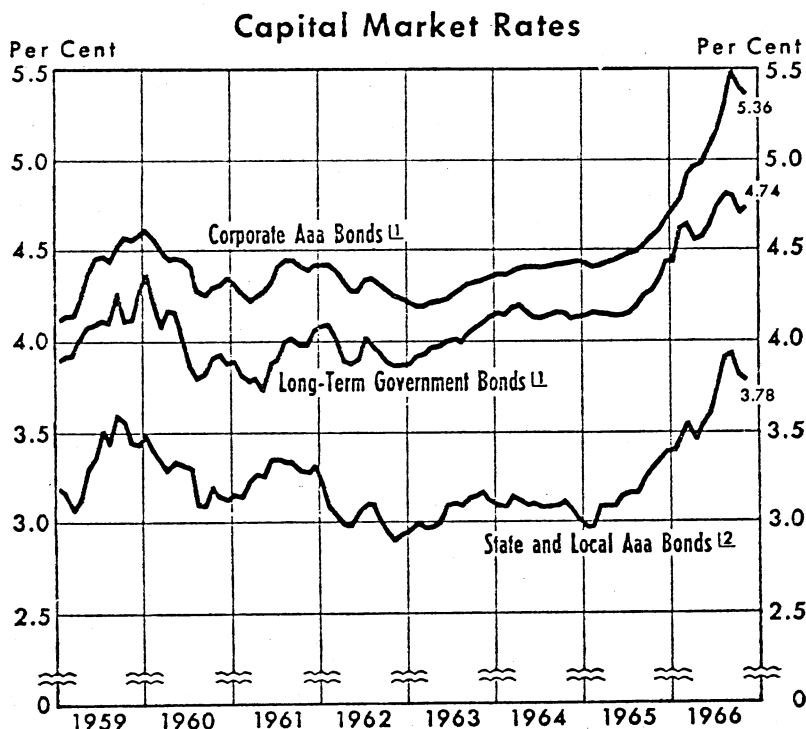


Interest rates rose markedly during the last half of 1965 and the first 4 months of 1966. After April the rate of increase accelerated, and by early fall most rates reached their highest levels since the 1920's. The rise reflected a sharper increase in the demand for credit than in the available supplies from saving and bank credit creation. The sharp upward movement in interest rates from April to September accompanied the initial period of monetary contraction.

From September 1966 to early December interest rates declined moderately. The decline in rates after September may reflect a decline in the fundamental demand schedule for loan funds. Alternatively, some of the rapid increase of the summer may have been primarily speculative because of inordinate expectations of still higher rates, and the October declines may have been of a technical nature. Responding to the high level of rates in the fall compared with the first half of the year, the declines of credit extensions may have reflected a decline in the amount of funds demanded rather than in the demand schedule.

Yields on highest grade corporate bonds, which had averaged 4.35 percent in the 1961-64 period and had risen to 4.50 percent by mid-1965, rose to 4.96 percent in April this year and then to 5.49 percent in September. Rates on Government bonds and on high-grade municipal bonds moved in a roughly parallel fashion.



1 Monthly averages of daily figures.

2 Monthly averages of Thursday figures.

Sources: Board of Governors of the Federal Reserve System

and Moody's Investors Service

Latest data plotted: November