

RESEARCH LIBRARY
Federal Reserve Bank
of St. Louis

Week ending: May 12, 1971
AUG 27 1998

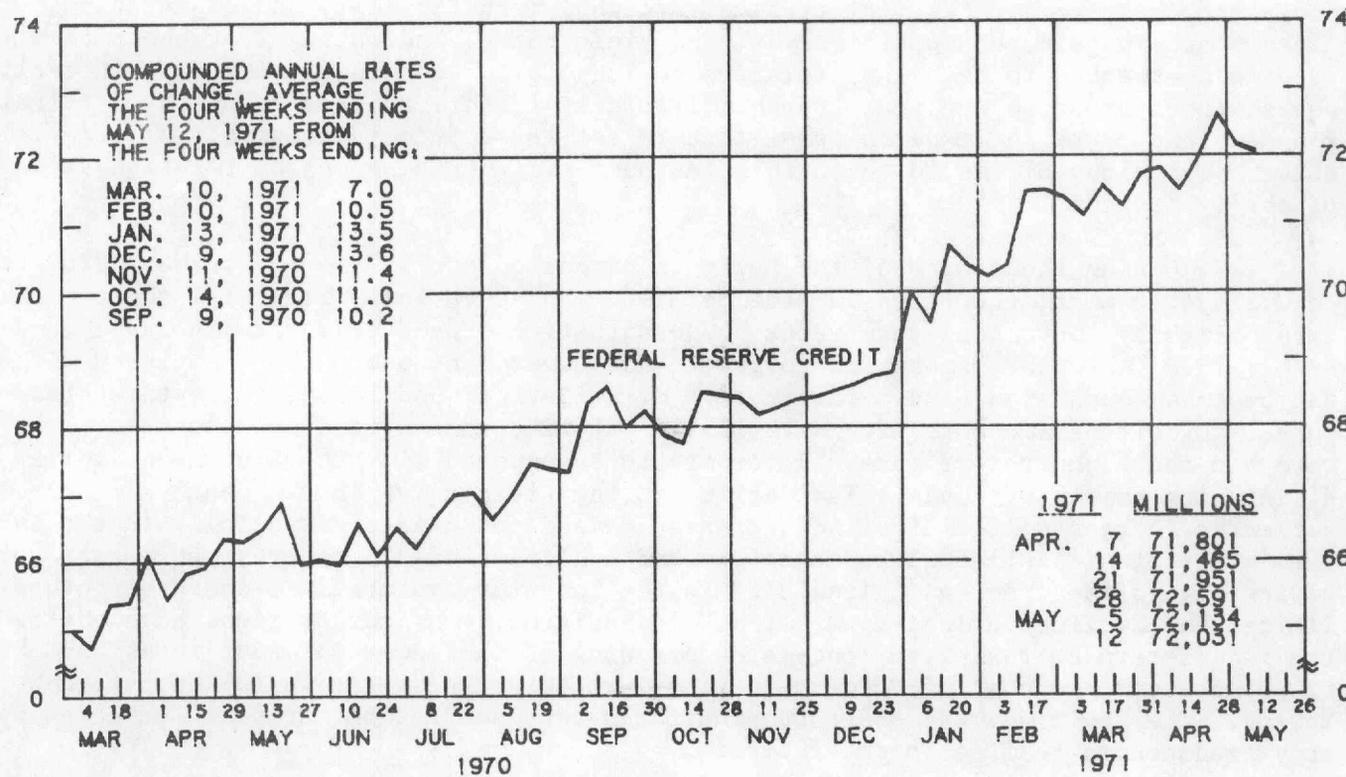
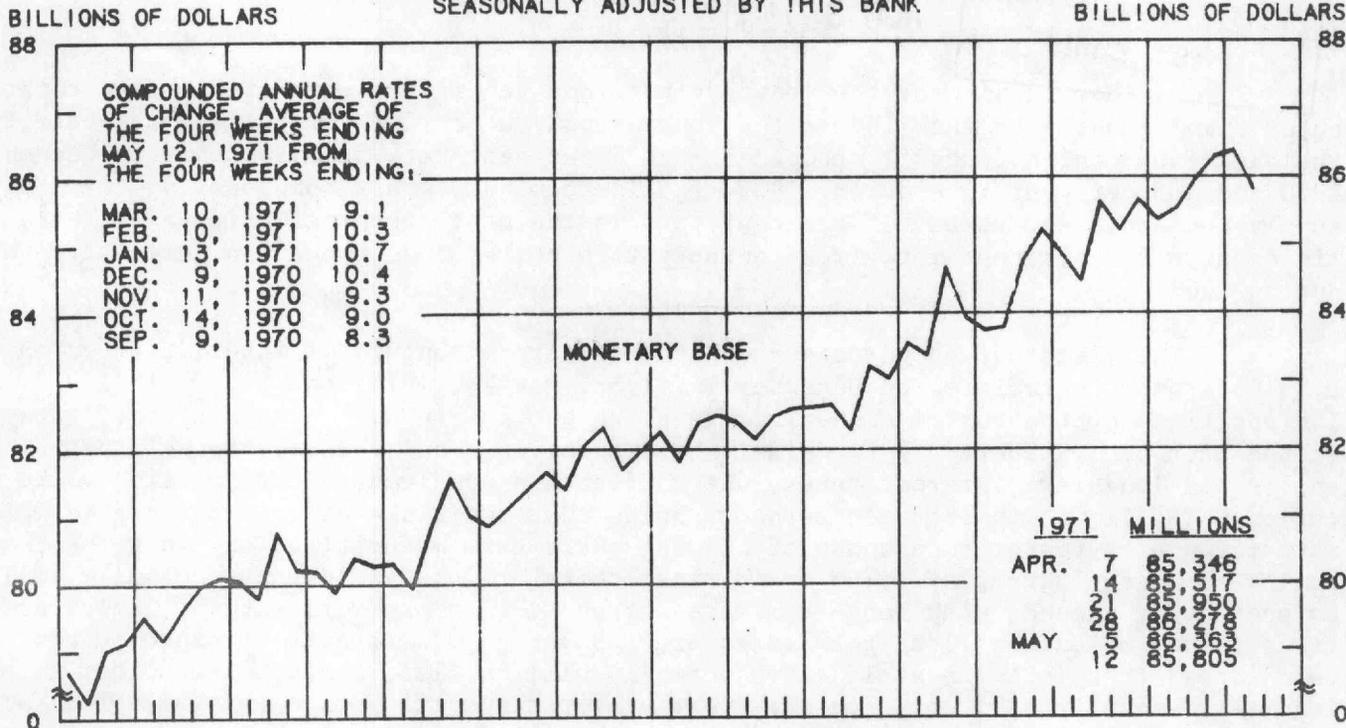
Rapid expansion of the monetary base and Federal Reserve credit have contributed significantly to the rise of the money supply at an 8.8 per cent annual rate in the past four months (page 5), compared to a 6 per cent rate from February to December 1970 and a 3 per cent rate during 1969. ^{1/} The demand deposit component of the money supply has increased at an 8.5 per cent rate in the past four months (page 4), after rising at a 5.8 per cent rate from February to December 1970 and a 2.4 per cent rate during 1969. ^{1/}

