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The 1976 Interest Rate Outlook

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Will the historical pattern of interest rates repeat itself in 1976? In order to answer this question, let us briefly review the economic outlook and examine attendant implications for interest rate trends in 1976.

1. Increases in industrial commodity prices, wages and energy costs will be the main inflationary forces in 1976. However, productivity increases and this year's record crop will have a moderating influence on inflation. The rate of inflation should moderate to about 6% from about 9% in 1975. Toward year end, demand pressures coupled with cost-push elements will tend to accelerate the rate of inflation.

2. Real economic growth should average 5 to 6%.

a. Consumer spending will lead the economic recovery.

b. Inventory liquidation is coming to an end. Inventories will accumulate in 1976, but only gradually because of cautious business attitudes.

c. The housing rebound will not be strong. Housing starts in 1976 should average about 1.5 to 1.7 million units.

d. Capital spending in real

terms will turn around near mid-1976, but the strength will not be spectacular.

e. Corporate profits will increase 25 to 30%. Cash flow will show healthy gains.

f. State and local government expenditures will not be a source of strength for the economy.

g. Our trade surplus will diminish and the dollar will remain strong.

Short Term Interest Rates

1. **Loan Demand:** During the first three quarters of this year, businesses trimmed inventories and capital expenditures. The weaknesses in inventory and capital spending coupled with corporate liquidity rebuilding (bond market financing to reduce short-term bank loans) led to a \$10 billion drop in business loans at large commercial banks. Liquidity rebuilding is coming to an end. Also, inventories will accumulate and capital expenditures in dollar terms will rise in the coming months. However, the lingering memories of businessmen who worried about shortages only to face slumping sales will not disappear soon. Business attitudes regarding inventories and capital spending will therefore be cautious, resulting in a moderate rise in loan demand. Consumer loans will continue to rise in the period ahead.

A lower rate of inflation, rising income and enhanced consumer confidence will support consumer spending. Like businessmen, consumers will not go on a spending spree, limiting growth of consumer loans. Combining business and consumer loan demands, interest rates will receive upward pressure in coming months.

2. **Net Treasury Borrowing:** The Treasury will have borrowed about \$80 billion in 1975. The prospects for next year are just as bleak. During the first half of a calendar year, the Treasury typically reduces outstanding debt. Instead, the Federal Government will need about \$35 billion in the coming half year. Undoubtedly, this huge borrowing need in the face of rising private credit demands will create more pressure in financial markets.

3. **Monetary Policy:** With rising private and public credit demands next year, the Federal Reserve will follow an accommodative monetary posture. Interest rates will be allowed to rise, but not fast enough to hamper the economic recovery.

4. **Conclusion:** In 1976, short-term rates will gently trend upward with the usual bumps and lumps along the way.

Long Term Interest Rate

1. **Inflation:** Inflation expectation is the single most important

INTEREST OUTLOOK
[Turn to Page 4, please]

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Proxmire Calls for Ceiling On Expansion

Senate Banking Committee chairman William Proxmire (D-Wis.) has called for an absolute ceiling on bank expansion in any state by any means other than internal growth and establishing new banking offices.

He has introduced a bill (D. 2721), called "The Competition in Banking Act of 1975," which would make illegal all bank mergers and bank holding company acquisitions which result in any single bank or holding company controlling more than 20% of the banking assets in any state.

The Senate Banking Committee chairman would grant an exception for mergers and acquisitions found necessary to prevent a bank failure--if less anticompetitive alternatives are not available.

However, Proxmire would permit the banking agencies to reject mergers and acquisitions--even if they did not violate the 20% ceiling, the Clayton Act or Sherman Act--if any anticompetitive effects were not "clearly outweighed in the public interest" by the probable effects "in meeting the convenience and needs of the community."

The Wisconsin Democrat said 33 banking institutions, holding bank assets of about \$107 billion, represent 12% of the nation's deposits, now would be covered by the 20% prohibition. He did not identify the institutions.

Iowa News

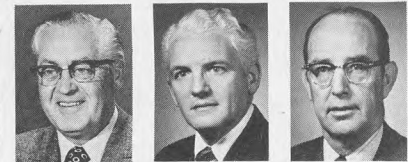
ANKENY: Open house was held by the Ankeny State Bank in its new quarters on Saturday, Dec. 20.

AUDUBON: Controlling interest in the First State Bank here has been purchased by two Coon Rapids men from heirs of the late Henryetta S. Van Gorder, president of the bank for more than 30 years. The men are John Chrystal, president of the Iowa Savings Bank, Coon Rapids, and Stephen Garst, who has a farming operation which is partly in Audubon County. Both men have interest in several other banks in western Iowa.

BELLE PLAINE: The Citizens State Bank has received permission to establish a branch at 804-806 13th Street here.

BURLINGTON: Farmers and Merchants Bank & Trust has received permission to establish a branch at 1600 Osborn Street here.

CEDAR RAPIDS: Holmes Foster, vice president, Banks of Iowa, has been transferred here from Des Moines. He will office at Suite 625 in the Merchants National Bank Building. Phone: 319/398-4364.



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DES MOINES: Larry Retherford and Jim King have been advanced to vice presidents at Central National Bank. Mr. Retherford heads the operations department. Mr. King is a senior trust investment officer.

DES MOINES: Central National Bank and Trust Co. has begun operating an electronic banking system in three Younkers stores and two Richman Gordman stores in the Des Moines area. The title "Transactor" is a registered trade name for the system to be used by the bank and its correspondents. The service, subject to regulatory approval, will be offered to other banks around the state which use Central National as a correspondent. At this point, approval has been given for participation with Newton National Bank.

