inflows to commercial banks dropped to an annual rate of less than 1 per cent from August through November. In October seasonally adjusted time deposits at banks declined for the first time since early 1960. These developments, by reducing the ability of banks to extend loans, had the effect of reinforcing monetary restraint in the economy.

Much of the reduction in time deposit inflows since late summer has occurred at the larger banks. These banks—which deal with highly interest-sensitive depositors and are the largest issuers of negotiable CD's—had an outflow of $3.0 billion of negotiable CD's from mid-August through November. The largest of these banks offset part of the outflow through increased borrowing from foreign branches; such borrowing increased by $1.2 billion from August through November.

After mid-October, runoffs of negotiable CD's slowed considerably, as yields on very short-term market instruments—such as 30-day Treasury bills—declined enough to permit banks to attract funds in limited volume by selling short-term CD's. These sales, however, resulted in a sharply declining average maturity of outstanding CD's—accelerating the trend that had begun at midyear.

In addition to outflows of negotiable CD's, large banks in October and November began to face slower growth—and in some cases outflows—of other types of time deposits, in particular of consumer-type certificates. It is probable that this development reflected both the rollback in rate ceilings on smaller-denomination time deposits in late September and the movement of some funds by the public to longer-term market instruments in search of assured high yields for a longer period.

The pressure on large banks—particularly that generated by runoffs of negotiable CD's—reinforced the effort of the Federal Reserve to reduce the expansion of business loans by banks. During most of 1966 inflationary pressures were receiving impetus from the expansion in business capital outlays, and in the first 7 months of the year bank loans to nonfinancial businesses expanded at a seasonally adjusted annual rate in excess of 20 per cent—more than in 1965—despite some reduction in the availability of bank reserves at the initiative of the Federal Reserve. Lower time deposit inflows since late summer—and CD runoffs—reduced the ability of banks to make such loans. In addition, on September 1 the presidents of the Federal Reserve Banks wrote to all member banks calling upon them to rely more on curtailment of business

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