The yield curves on page 8 depict the term structure of interest rates on U.S. Government securities on December 16, 1968, May 28, 1970, and May 7, 1971. The positions of the curves emphasize the sharp decline in Government interest rates in the past year. There are two widely held theories about the relationship between short- and long-term interest rates, which often are combined in interpreting yield curves. The liquidity preference theory holds that the risks of holding long-term maturities are greater than those of holding short-term maturities, and that the community of bondholders prefers to avoid risk; therefore the yield curve normally will be positively sloped, with long-term rates higher than short-term rates. The expectations theory holds that long-term rates are an average of a series of expected short-term rates; therefore the yield curve normally will be flat, because the holder of a long-term security will earn, on the average over a specified time interval, the same amount as a holder of a series of short-term securities. Over the course of a business cycle, the level of the entire yield curve may shift as well as the relation between long- and short-term rates. At cyclical troughs, both liquidity and expectational factors act to produce a positively sloped yield curve, indicating that short-term rates are expected to be higher relative to long-term rates in the future. At cyclical peaks, in contrast to cyclical troughs, liquidity factors act to produce a positively sloped yield curve and expectational factors act to produce a negatively sloped yield curve. The slope of the curve in this instance will depend upon the relative strength of the two forces.

During the course of the business expansion of 1967 to 1970, the yield curve on U.S. Government securities in December 1968 was essentially flat with short-term rates slightly above long-term rates. The situation proved temporary, however, and by May 1970 increased demand for corporate and Government borrowing associated with the business expansion, and a faster rate of inflation, had raised the entire yield curve. Credit became more expensive in all maturity ranges, and most long-term rates were bid above short-term rates as corporations competed with the Government for a diminishing supply of funds. The decline in the yield curve in the past year has reflected increased liquidity and decreased demand for credit, especially in the short-term maturities. Inflation expectations and continued heavy long-term corporate borrowing have offset increased liquidity in the long-term maturities, and have perhaps limited the decline in long-term rates. In addition, many corporations have shifted from short-term borrowing to long-term borrowing at the lower interest rates, and thereby have increased the cost of Government long-term borrowing relative to short-term borrowing. The positively sloped curve indicates that short-term rates are expected by many transactors to rise in the future.

^{1/} Data for rates of change from February to December 1970 and earlier time periods are computed from monthly figures as presented in Monetary Trends, published by the Federal Reserve Bank of St. Louis.

MONETARY BASE ^{1/} FEDERAL RESERVE CREDIT ^{2/} AVERAGES OF DAILY FIGURES SEASONALLY ADJUSTED BY THIS BANK



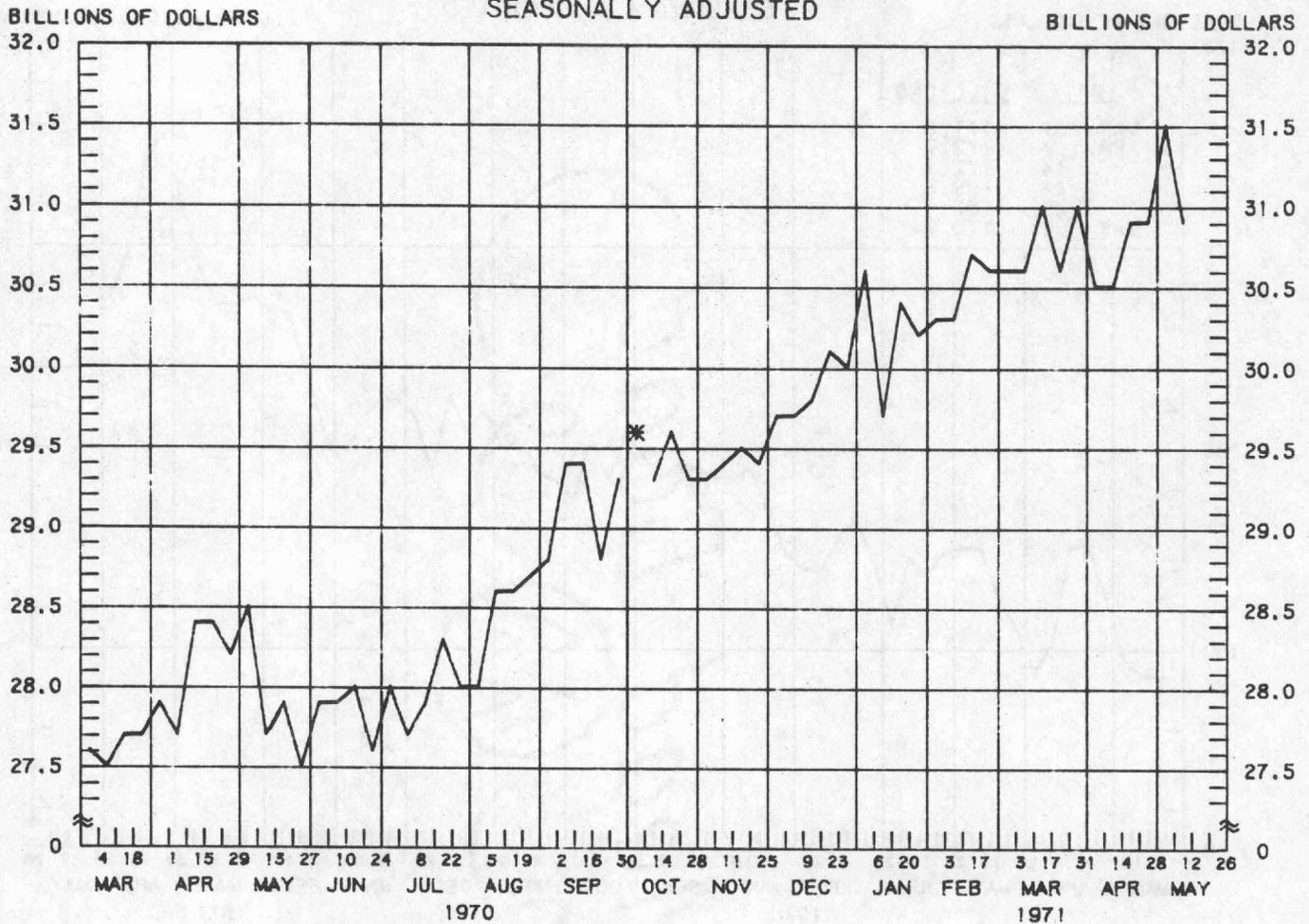
LATEST DATA PLOTTED WEEK ENDING: MAY 12, 1971

- 1/ USES OF MONETARY BASE ARE MEMBER BANK RESERVES AND CURRENCY HELD BY THE PUBLIC AND NONMEMBER BANKS, ADJUSTED FOR RESERVE REQUIREMENT CHANGES AND SHIFTS IN DEPOSITS. FOR A DESCRIPTION OF THE BASE SEE THE AUGUST 1968 "REVIEW" OF THIS BANK.
- 2/ DEFINED TO INCLUDE HOLDINGS OF SECURITIES, LOANS, FLOAT AND "OTHER" ASSETS, ADJUSTED FOR RESERVE REQUIREMENT CHANGES AND CHANGES IN REQUIREMENTS DUE TO SHIFTS IN DEPOSITS AMONG CLASSES OF BANKS.

RESERVES

ALL MEMBER BANKS IN THE NATION

AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED



LATEST DATA PLOTTED WEEK ENDING: MAY 12, 1971

CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.9 RELEASE.

