of the Hawkeye offer concluded a year of negotiations that began originally with an acceptance of the offer by Iowa National directors, and later a withdrawal of that acceptance.

KNOXVILLE: The Community National Bank and Trust Company has filed an application with the Comptroller of the Currency for permission to establish a detached facility at 212 E. Marion St. in Knoxville.

MASON CITY: Robert K. Okerstrom has been elected an assistant vice president at the First National Bank. He has been with the bank since 1963 and is currently in the commercial loan division.

PAULLINA: The application of the First National Bank of Paullina to establish an office in Calumet at

Second St. & Morse Ave. has been approved by the Comptroller of the Currency.

WYOMING: Julius B. Lorenzen, a charter stockholder of the Citizens State Bank, died December 12. A resident of Olin, Mr. Lorenzen had served on the bank's board from 1935 to 1964 and held the office of vice president for eight years.

NEBRASKA NEWS

LINCOLN: Ray J. Becker, vice president of the First National Bank & Trust Company, retired this month after more than 42 years of service with the bank.

OMAHA: Mrs. Dora Braasch will retire on January 1 from the Nebraska Bankers Association after 21 years of faithful service. Mrs. Braasch joined the NBA in 1949 and for the past several years has served as assistant secretary of the association. She has worked with literally hundreds of Nebraska bankers who have served the NBA in various officer or committee positions in her more than two decades of service, and has handled registration duties at each state convention in that period of time.

Succeeding Dora as assistant secretary of the NBA will be Miss Edith Mayes, who was named to that position by the executive committee. Edie Mayes joined the NBA 11 years ago and has been secretary to both Harris Osterberg, secretary, and his son, Bill Osterberg, executive manager. Mrs. Kay Kenworthy joined the office staff September 1 and will take over the group insurance duties

formerly handled by Mrs. Braasch.

OMAHA: "The Livestock Game - Win or Lose" will be the subject of the Mid-America Livestock Forum scheduled for the new Omaha Hilton Hotel on Thursday, February 25. Sponsored by the Agribusiness Division of the Omaha Chamber of Commerce, this one-day forum will bring together livestock farmers, educators, packers and ag suppliers to discuss the changes and challenges facing the beef and swine raiser in 1971. The program will feature two panel discussions composed of large and medium-sized successful producers, the growth of cow-calf operations in the corn belt, the corn blight situation and the economic outlook for livestock.

ILLINOIS NEWS

BLOOMINGDALE: A charter has been issued for organization of the Bloomingdale State Bank at 114-118 East Lake Street. Officers are Eugene C. Ernsting, president; Glenn E. Mensching, vice president, and Leo D. LaFleur, acting cashier. Total capitalization of \$750,000 is divided into \$300,000 capital stock, \$300,000 surplus and \$150,000 reserve for operating expense. In addition to the officers, other directors are Leonard J. Browark of Bloomingdale, Edward S. Mraz of Roselle, and James M. Reed of Medinah.

DES PLAINES: Jack D. Hughes, president of Littlefuse, Inc., has been elected a director of the First National Bank.

SCHAUMBURG: The Comptroller of the Currency has disapproved the application for a national bank charter to be located here. Applicant was Richard E. Nylander.

MINNESOTA NEWS

AVON: Capital of Avon State Bank



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Armstrong



Leo
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has been increased from \$50,000 to \$100,000 by a stock dividend.

BLOOMING PRAIRIE: Farmers & Merchants State Bank recently held open house in its newly modernized and redecorated building.

BLOOMINGTON: Fredrick C. Moors has been elected assistant vice president of the Northwestern National Bank of Bloomington-Richfield. His duties will be in the area of marketing and business development, according to E. G. (Bud) Precht, president. Mr. Moors started his banking career with Northwest Bancorporation in 1958.

BREWSTER: Hal Ray has begun his new duties as president of the First National Bank. He was formerly assistant cashier and insurance department manager at First National Bank in Stewartville.

JACKSON: R. M. Burnham, president of the First National Bank, announced recently that work is starting on a complete remodeling of the exterior and interior of the bank building.

LEWISVILLE: Clifford Sparks, president of the Merchants State Bank, has announced his retirement effective December 31. He began his banking career in 1936 with the Merchants State and served in every officer capacity before being named president earlier this year.

MINNEAPOLIS: Robert E. Fraser,

president of Powell Candy Co., has been named a director of Fifth Northwestern National Bank.

OWATONNA: Miss Margery Mork, assistant cashier of the First National Bank, retired December 15 after 26 years of service with the bank.

NORTH DAKOTA NEWS

The North Dakota Bankers Association is planning to sponsor a bill in the 1971 session of the legislature to permit de novo branching within three miles of a bank's main office and branching by merger within 90 miles. The bill has been approved by the NDBA's executive committee.

FARGO: Leo Reiersgord, assistant vice president of the Merchants National Bank, was recently given a gold watch by the bank in recognition of 35 years of service to the bank.

MINOT: Mrs. Devane (Floy) Langseth has been elected assistant cashier at the First National Bank in Minot. She has been with the bank 16 years.

WAHPETON: Manville Stoltenow of Great Bend has been elected a director of the First National Bank. He is a leading dairy farmer in the area.

MONTANA NEWS

HELENA: E. Lowry Kunkel, president of the First National Bank of Anaconda-Butte, and Robert I. Penner, president of the Citizens First National Bank of Wolf Point, have been appointed directors of the Helena branch of the Minneapolis Fed. They will hold two-year terms.

