

successful \$7.5 billion refunding the rates are the lowest offered in a Treasury refunding since November 1965.

Federal agency securities and participation certificates are also finding the markets much more receptive than a few months ago. Corporate and municipal yields have moved down substantially from earlier peaks, and the average cost of new State and local borrowing is below the levels of December 1965. Bank lending rates have begun to recede. Rate declines have been somewhat slower to come in the mortgage area, but there are signs that they are on their way, and there is welcome evidence of improvement in the flows of funds to the mortgage market.

Special measures were needed—and were taken—last year to cope with an abrupt hiatus in the normal flow of funds to thrift institutions and the mortgage market. Aggressive competition among financial institutions for time deposits contributed to an overall escalation of interest rates, and shunted funds away from the mortgage market. The Coordinating Committee on Bank Regulation—which President Johnson directed me to set up in the spring of 1965—provided a useful forum within which the regulatory authorities were able to hammer out an effective program to deescalate savings rates from their highest levels and mitigate adverse effects on the mortgage market.

A key element in that program was the legislation providing the regulatory agencies with temporary authority—which was immediately exercised—to set minimum rates on time and savings accounts. In addition, important offsets to the reduced flow of money into mortgage markets were achieved through expanded Federal home loan bank and Federal National Mortgage Association operations—in the latter case with the help of congressional action to expand FNMA's borrowing capacity.

As 1966 progressed, increasingly close coordination was achieved in the financial area. It should serve us well in the future. Last year's experience does emphasize the need to consider carefully how in the future the mortgage market might be spared the burden of excessive restriction in the wake of monetary tightening.

THE TRANSITION BACK TO COST-PRICE STABILITY

One consequence of the pace of expansion in 1966 was the extra pressure on costs and prices. The result was an unwelcome lapse from the remarkable record of stability that has prevailed throughout most of the current expansion. Against the standards of previous defense buildups or the investment boom of the mid-1950's, last year's performance was remarkably good. But, the upward drift in our price indexes since mid-1965 is cause for concern. We have acted, and will continue to act, to avoid price increases that would endanger an enviable record of stable economic growth and progress toward balance of international payments equilibrium in the 1960's.

The Consumer Price Index increase of 2.9 percent between the full year 1965 and 1966 was about twice the size of the average increases of recent years. Between December 1965 and December 1966, the index rose somewhat more—by 3.3 percent—but the rate of advance had slowed appreciably by late 1966. Wholesale prices rose by 3.2 percent