

Comparison of housing starts and economic growth

	Current level		Percent change from—		
	Date	Amount	1964	1963	1955
Private housing starts (units, including farm)	1965.....	1,490,000	-5.0	-7.4	-10
Value put-in-place residential construction (in billions of dollars)	June.....	20.8	+7	+3.5	+11.2
Gross national product (in billions of dollars)	2d quarter, 1965.....	665.9	+5	+15	+67
Personal income (in billions of dollars)	do.....	528.8	+7	+14	+70
Disposable income per capita:					
Current prices.....	do.....	\$2,362	+5	+12	+42
Constant (1958) prices.....	do.....	\$2,173	+3	+8	+21
Population (in millions)	August 1965.....	194.3	+1.3	+2.8	+18
Industrial production (1947-49=100; seasonally adjusted)	do.....	144.4	+8	+15	+50
New plant and equipment spending (in billions of dollars)	4th quarter, 1965.....	52.95	+11	+29	+85
Consumer price index (1957-59=100)	June.....	109.9	+1.7	+3.0	+9.9

¹ 1957-59.

Source: Council of Economic Advisers; Economic Indicators, and NAHB.

THE MONEY MARKETS

Commercial banks, in contrast to savings and loan associations and mutual savings banks, will experience another phenomenal gain in savings in 1965. By the end of 1965, time deposits were estimated at around \$145 billion, more than twice the amount 5 years earlier. The growth in negotiable certificates of deposits has been even more spectacular, rising from almost zero in early 1961 to about \$16 billion currently.

The growth in time deposits at commercial banks during the 1960's has had a profound impact on banking and financial systems. During the past 5 years, growth in total bank assets has been astoundingly large. There has been a shift in the composition of total assets toward those with longer maturities. Banks have aggressively competed for deposits because a sustained strong demand for credit of the type that commercial banks can efficiently provide has encouraged and enabled them to do so, profitably.

However, the interest rate on time and savings deposits has risen sharply and, recently, the ceiling on certificates of deposit and other "nonsavings" deposits was raised from 4.5 to 5.5 percent. Banks are now under added pressure to develop a liquidity position sufficient to meet unforeseen contingencies. This task may be somewhat more difficult now than in the past because of the recent shift in the composition of bank assets, the decline in importance of U.S. Government security holdings—the traditional form of secondary reserves—and the increasing importance of certificates of deposit which could prove quite volatile under certain conditions.

The recent increase in the ceiling on certificates of deposit and on time deposits other than savings could hamper the ability of mutuals and savings and loans to attract funds to finance mortgages and other investments. The effort of the commercial banks to raise certificates of deposit money requires them to compete with Treasury bills, finance company paper, and the like. Time deposits other than certificates of deposit and savings accounts, however, are competitive with deposits at savings institutions. If the banks find it desirable to boost their current holdings of these deposits by bidding up the price of savings certificates, etc., savings institutions will have to follow the pattern and risk a further squeeze on earnings or stand pat and lose out in the competition for savings.

In the savings race, the banks have a decided advantage. They can legally operate in a variety of credit markets. The investment return in some of these markets is greater than the yield on mortgages—the major investment outlet for associations and mutuals. The Federal Reserve Board kept the rate payable on savings deposits at 4 percent in order to minimize competitive effects. Nevertheless, the recent Federal Reserve Board action raises the possibility of a further escalation in the competition for funds, with accompanying pressure to sacrifice investment quality for yield. It is too early to tell how associations and