

NORTHWESTERN Banker Newsletter

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Outlook for Credit and Interest

During a recent Financial Executives Conference sponsored by The First National Bank of Chicago, Nicholas J. DeLeonardis, vice president of the bond department, presented his views on the outlook for credit and interest rates for the balance of 1972. Here are some highlights from his presentation as they pertain to the government and municipal bond markets:

During the last decade, we have seen a mushrooming of the demands on the credit markets by our state and local governments. This evolving growth pattern is a reflection of the growing appeal for expanded services and emphasis on quality of life needs.

The paradox seems to lie with the taxpayers, who requested, and in many cases insisted, that the state minister to their wants, but who on the other hand, are now rejecting the cost which has taken the form of higher taxes.

Briefly, examining the growth in this area, we note that the expanded net debt requirements of state and local governments moved from roughly \$5.5 billion in 1961 to approximately \$20 billion in 1971. In reviewing their 1972 requirements, our analysis suggests that the need for funds by our state and local governments will continue, but that for the year 1972, they will be slightly below the 1971 level for a net new borrowing of between \$18 to \$19 billion.

Last but by no means least is the

Federal Government, and here we are confronted with what has turned out to be the year's greatest guessing game, or "how large of a deficit can we expect."



N. J. DeLeonardis

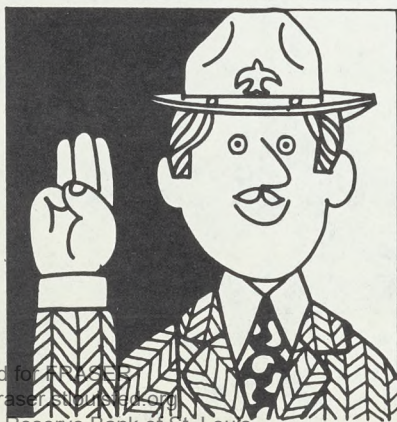
During the last few months, we have seen the size of the deficit expand and contract like an accordion, and the amount of commentary devoted to this exercise in numbers has kept "Treasury debt watchers" quite busy. However, despite the rhetoric and sophistic numbers, we can come to some reasonable conclusions about this and next year's fiscal demands. Certainly, there is no doubt in anyone's mind that the Administration is determined to stimulate the economy and lower the level of unemployment, and to this end has presented many and varied programs to the Congress. However, the Congress is still reviewing several of these proposals, and at this time it is difficult to appraise which measures they will reject or pass, and what propositions of their own they may attempt to enact. Also, compounding the confusion of this illusive numbers game, is the recent inflow of money into the Treasury because of overwithholding of

individual taxes — it seems the public is having difficulty understanding the new quote "easier" unquote form, but on balance, the data suggests that the deficit for fiscal 1972 will be between \$30 to \$32 billion, and not the \$38.8 billion discussed in the marketplace earlier this year. While this may sound like good news, it should be pointed out that what is not spent this fiscal year can be expected to show up as an expenditure next year or, in all probability, we will run a deficit of between \$30 to \$35 billion during fiscal 1973, or in essence, we can expect a somewhat mirror image of fiscal 1972.

In addition, we can expect to see the various Government Agencies continuing to play an ever increasing role in federal projects and funding, and their presence in the marketplace should account for between \$8 to \$9 billion, with a significant amount of borrowing coming from the housing related agencies.

Before coming to a conclusion with an outlook for interest rates, I think we can make the observation that the demands which both the private and public sectors have begun to place on the capital market is rapidly changing the nature of this arena of credit allocation, and that whereas you, the corporate financial officers, were able to fund your requirements with relative ease during the decade of the 60's, you are going to find your task somewhat more difficult and money more costly — during the balance of the 1970's.

(Continued on back page)




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IOWA NEWS

ALDEN: Harry A. Peters, formerly executive vice president and cashier, is now executive vice president, according to L. C. Jorgensen, president, Alden State Bank. Merrill L. Nerem has been named cashier and Nancy McKinley appointed assistant cashier.

BOONE: Plans have been announced by H. C. Overbeck, Boone State Bank president, for construction of a new bank in the downtown area.

FAYETTE: The featured speaker for the Group 4 meeting of the Iowa Bankers Association this week will be Art Holst, an official in the National Football League.

