

*Margin requirements on stocks**Percent*

In effect Jan. 1, 1966.....	70
In effect Dec. 20, 1966.....	70

Maximum interest rates payable on time and savings deposits

	Savings deposits	Other time deposits, 30 days or more maturity	
		Under \$100,000	\$100,000 or more
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
In effect Jan. 1, 1966.....	4	5½	5½
Sept. 26, 1966.....	4	5	5½
In effect Dec. 20, 1966.....	4	5	5½

LOAN POLICY

On September 1, 1966, the presidents of the Federal Reserve banks sent a letter to all member banks regarding growth in overall bank credit, the increase in business loans, and administration of Federal Reserve credit assistance to member banks through the System's discount facilities. Excerpts from the letter are as follows:

"* * * credit financed business spending has tended towards unsustainable levels and has added appreciably to current inflationary pressures * * * [This] expansion is being financed in part by liquidation of other banking assets and by curtailment of other lending in ways that could contribute to disorderly conditions in other credit markets * * * Member banks will be expected to cooperate in the System's efforts to hold down the rate of business loan expansion * * * and to use the discount facilities of the Reserve Banks in a manner consistent with these efforts. * * *"

DEMAND, PRODUCTION, AND PRICES

DEMAND

The demand for goods and services was very strong in 1966, although it declined moderately from the exceptionally high 1965 rate. Total dollar spending, which had risen at a very rapid 9-percent annual rate from late 1964 to early 1966, grew at a somewhat more moderate 7-percent rate from the first to the third quarter of 1966. These rates of increase in spending were substantially above the estimated 4-percent rate of growth of productive potential. The stimulative fiscal actions during 1965 and 1966 and the rapid monetary expansion from the summer of 1964 to the spring of 1966 contributed to the large demand for goods and services of the past 2 years.

The growth pattern of spending changed markedly during 1966. Private investment, which had risen at a 15 percent annual rate from the third quarter of 1964 to the second quarter of 1966, declined in the third quarter of 1966. Outlays on housing declined from \$27.8 billion in 1965 to an annual rate of \$24.8 billion in the third quarter of 1966. Since housing is consumed over a relatively long period, current spending on new construction can be curtailed without greatly reducing the amount of housing services available. Since interest cost is usually a major portion of the total expense of owning a home, higher interest rates increase the effective price of house services more than the price of consumer goods in general. Consequently, the amount of housing demanded declines greatly.