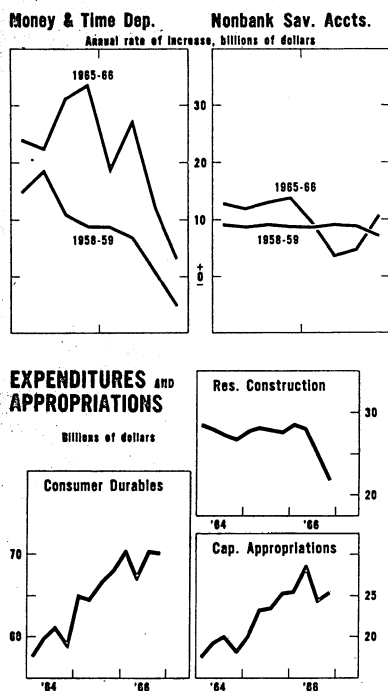




sion. To an important degree, these fluctuations in bank credit reflected changes in the growth rate of time deposits. The public switched between market securities and time deposits, as monetary policies—interacting with credit demands—altered the yield spread between these classes of assets. It would seem, therefore, that no single aggregate banking measure tells the whole policy story.

Moreover, the problems of interpreting monetary measures are magnified when the effects of policy spread more pervasively outside the banking system. During the 1950's, the effects of monetary restraint were confined mainly to a relatively narrow range of financial assets. Restrictive policies during the 1958-59 expansion, for example, reduced the growth of money and time deposits substantially, but the growth rate of nonbank savings accounts changed little.

Last year, restrictive policies once again reduced the growth rate of money and time deposits. But with market rates on securities rising rapidly, and with commercial banks bidding more aggressively for available funds, net inflows of funds to nonbank savings institutions also fell abruptly before recovering late in the year.

As monetary restraint spread to nonbank financial institutions, there were marked effects on the structure of private expenditures. Though the money stock rose considerably during the first half of last year, the mortgage market came under pressure fairly quickly, and housing starts and residential construction declined sharply.

While purchases of consumer durable goods leveled off last year, and new capital appropriations of manufacturers declined after the second quarter, it seems evident that these developments were less closely related to financial restraint than was the