WYOMING NEWS

CHEYENNE: M. J. (Rich) Richmeier has been promoted to assistant cashier at First Cheyenne State Bank. He

LA SALLE MOVES AHEAD

LaSalle National Bank, Chicago, has installed a Centrex telephone system to give you better service. You may now dial direct to Max Roy and Cy Kirk on their new number (area code 312) 443-2774. Of course, Max Roy may still be reached in Iowa City (319/338-5224) and Cy Kirk in Rockford (815/398-9521). Their home stamping ground remains the same - LaSalle National Bank, 135 South LaSalle Street, Chicago, Ill. 60690.

serves in both the operations and installment loan departments.

SOUTH DAKOTA NEWS

MADISON: Dean VanPeurseem recently joined the Madison branch of the National Bank of South Dakota. He has been assistant cashier of the Corsica branch.

COLORADO NEWS

COLORADO SPRINGS: The Administrator of National Banks has announced disapproval of an application for a charter for a bank here. Agent was Raymond E. Wilder.

DENVER: An application for charter has been approved by the Administrator of National Banks for the proposed Skyline National Bank. Agent was Lewis L. Gaiter, Jr.

GLENWOOD SPRINGS: Frank C. Perschbacher has been promoted from assistant vice president-commercial loans to vice president-operations at the Bank of Glenwood.

Prime Rate Drops Again

Chase Manhattan Bank of New York reduced its prime rate from 7% to 6¾% December 22, just four weeks after it had initiated the previous reduction. It is the lowest the prime has been since it hit a record high of 8½% on June 9, 1969. This is the fifth time this year the prime rate has been reduced, precipitated by a tapering loan demand.

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1971 Business Outlook ...

to 10% below the current year. Thomas A. Murphy, group vice president of General Motors car and truck division, forecast "the best sales year in the industry's history" in 1971. He said "passenger car sales, including imports, could be in the area of 9.5 to 10 million, with truck volume at about 2 million—15% over 1970."

John E. Swearingen, chairman of Standard Oil (Indiana) foresees an increase of 5% to record levels in 1971 for U. S. consumption of oil and natural gas.

Philip D. Block, Jr., chairman of Inland Steel, reported that the steel industry should operate at a record level in the first half of 1971 due partly to "the catch-up effort" in the auto industry and strike-hedge stockpiling which should cut second-half demand.

Arthur M. Wood, president of Sears, Roebuck & Company, expects general merchandise sales to increase at least 6½% in 1971 with less than half the gain resulting from higher prices. He predicts a retail sales pickup in the first quarter, with further gains later in the spring.

Robert D. Stuart, Jr., president of Quaker Oats Company, said retail food sales in 1971 should continue to expand but "it will be difficult for the food industry as a whole to improve profit margins in 1971." He expects 1970 food sales to show an 8% gain to a record \$114 billion.

Increased Money Supply Could Hurt U. S. ...

compared with any period beyond two years ago, is still extremely high. I expect that the prospect of lower interest rates appears pleasant to most of you. As this element of your cost declines, profits benefit. A period of generally declining interest rates is profitable for bankers too, for, as our cost of money declines more rapidly than the rates earned on our longer-term notes, we do better in a period of declining rates than in a period of rising rates.

But, though the lower rates will be popular, they may entail the payment of a substantial price. The welcomed increase in the money supply reflects the intention on the part of the Federal Reserve to stimulate the economy. If the stimulative effort is effective, it will increase demand and, as a result, almost certainly exert further upward pressure on labor and material costs and, hence, on prices. If we can hold this price increase to a lower level than corresponding price increases in other countries, we will have achieved a great success. But if our prices rise more rapidly in dollars (whether or not in percentages), we will find our products increasingly uncompetitive in world markets. As long as interest rates on Eurodollars are higher than on European currencies, there is an incentive for the Europeans to hold dollars. But if our interest rates fall below those in Europe and, at the same time, our payments continue in deficit and our prices rise above those abroad, the thoughtful foreigner may prefer another currency to ours. If this develops, how will our government redeem any substantial part of the more than \$40 billion of short-term dollar claims when we have less than \$16 billion of gold, convertible currencies, IMF drawing rights, and SDR's?

The unhappy consequences of such a situation cause me to believe that continued restraint (even though it may involve increased unemployment and higher taxes) is preferable to any significantly higher costs. This leads me to fear that any significantly stimulative effect of lower interest rates may not be an unmixed blessing.

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POSITION AVAILABLE

New state bank seeking young, experienced banker knowledgeable operations, credits, lending, etc., as executive vice president capable of assuming presidency in several years. Should be available early 1971. Write File BCT, in care of NORTHWESTERN BANKER, 306 - 15th St., Des Moines, Iowa 50309.

AVAILABLE

For employment after January 1 - Agri-Banking graduates (Vo-Tech School). Qualified in farm lending, accounting, insurance and general banking. Courses have included five AIB texts and materials. Write File VSB, NORTHWESTERN BANKER, 306 Fifteenth Street, Des Moines, Iowa 50309.

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The price of a personal, air mail subscription to the Crouse Farm Business Reports. They help keep loan officers and ag representatives ahead of the changing farm picture. Samples available. Farm Business Council, Inc., 1300 Hagan Street, Champaign, Illinois 61820.

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