* BREAK IN SERIES DUE TO CHANGES IN REGULATION D EFFECTIVE OCTOBER 1, 1970.

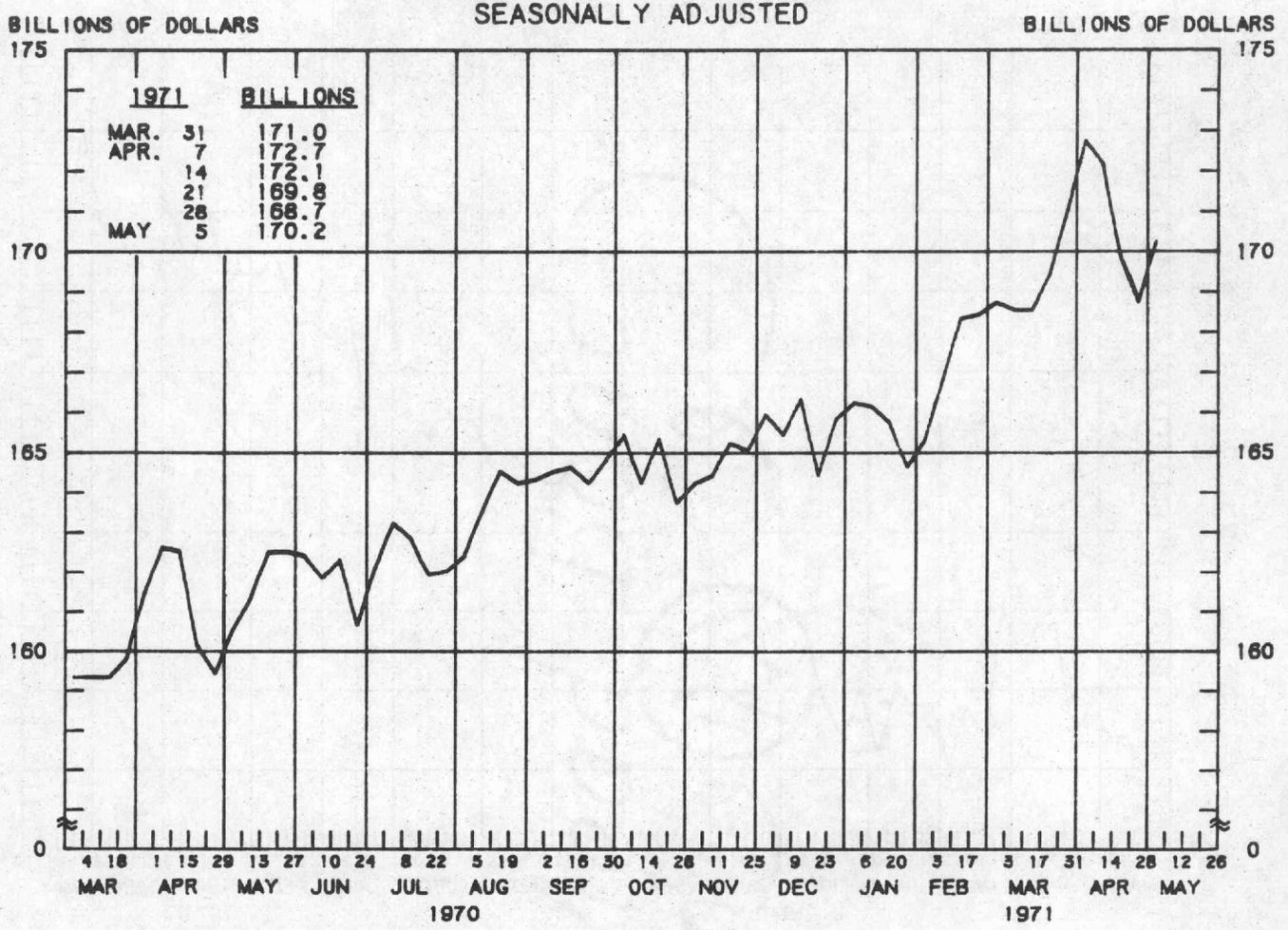
1971	BILLIONS
APR. 7	30.5
14	30.5
21	30.9
28	30.9
MAY 5	31.5
12	30.9

COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF THE FOUR WEEKS ENDING MAY 12, 1971 FROM THE FOUR WEEKS ENDING:

MAR. 10, 1971	9.8
FEB. 10, 1971	11.0
JAN. 13, 1971	10.5
DEC. 9, 1970	12.4
NOV. 11, 1970	11.9
OCT. 14, 1970	10.9
SEP. 9, 1970	11.5

DEMAND DEPOSIT COMPONENT OF MONEY STOCK

AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED



LATEST DATA PLOTTED WEEK ENDING: MAY 5, 1971
CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.6 RELEASE.

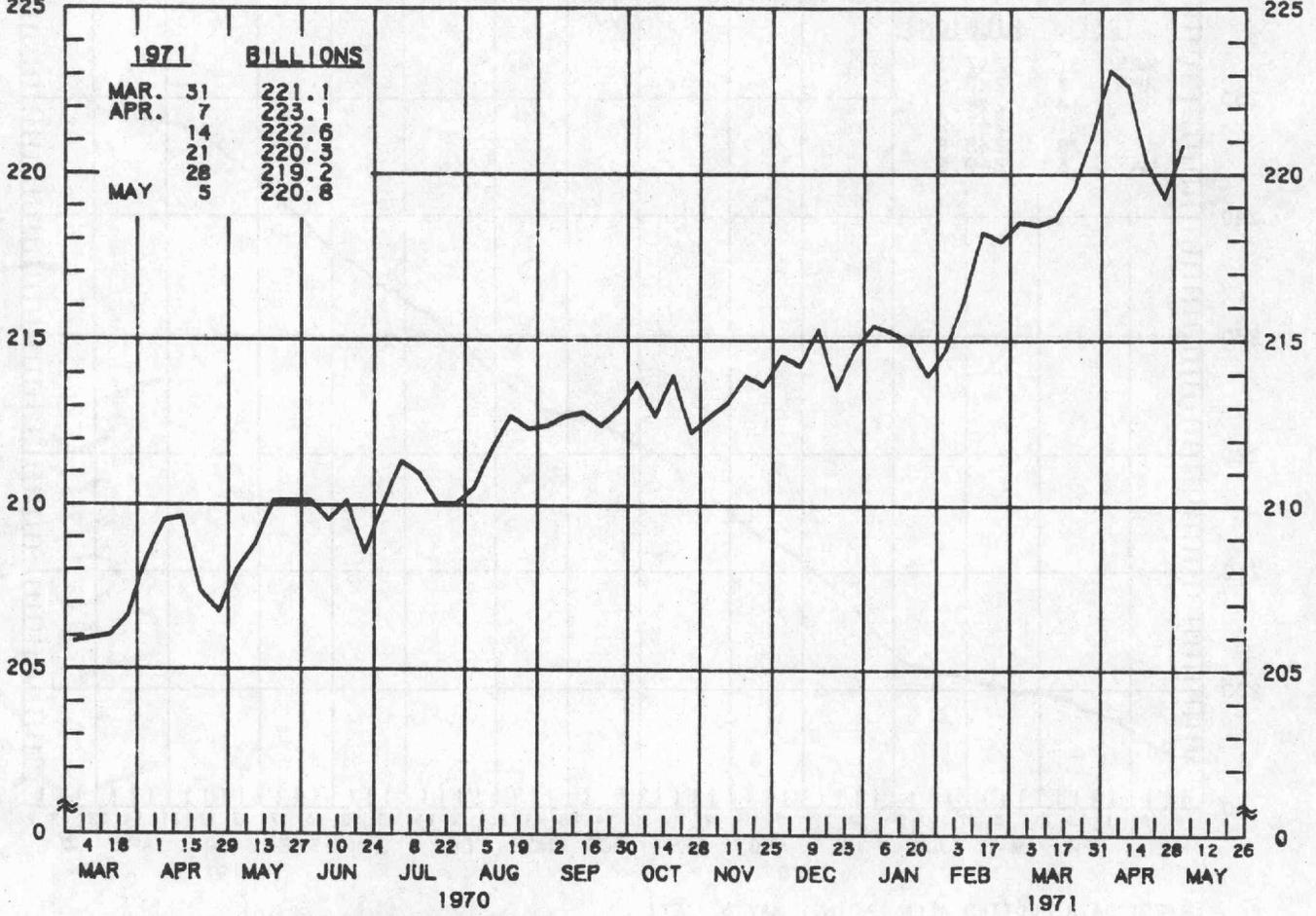
COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:								
	5/6/70	9/2/70	10/7/70	11/4/70	12/2/70	1/6/71	2/3/71	3/3/71
TO THE AVERAGE OF FOUR WEEKS ENDING:								
10/ 7/70	6.3							
11/ 4/70	4.8	1.1						
12/ 2/70	4.9	2.5	1.2					
1/ 6/71	4.8	2.8	2.2	4.7				
2/ 3/71	4.0	1.9	1.1	2.5	1.1			
3/ 3/71	5.7	4.9	5.0	7.0	7.5	9.8		
4/ 7/71	6.6	6.5	6.9	8.8	9.6	11.8	18.8	
5/ 5/71	6.0	5.6	5.7	7.2	7.5	8.5	12.1	7.4