GARNER: State senator H. L. Ollenburg, president of the Hancock County National Bank here, has announced he will not seek re-election to the legislature. Sen. Ollenburg was a key figure this year in the debate over the bank holding company bill.

NEVADA: The Nevada National Bank has announced the appointment of Jim Leslie as vice president and trust officer. Mr. Leslie has spent the last 5 years with Rec Chek, Inc., in Nevada.

OTTUMWA: Max von Schrader, Jr., has

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nb National Bank of Waterloo

been advanced from executive vice president to president of Union Bank and Trust Co. He succeeds J. C. Blackford, who has elected to take early retirement effective June 1. Included in other promotions made by the bank last week is the advancement of Richard Ackley from senior vice president and trust officer to executive vice president.

RIPPEY: Stockholders of First National Bank have voted to increase capital from \$25,000 to \$100,000, according to B. M. Riley, president.

WASHINGTON: Directors of the Washington State Bank have announced major officer changes. Frank L. Kos, who has been with the bank since 1932, will retire as president and assume the post of chief executive officer. He replaces L. A. Holland who previously retired. Logan T. Heilman has been named president and Milo M. Orris, vice president.

NEBRASKA NEWS

OMAHA: Morris F. Miller, chairman of The Omaha National Bank, has announced the promotion of Kenneth W. Kroeker to second vice president. Mr. Kroeker, who joined the bank in 1969, is an investment officer.

Mr. Miller also announced other officer promotions. They are: Lawrence F. Uebner, international officer; William Giehm, loan officer, and Kenneth E. Johnson, operations officer. New officers are Edward M. Mazique, asst. commercial loan officer, and Grant Yates, asst. loan officer.



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OMAHA: Alfred Fox, 41, a senior account executive with First Mid America, Inc., died suddenly last week.

MINNESOTA NEWS

BRAINERD: George J. Peterson has been named president and director of the First National Bank to succeed Gilbert Tuttle, who will continue as board chairman. Mr. Peterson has most recently been vice president of National Bank of South Dakota, Sioux Falls.

MORTON: Mike Kloster, president and chairman of the Citizens State Bank of Fairfax, has purchased controlling interest in the Farmers State Bank from Jack Mahlum and G. J. Simon.

WACONIA: Ben Hartman, executive vice president of the First National Bank, has announced his retirement. Mr. Hartman started in the banking business in 1929 and came to the Waconia bank as assistant cashier in 1930. He will continue to serve the bank as director.

NORTH DAKOTA NEWS

BISMARCK: The Missouri Valley Chapter of the American Institute of Banking held its annual Awards Banquet recently. Featured speaker was Dr. Jack J. Early, executive director of the Education Group of the American Bankers Assoc., Washington, D. C.

GARRISON: Construction of a new 72-foot Garrison State Bank building is expected to start in May with completion anticipated for mid-November. Anderson, Wade and Barsness of Minot are the architects for the bank, which will be brick, block and concrete, with drive-in facilities. The estimated cost is \$160,000.

WESTHOPE: William Munn, Jr., and James H. Munn have sold controlling interest in the Peoples State Bank to three businessmen. New owners are Raymond Sharkey, a Maddock, N. D., banker who will become president; James H. Williams, a New Rockford, N. D., attorney, and Walter F. Gehrts, a Moorhead, Minn., businessman.



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ILLINOIS NEWS

BUCKLEY: Russell R. Plath has been elected president of the Buckley State Bank to succeed the late Arthur Eckersley. Mr. Plath was previously cashier of the bank and will be succeeded in that position by Lee Cordes.

HAMPTON: A petition to organize a state bank here has been filed with the state commissioner of banks and trusts by a group from Moline, East Moline, and Silvis. Capitalization for the proposed Hampton State Bank would be \$500,000.

JOLIET: A permit to organize has been issued to a group of applicants to establish the West Jefferson Bank in Troy Township. Total capitalization for the new bank will be \$750,000.

LANSING: Paul Van Eekeren, president of Land O'Frost, Inc., has been named a director of the First National Bank of Lansing.

