

changes in reserve requirements) declined at about a 2-percent annual rate from April to November this year. Reserves, which are composed of deposits with Reserve banks and cash in bank vaults, are the major determinant of the level of demand deposits. From April 1965 to April 1966 bank reserves rose about 5 percent. By comparison, reserves increased at a 4-percent rate from 1960 to 1965 and at an average rate of about 2 percent per year in the 1950's.

The rapid expansion of reserves from mid-1964 to the spring of 1966 resulted from Federal Reserve System net purchases of Government securities totaling \$6 billion and an increase of \$400 million in member bank borrowing from Reserve banks. Partially offsetting factors were a movement of currency into circulation and net sales of gold by the U.S. Treasury. The decline in effective reserves since last spring has reflected both a rise in reserve requirements on time deposits and a slower rate of net purchase of Government securities by the System.

Reserves available to support private demand deposits (total reserves less reserves required for deposits not counted as part of the money supply) have decreased at a 3-percent rate since spring after increasing 5 percent in the preceding year. These reserves rose at a 1.5-percent rate from 1960 to 1965, about the same as in the 1950's. Movements in private demand deposits and the money stock are usually more closely associated with these reserves than with total reserves.

Time deposits in commercial banks rose at a 10-percent annual rate from November 1965 to August this year and since have shown little net change. By comparison, these deposits increased at a 15-percent rate from 1960 to 1965 and a 7-percent rate from 1951 to 1960.

Growth of each of the three major components of commercial bank time deposits has followed a different course in 1966. Recent trends are most exactly known for the large banks which report weekly. These banks hold about \$88 billion of total time deposits of \$157 billion. Divergence of trends of different kinds of time deposits has probably been greater at these large banks than at other banks.

At these large banks passbook savings deposits, which now amount to about \$47 billion, have declined at an 8 percent annual rate since last December after rising 11 percent during 1965. The chief cause of the changed trend was that with higher interest rates on competing instruments banks found more difficulty in attracting and holding passbook accounts at the Federal Reserve's Regulation Q rate ceiling of 4 percent.

Large CD's (certificates of deposit), which rose 12 percent in the year ended in August and had increased about a third each year for several earlier years, have since declined at a sharp 50-percent rate to about \$15 billion in early December. The Regulation Q maximum of 5½ percent on these funds has made it increasingly difficult for banks to hold them.

Smaller, consumer-type CD's at the large banks have risen 51 percent since a year ago compared with a 20-percent rate earlier in 1965. Recently these deposits have amounted to about \$26 billion. The recent rapid growth rate of these deposits reflected increased bank aggressiveness in seeking these funds for which regulations permitted payment of effectively competitive interest rates. Since September of this year, when the maximum rate on these CD's was lowered from 5½ to 5 percent, the amount outstanding has changed little on balance.