MONEY STOCK

AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED

BILLIONS OF DOLLARS
225

BILLIONS OF DOLLARS
225



LATEST DATA PLOTTED WEEK ENDING: MAY 5, 1971

CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.6 RELEASE.

COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:

5/8/70 9/2/70 10/7/70 11/4/70 12/2/70 1/6/71 2/3/71 3/3/71

TO THE AVERAGE
OF FOUR WEEKS
ENDING:

10/ 7/70	5.9							
11/ 4/70	4.9	1.6						
12/ 2/70	5.0	2.9	2.5					
1/ 6/71	4.9	3.3	3.2	5.0				
2/ 3/71	4.4	2.7	2.5	3.4	2.5			
3/ 3/71	5.7	5.2	5.6	7.1	7.5	9.4		
4/ 7/71	6.6	6.6	7.3	8.8	9.5	11.5	17.0	
5/ 5/71	6.2	5.9	6.3	7.5	7.8	8.8	11.7	8.2

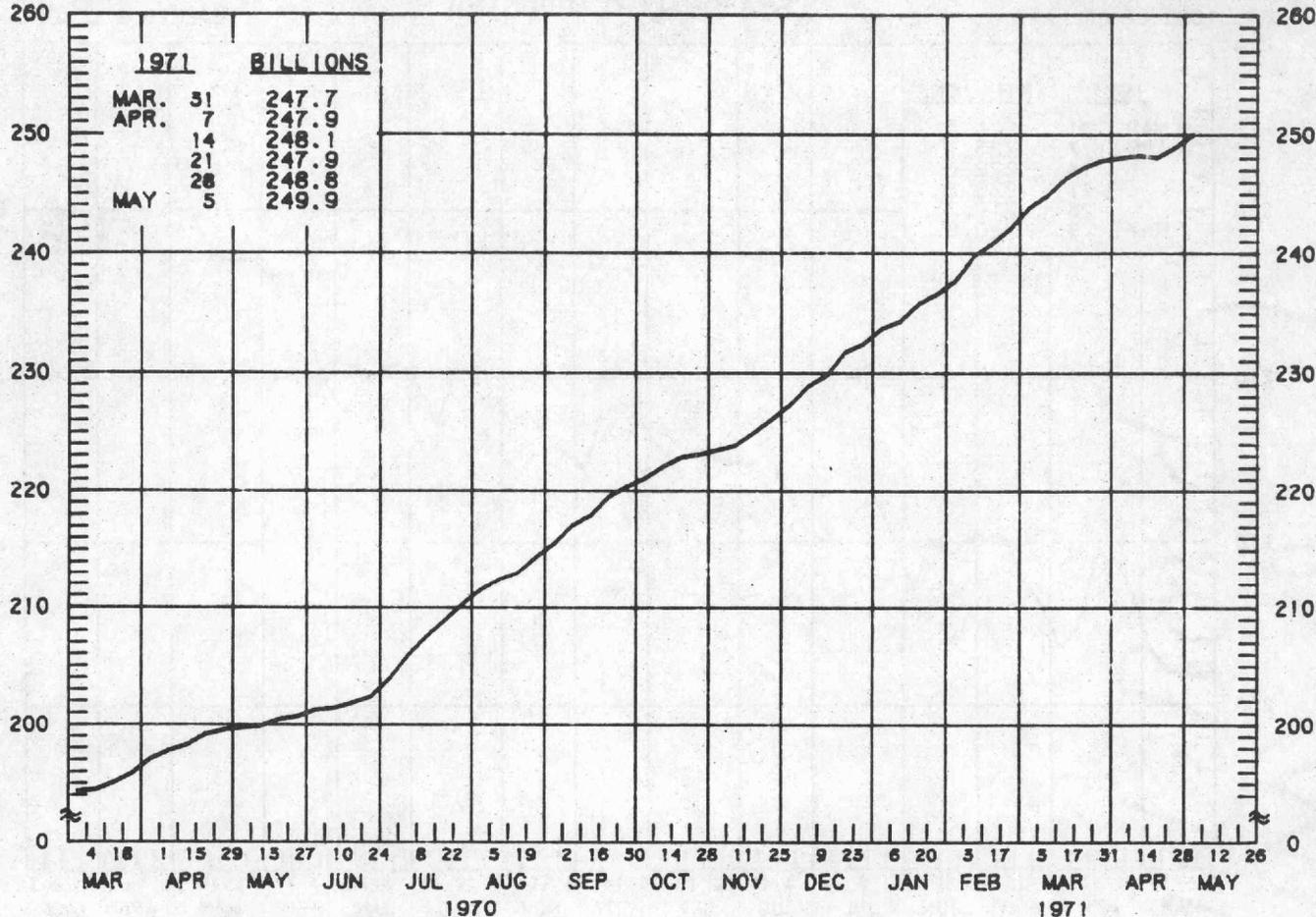
TIME DEPOSITS

ALL COMMERCIAL BANKS

AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED

BILLIONS OF DOLLARS

BILLIONS OF DOLLARS



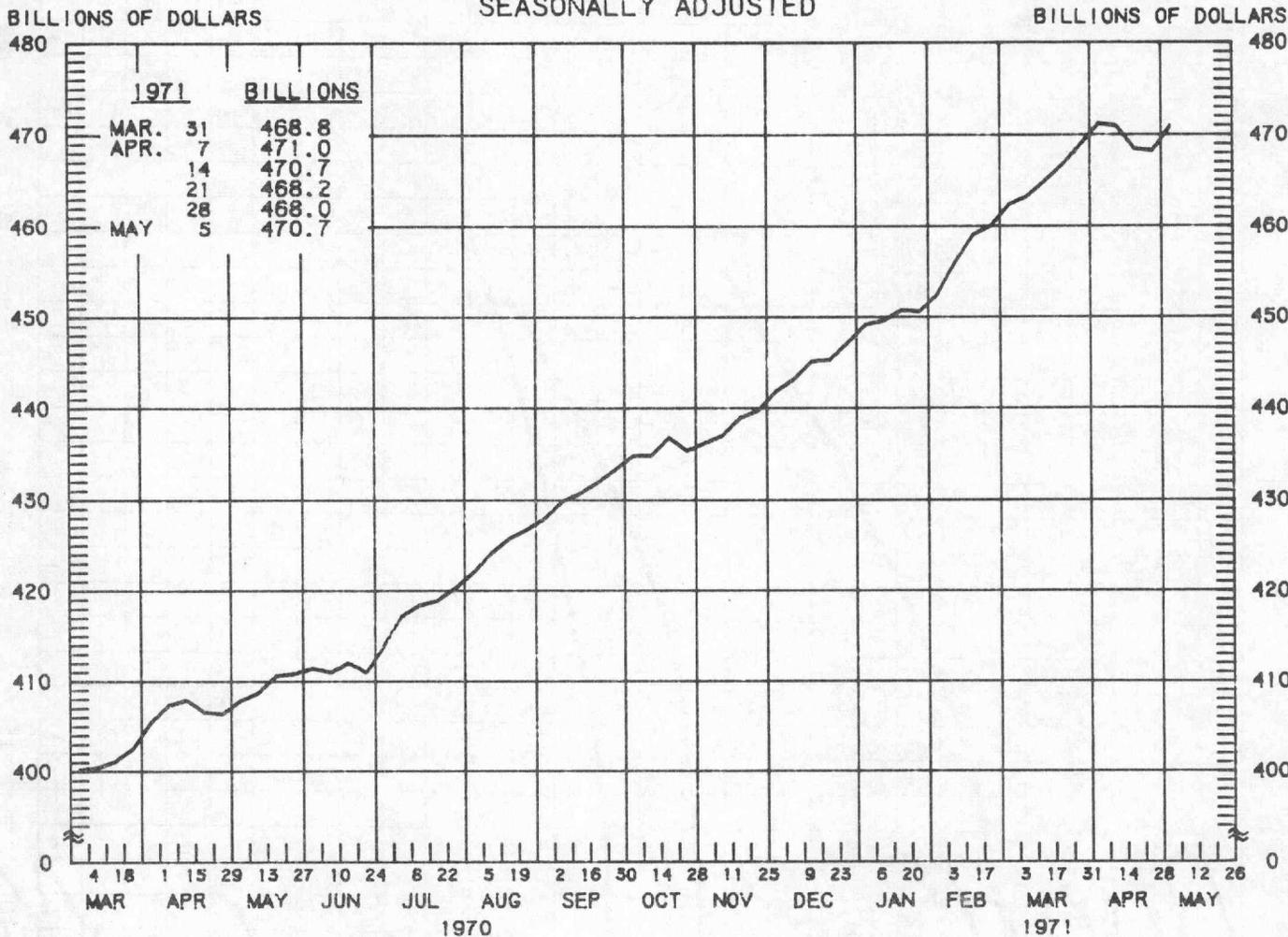