SOUTH DAKOTA NEWS

ABERDEEN: At their annual spring meeting recently at the Sheraton Motor Inn, members of the South Dakota Group of the NABW elected these officers for the coming year: Chairman — Mrs. Carol Crawford, assistant cashier of the Farmers State Bank, Canton; Vice Chairman — Mrs. Margaret E. Gibbs, operations, Northwestern National Bank, Huron, and Secretary-Treasurer — Mrs. Jeanne Grover, assistant trust officer, First National Bank, Aberdeen. The 1973 meeting will be held in Sioux Falls.

BROOKINGS: The officers and advisory board of the Northwestern National Bank branch office will be hosts at open house and dinner for invited guests on June 2, starting at 4:30 p.m. with dinner at 7:00 p.m.

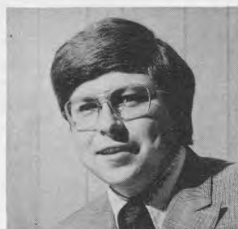
FLANDREAU: Bert Smith, with the Farmers State Bank for 39 years, will retire as cashier in July. He will continue as a director.

RAPID CITY: James D. Walter and

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Robert G. Biers were elected loan officers of the Southern Hills branch of the First National Bank. Mr. Walter joined the bank in 1971 and Mr. Biers in April, 1969.

WYOMING NEWS

CHEYENNE: Paul L. Howes, president of Wyoming Bancorporation, has announced Federal Reserve approval for the purchase of the University National Bank in Laramie by the holding company.

In other action by Wyoming Bancorporation, an agreement for the purchase of the Stockgrowers Bank of Evanston has been reached with its owners, a group associated with Pacific Western Life Insurance Co.

GILETTE: Ted Ernst has been named executive vice president of the First National Bank, replacing Douglas Krogh who vacated the post earlier this year. Mr. Ernst was previously vice president at The American National Bank of Cheyenne.

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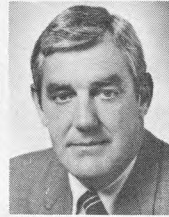
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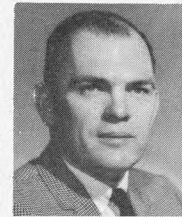
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CREDIT-INTEREST OUTLOOK...

(Continued from Page 1)

As for the outlook for interest rates during the balance of the year, in my judgment, there is very little doubt that interest rates will continue their upward trend, but it is the magnitude of this movement that continues to be elusive. Currently, the market is being buffeted with several cross-currents, each pushing interest rates in a different direction. The economic outlook is beginning to take solid form, and this, coupled with the President's highly expansionary program, can only suggest a higher plateau for rates. The current controls under Phase II may act as a damper on interest rates, but the sheer enormity of the nation's fiscal activity will negate a substantial portion of the inroad these controls can make on inflation — at least through the balance of this year. In fact, the outlook for long-term interest rates is somewhat subject to the Government's ability to restore investor confidence. Keeping this latter point in mind, and recognizing that the amount of anticipated corporate financing is below that of last year, I would suggest that AAA corporate bonds at year end will sell within a range that would yield 7½% to 7¾% — or on balance, not a great deal of change from current levels. The Municipal area has become highly dependent upon the banking community as a source of funds, and if bank loan demand develops as expected, we may find banks reducing their participation in this area of the capital markets, and therefore suggest

that the index for long-term tax-exempt securities will yield between 5½% to 5¾% by year end — again, not substantially higher than current levels.

The Money markets pose some different problems, and it is here that I believe we will see a greater upturn in yields. The current upturn in the economy should be accompanied with an increased demand for bank loans and other short-term market borrowings. This demand, coupled with renewed governmental requirements, starting in July, and the large holdings of Government securities by foreign central banks, does present an unsteady force upon this area of the capital market. These combined influences can only be reflected in higher rates, and I submit that by year end, 90-day Treasury bills will range between 5% to 5¼%, and 90-day commercial paper between 5¼% to 5¾%.

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Max Roy and Cy Kirk, vice presidents of LaSalle National Bank, Chicago, will be on hand for the Iowa Group Meetings: Bankers of Group 6 (Des Moines); Group 2 (Fort Dodge); Group 3 (Clear Lake), and Group 4 (Fayette) will find Max and Cy ready and willing to discuss banking services this week.

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