

of funds supplied in the markets for State and local government bonds and real estate mortgages. In the business sector, firms issued fewer securities and relied more on issues of mortgages and on loans from banks to finance their expenditures.

With the decline in inflows of time deposits in 1966, these tendencies were reversed. Banks reduced their acquisitions of securities. Their sales and runoffs of U.S. Government securities were large all year, and since midyear many also liquidated municipal bonds. Furthermore, they became increasingly reluctant to make additional loans. As a result a larger share of credit demand was met in money and capital markets at rising yields.

TIME DEPOSIT GROWTH

The greater interest of banks in competing for time and savings deposits in the last 10 years emerged from earlier postwar developments. In the first decade after World War II bank deposits did not expand so fast as the over-all economy. This slower expansion reflected in part the excess liquidity left over from wartime finance and the recurrent need to temper inflation by restrictive monetary policy actions that curbed the expansion in bank reserves and deposits.

At the same time, nonbank financial institutions were recording high growth rates as their deposits and shares gained increasingly widespread acceptance among consumers. As a result, commercial banks lost their competitive position in the market for consumer savings. Concurrently, businesses were diversifying their liquid asset portfolios—nonfinancial businesses, attracted by rising yields, turned more and more to market instruments as a repository for liquid funds, and their deposits at banks showed little growth.

With the growth of deposits limited, banks in the first postwar decade drew heavily on their previous accumulations of liquid assets to finance loan expansion. While banks had been expected gradually to liquidate part of their huge holdings of Government securities acquired during the war, the persistent erosion of liquidity due to loan expansion and liquid asset sales led banks to try to find additional sources of funds to finance customers' loan demands. Banks were thus coming under pressure to compete more aggressively for time and savings deposits.

The increase in Regulation Q ceilings at the beginning of 1957 gave banks added leeway to compete for these deposits, and the growth rate of time deposits began to accelerate soon thereafter. In the period from 1957 through 1961 time deposits at banks

PERCENTAGE INCREASE, 1946–56

Bank deposits	38
GNP	101
Nonbank deposits	172

Bank deposits are total deposits at commercial banks; nonbank deposits include savings and loan assns., mutual savings banks, and credit unions.