LATEST DATA PLOTTED WEEK ENDING: MAY 5, 1971

CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.6 RELEASE.

COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:								
	5/6/70	9/2/70	10/7/70	11/4/70	12/2/70	1/6/71	2/3/71	3/3/71
TO THE AVERAGE OF FOUR WEEKS ENDING:								
10/ 7/70	26.1							
11/ 4/70	25.2	27.2						
12/ 2/70	24.1	24.0	18.8					
1/ 6/71	25.3	26.5	24.1	25.7				
2/ 3/71	25.4	26.4	24.6	25.9	30.1			
3/ 3/71	26.3	27.7	26.5	28.0	31.5	30.5		
4/ 7/71	26.4	27.7	26.7	27.8	30.4	29.3	30.7	
5/ 5/71	24.9	25.3	24.1	24.6	26.0	24.0	23.3	18.5

MONEY STOCK PLUS TIME DEPOSITS

AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED



LATEST DATA PLOTTED WEEK ENDING: MAY 5, 1971

CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.6 RELEASE.

COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:

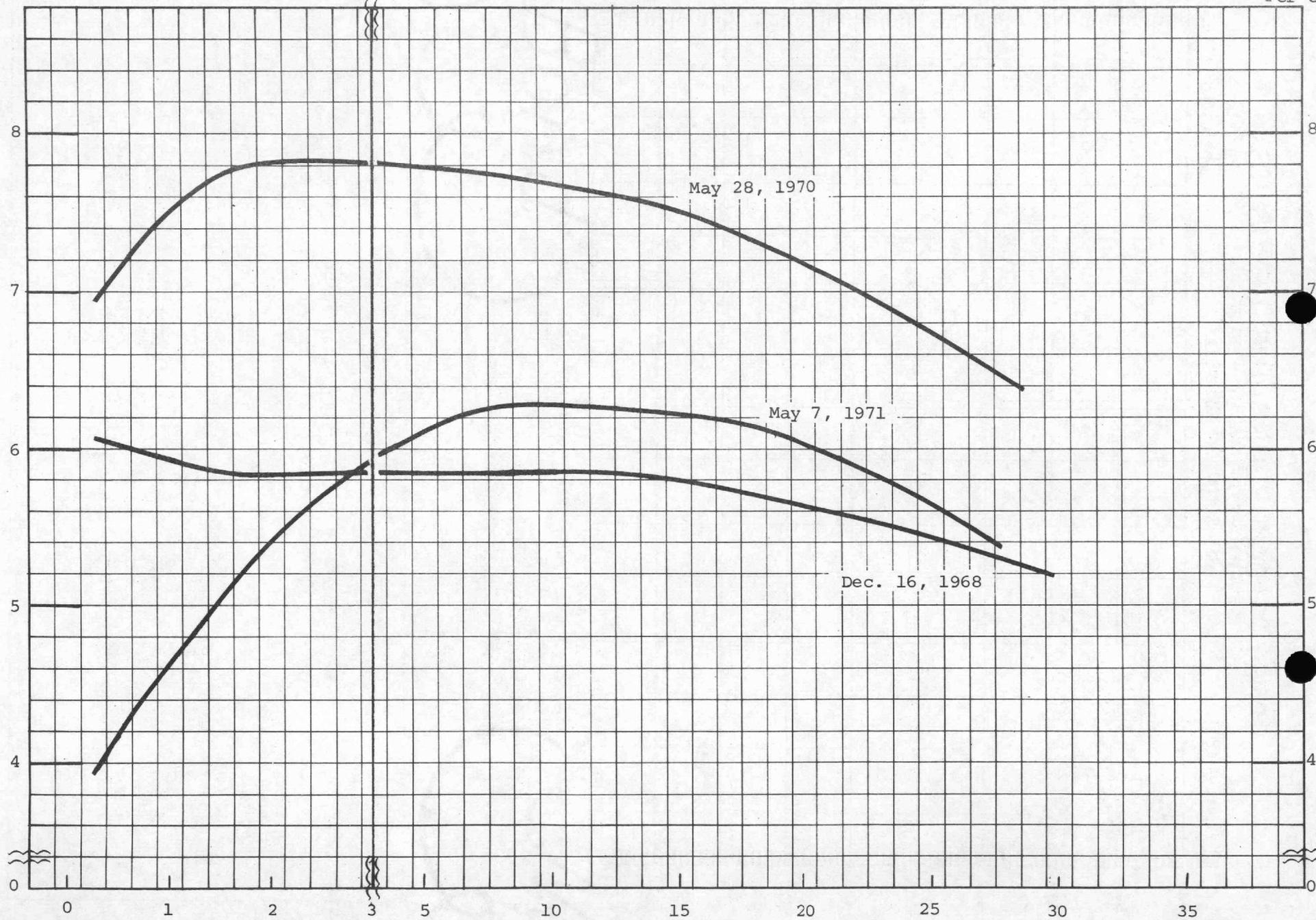
TO THE AVERAGE
OF FOUR WEEKS
ENDING:

	5/6/70	9/2/70	10/7/70	11/4/70	12/2/70	1/6/71	2/3/71	3/3/71
10/ 7/70	15.5							
11/ 4/70	14.6	13.9						
12/ 2/70	14.2	13.1	10.5					
1/ 6/71	14.8	14.5	13.5	15.2				
2/ 3/71	14.6	14.3	13.4	14.5	16.0			
3/ 3/71	15.7	16.2	15.9	17.4	19.4	20.0		
4/ 7/71	16.3	17.0	16.9	18.3	19.9	20.5	24.0	
5/ 5/71	15.3	15.5	15.2	16.1	17.0	16.5	17.7	13.5

YIELDS ON U. S. GOVERNMENT SECURITIES

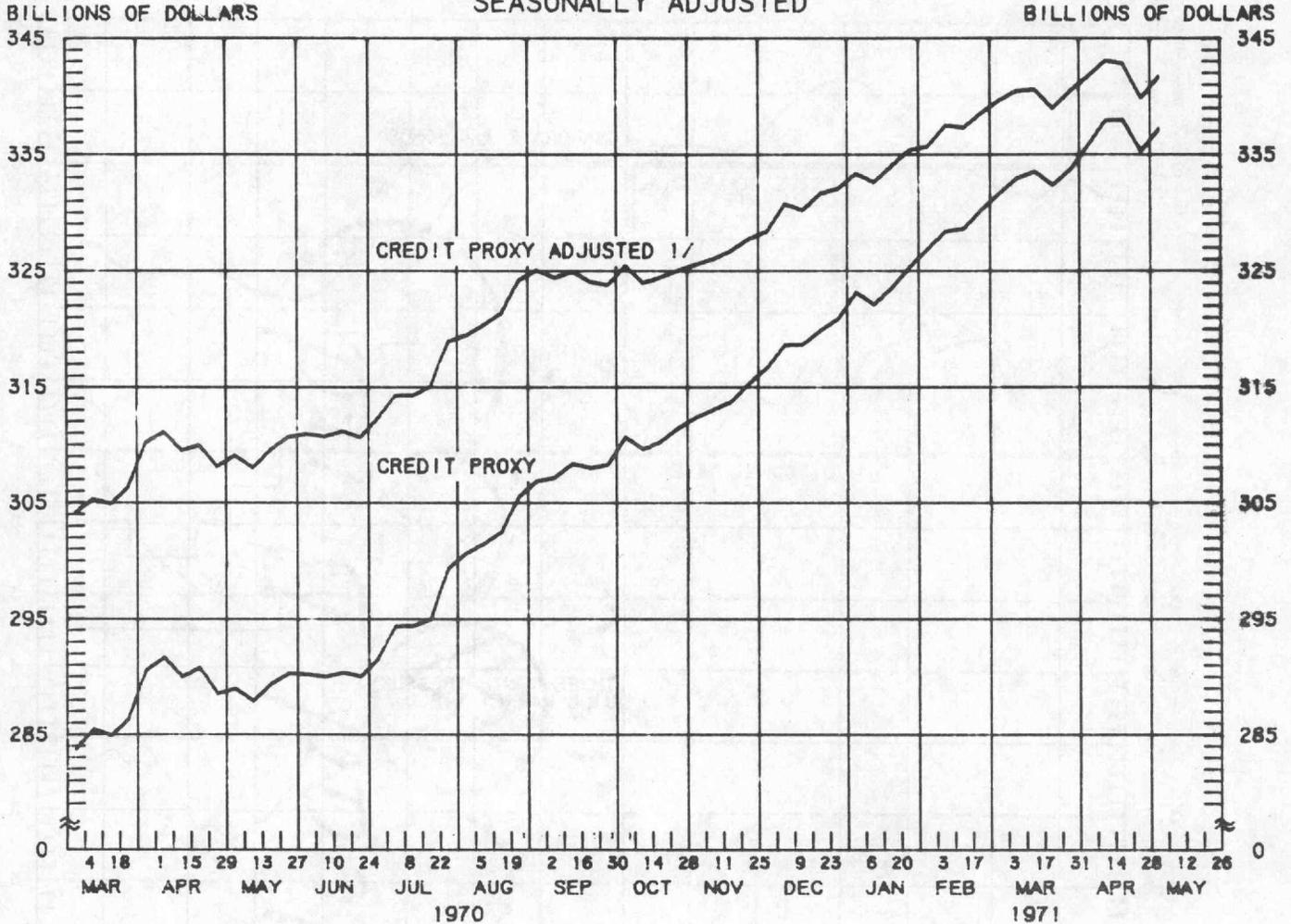
Per Cent

Per Cent



Year to Maturity

MEMBER BANK DEPOSITS SUBJECT TO RESERVE REQUIREMENTS (CREDIT PROXY) AVERAGES OF DAILY FIGURES SEASONALLY ADJUSTED



LATEST DATA PLOTTED WEEK ENDING: MAY 5, 1971

CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.9 RELEASE.

