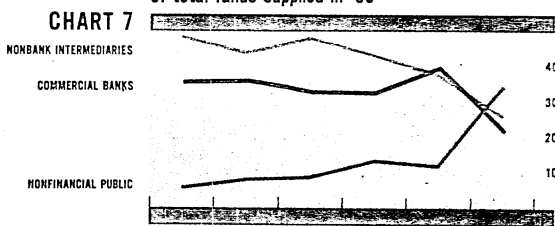


loans in adjusting to liquidity pressures and permitting them more extended use of Federal Reserve discount facilities when needed to accomplish such adjustments. In the 4 months ended in November, business loans expanded at a rate of less than 7 per cent.

Credit flows. Reductions in deposit inflows at banks and nonbank financial institutions have produced a major shift in the sources of funds supplied for the financing of economic expansion. The share of total funds supplied by commercial banks fell from nearly 40 per cent in 1965 to an average of just over 20 per cent for the first three quarters of 1966. In the third quarter the commercial banking system supplied only about 7 per cent of total funds raised by nonfinancial borrowers. The share supplied by

**PUBLIC increases its share
of total funds supplied in '66**



Flow of funds data. Denominator of each ratio is total funds raised. Numerators as follows: Bank loans and investments, nonbank depository institutions' acquisitions of credit market instruments, and domestic nonfinancial public's net purchases of credit market instruments. 1966 data at seasonally adjusted annual rates.

nonbank intermediaries also has shown a sharp decline. A much larger share of total funds has been supplied, therefore, by the nonfinancial public through direct purchases of market securities.

The increasing share of total credit supplied directly through markets has been characteristic of earlier periods of monetary restraint. In 1966, however, higher alternative yields—on bank deposits and market instruments—have cut more into the public's purchases of claims on nonbank institutions than at any other time in the postwar period. In the first three quarters of 1966 consumers allocated to nonbank depository institutions a postwar low of less than 20 per cent of their total accumulation of money, all deposits and shares, and market securities. In previous periods of restraint, this ratio had never declined below 40 per cent.

The declining share of total credit supplied to the public by nonbank institutions has resulted in a dramatic cutback in the availability of new residential mortgage financing. Most prospec-