WEST BEND: B. K. Peterson, executive officer, will retire at year-end from the Iowa State Bank. He has been with the bank 21 years. Mr. and Mrs. Peterson plan an extended cruise by freighter in early March.

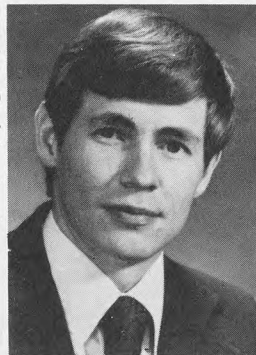
Nebraska News

CREIGHTON: Joe Radosti has been elected president and chair-

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man of the American National Bank succeeding the late Roscoe L. Rice.

KEARNEY: Kearney State Bank's application for Federal deposit insurance has been approved. The bank's capital accounts total \$1,200,000.

ORD: The Fed has received an application from Nebraska Banco, Inc., for approval to acquire 100% (less directors' qualifying shares) of the Nebraska State Bank, Ord.

SPRINGVIEW: The Fed has approved the application for Springview Bancorporation to acquire 90% or more of the voting shares of the First National Bank of Springfield.

YORK: Donald A. Haerry has joined the York State Bank as vice president and trust officer. He has served as trust officer at the First National Bank of Dalton, Ga., and the Security National Bank of Springfield, Mass.

WEST POINT: Valparaiso Enterprises here has received permission to become a bank holding company through the acquisition of Oak Creek Valley Bank at Valparaiso, and to engage in insurance agency activities.

Minnesota News

CROOKSTON: Joel O. Tongen has been promoted to assistant vice president of the First National Bank.

MINNEAPOLIS: The correspondent department of Northwestern National Bank has been moved from the second floor to the eighth floor of the bank due to a pending remodeling. The department will return to the second floor in about six months.

MINNEAPOLIS: Paul Lindholm, senior vice president of the Northwestern National Bank, has taken on additional responsibilities at the bank and will supervise credits for the various depart-



Bob Bueneke

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ments. Harry Wahlquist, vice president, who has headed the correspondent credit division, will be administrative head of the correspondent department under the supervision of Mr. Lindholm.

THIEF RIVER FALLS: Roger Reuter will join the First Northwestern Bank as senior vice president in January. He previously was with the First National Bank of Two Harbors.

WEST ST PAUL: State Senator J. Robert Stassen of South St. Paul and Rollin H. Crawford of West St. Paul have purchased majority stock of the West St. Paul State Bank from the estate of Edwin Ehlers. Mr. Stassen will become president and chief operating officer of the bank on January 1. Mr. Crawford will serve as legal counsel but will continue his law practice.

Illinois News

CHICAGO: Richard L. Thomas, president of First Chicago Corp., holding company for the First National Bank of Chicago, has been named president of the bank. Neil McKay has been elected vice chairman of both the corporation and the bank. He previously was executive vice president and continues to serve as corporation secretary and bank cashier. Mr. Thomas, 44, replaces Chauncey E. Schmidt who left the post of president recently to become board chairman and chief executive of BanCal Tri-State Corp., a holding company, and president and chief executive officer of its bank, The Bank of California.

South Dakota News

MILLER: The First National Bank has announced that Roger D. Mallberg has rejoined its staff as agriculture representative and loan officer. He had been with The First National Bank of Great Falls, Mont., for the past year.

PIERRE: Curt Mateer, vice chairman of Pierre National Bank, will retire on January 27 after 50 years with the bank.

REDFIELD: Eldon Swingler has been named assistant vice president and operations officer of the Spink County office of the Aberdeen National Bank. He formerly was assistant cashier and operations officer at the bank's Sunrise office.

Colorado News

DENVER: Charles E. McDaniel, vice president at Northeast Colorado National Bank, has assumed the additional duties of cashier.

EVERGREEN: Charles T. Smith has been elected vice president and cashier of the First National Bank here. Mr. Smith had been vice president of the Northeast Colorado National Bank, Denver.



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INTEREST OUTLOOK
[Continued from Page 1]

determinant of long-term interest rates. From the double digit inflation rates in 1974, the rate of price increase slowed to about 9% rate in 1975, and should decelerate further to about 6% in 1976. This deceleration of inflation will be reflected in the bond rate. As we approach year-end 1976, inflation will accelerate again, making some setbacks in the bond market likely.

2. Liquidity Rebuilding: So far this year, corporations have borrowed record amounts in the bond market, mostly for the purpose of lengthening their liability structures of balance sheets. Further liquidity rebuilding will be necessary in the coming year, but this pressure in the bond market should abate.

3. Capital Expenditures: Capital spending will not be very strong in the first half of 1976, as firms delay their investment plans, waiting for further signs of recovery. As conditions improve, especially around mid-year, capital expenditure in real terms will show strength. Accordingly, the bond supply for capital expansion purposes will be concentrated later in 1976.

4. Cash Flow: Corporate profits have turned around rapidly this year. With inflation slowing, the illusory inventory profits (which cannot be used to pay dividends or to expand plants and equipment) become a much smaller portion of total corporate profits. During the forecast period, rising sales, productivity increases, and business attempts to regain a part of

previously lost profitability should contribute handsomely to corporate profits. With improving corporate profits, cash flow will also rise, reducing corporate financing requirements in the bond market.

5. Conclusion: Using half-year averages, long-term interest rates, such as 20 year Aa utility, should decline slightly in the first half before experiencing upward pressures later in 1976.

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