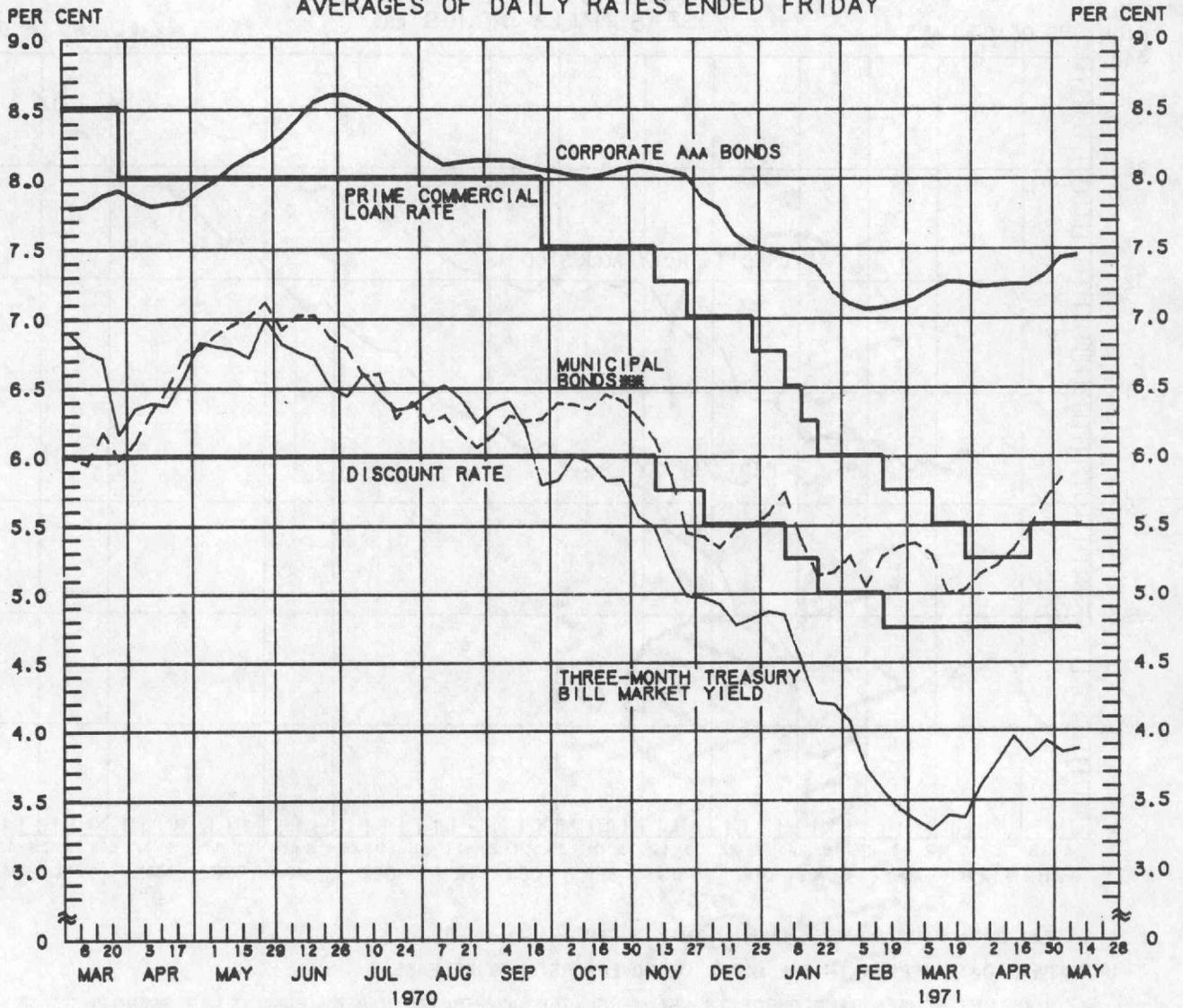
1/ INCLUDES MEMBER BANK DEPOSITS, BANK-RELATED COMMERCIAL PAPER, EURODOLLAR BORROWINGS OF U.S. BANKS, AND CERTAIN OTHER NONDEPOSIT SOURCES.

<u>1971</u>		<u>BILLIONS</u>	
		<u>CREDIT PROXY</u>	<u>CREDIT PROXY ADJUSTED</u>
MAR.	31	333.7	340.4
APR.	7	335.7	341.6
	14	337.9	343.0
	21	337.9	342.7
	28	335.2	339.8
MAY	5	337.1	341.6

<u>COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF THE FOUR WEEKS ENDING MAY 5, 1971 FROM THE FOUR WEEKS ENDING:</u>			
		<u>CREDIT PROXY</u>	<u>CREDIT PROXY ADJUSTED</u>
MAR.	3	13.5	6.3
FEB.	3	16.5	9.1
JAN.	6	16.5	9.5
DEC.	2	17.6	10.9
NOV.	4	17.5	10.8
OCT.	7	16.4	9.4
SEP.	2	16.5	8.9

YIELDS ON SELECTED SECURITIES

AVERAGES OF DAILY RATES ENDED FRIDAY



LATEST DATA PLOTTED ARE AVERAGES OF RATES AVAILABLE FOR THE WEEK ENDING: MAY 14, 1971

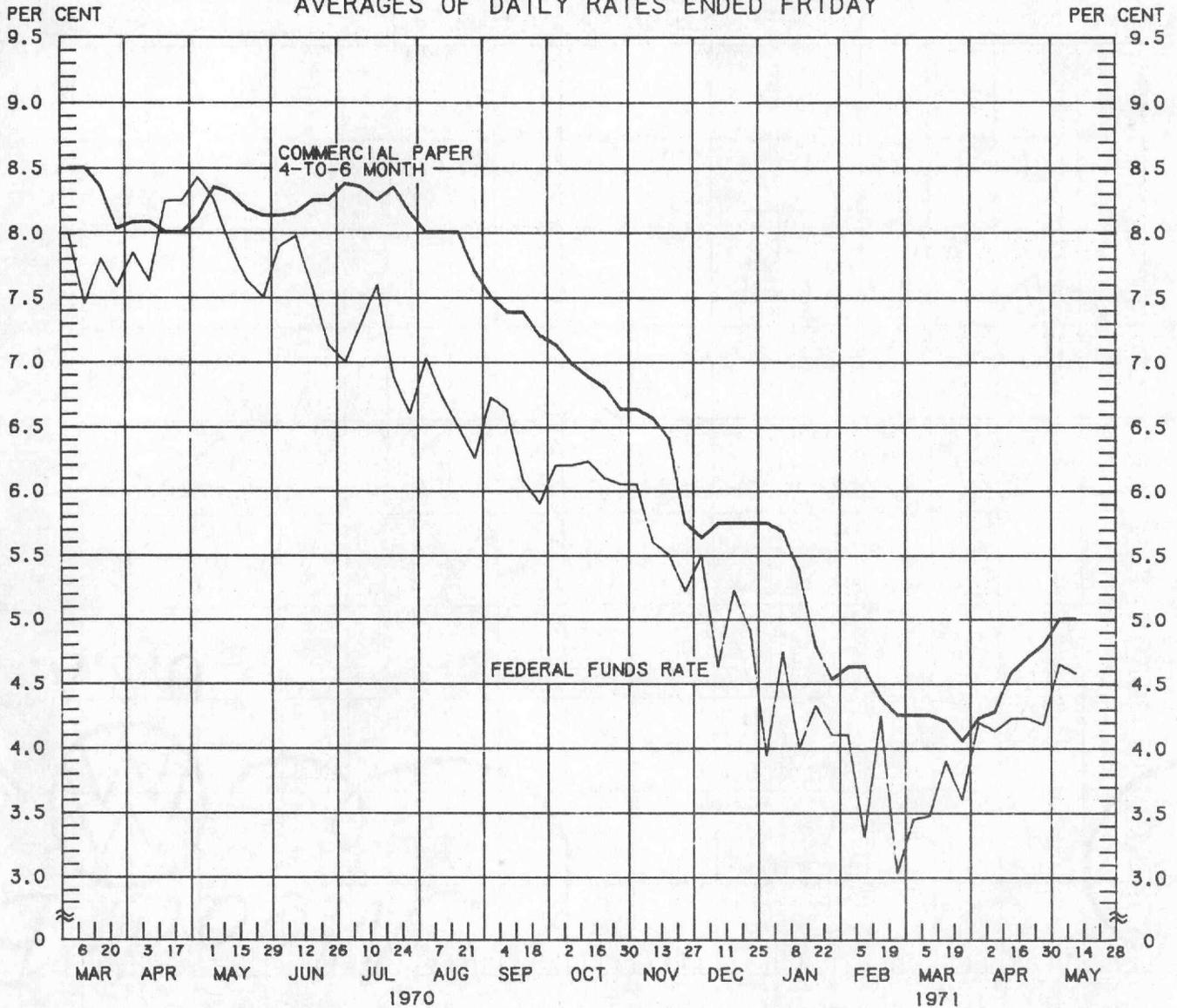
1971	CORPORATE AAA BONDS	3-MONTH TREASURY BILLS	5-5 YEAR GOVERNMENT SECURITIES	LONG-TERM GOVERNMENT SECURITIES	MUNICIPAL BONDS ***
MAR. 5	7.13	3.35	5.07	5.94	5.37
12	7.20	3.28	4.75	5.77	5.28
19	7.26	3.39	4.55	5.65	5.00
26	7.25	3.37	4.56	5.54	5.03
APR. 2	7.22	3.61	4.85	5.64	5.15
9	7.23	3.78	5.08	5.66	5.21
16	7.24	3.96	5.37	5.73	5.32
23	7.24	3.81	5.59	5.82	5.48
30	7.31	3.93	5.77	5.81	5.69
MAY 7	7.43	3.84	5.92	5.92	5.85
14 *	7.45	3.87	5.89	5.91	N.A.
21					
28					

