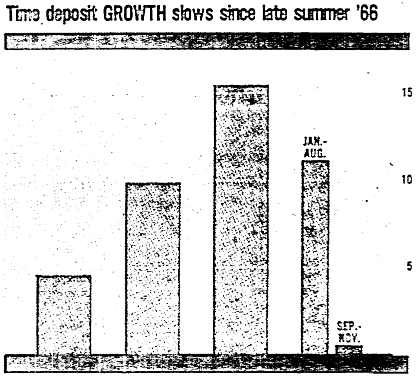
INFLOWS of time and savings deposits at commercial banks have declined sharply in 1966, especially since mid-August. This decline contributed to a reduction in the availability of bank credit to borrowers.

The 1966 slowdown followed several years of very high rates of inflows of time and savings deposits at commercial banks. This success in attracting time and savings deposits since 1957—and especially in the period from 1962 through 1965—had a significant influence on the role of commercial banks in the financial system. Commercial banks as a group became not only suppliers of money, but also one of the dominant issuers of nonmoney liquid assets. By the end of 1964 their interest-bearing deposits exceeded private demand balances for the first time in history; 10 years earlier time and savings deposits at banks had been less than one-half as large as private demand deposits. With this greater inflow of time deposits, total bank deposits grew at an accelerated rate, and banks showed a marked increase in their share of the total funds supplied in credit markets.

Time deposit GROWTH slows since late summer '66

CHART 1



Data are for all commercial banks. Data for 1966 are at seasonally adjusted annual rates.

The larger time deposit inflow at banks in the first half of the 1960's was accompanied by substantial readjustments in the size and composition of financial flows throughout the economy. The public—consumers, businesses, and State and local governments—placed a greater share of its financial asset acquisitions in bank time deposits rather than in other interest-bearing assets and at the same time increased its rate of acquisition of total financial assets relative to income. Banks, meanwhile, expanded their share