* AVERAGES OF RATES AVAILABLE.
 *** BOND BUYER'S AVERAGE INDEX OF 20 MUNICIPAL BONDS, THURSDAY DATA.
 N.A. - NOT AVAILABLE

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

SELECTED SHORT-TERM INTEREST RATES

AVERAGES OF DAILY RATES ENDED FRIDAY



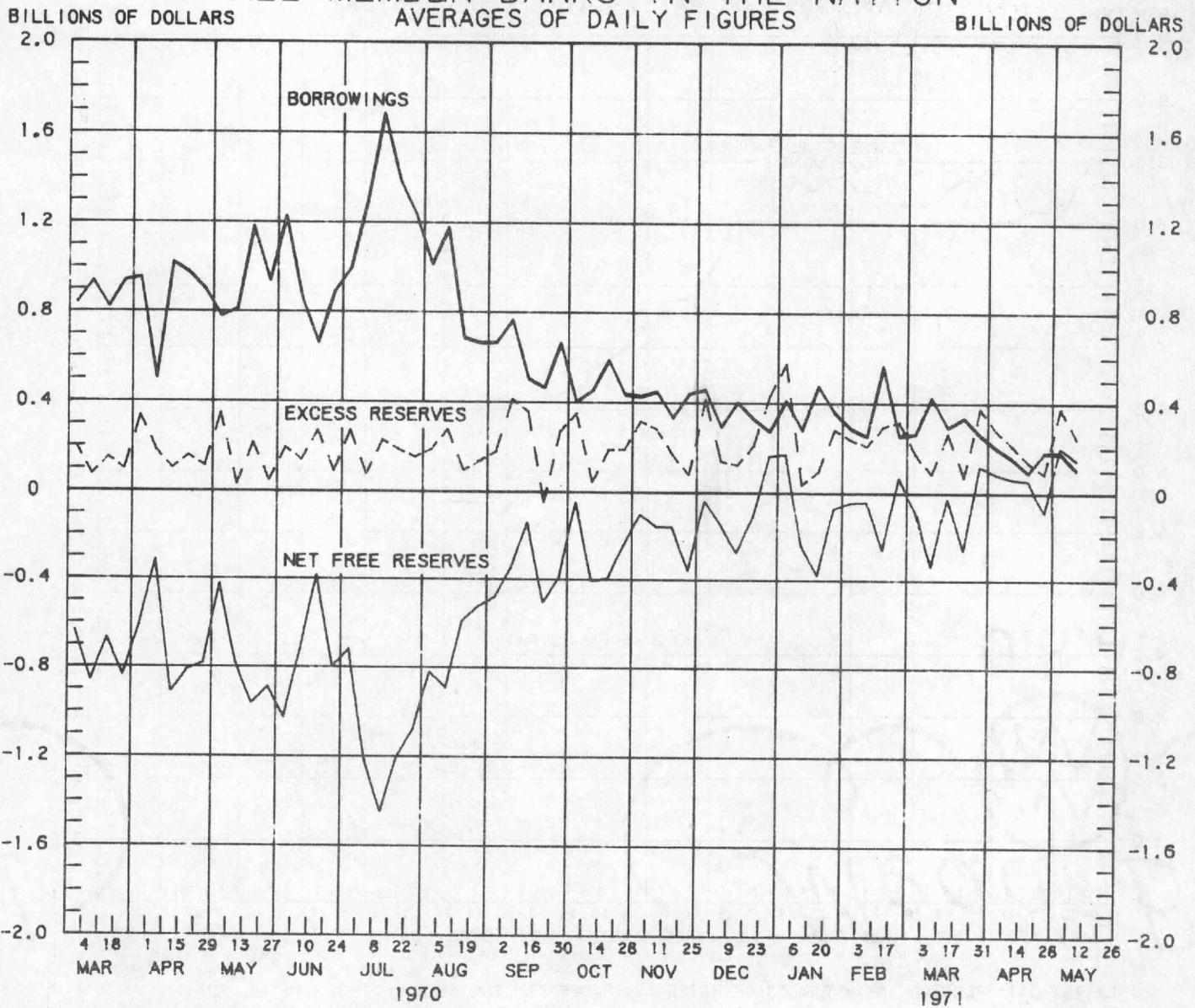
LATEST DATA PLOTTED ARE AVERAGES OF RATES AVAILABLE FOR THE WEEK ENDING: MAY 14, 1971

1971	PRIME COMMERCIAL PAPER 4-6 MONTH	FEDERAL FUNDS	PRIME BANKERS' ACCEPTANCES	90 DAY CD'S ***
MAR. 5	4.25	3.45	3.75	4.04
12	4.25	3.48	3.70	3.89
19	4.20	3.90	3.83	3.81
26	4.05	3.60	3.80	3.83
APR. 2	4.23	4.20	4.00	3.87
9	4.28	4.13	4.13	3.94
16	4.58	4.23	4.38	4.13
23	4.70	4.23	4.45	4.46
30	4.80	4.18	4.60	4.72
MAY 7	5.00	4.65	4.83	4.82
14 *	5.00	4.58	4.88	4.83
21				
28				

* AVERAGES OF RATES AVAILABLE. FEDERAL FUNDS LAST FIVE DAYS AVAILABLE
 *** DATA ARE SECONDARY MARKET RATES, WEEKLY AVERAGES ENDING WEDNESDAY TWO DAYS EARLIER. CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.9 RELEASE.

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

BORROWINGS AND EXCESS RESERVES ALL MEMBER BANKS IN THE NATION



1971	MILLIONS		
	EXCESS RESERVES	BORROWINGS	FREE RESERVES
MAR. 3	170	258	- 88
10	82	421	- 339
17	265	290	- 25
24	68	333	- 265
31	376	257	119
APR. 7	277	197	80
14	208	150	58
21	136	85	51
28	82	177	- 95
MAY 5	377	175	202
12	242	98	144
19			
26			

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS