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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

September 5, 1969

SUPPLEMENTAL NOTES

The Domestic Nonfinancial Economy

Labor market. Employment rose in August, but at a sharply slower pace than in the first half of the year. After declining in July, nonfarm employment rose by only 167,000 in August. Well over half of that increase was in the auto industry and was an outgrowth of an early model changeover. Consequently, it should be matched by a comparable decline next month. Employment declines were reported in construction, several consumer-goods manufacturing industries, and Federal employment. Employment growth continued in the capital-goods industries and there was a sizable increase in the service industries, where job growth had lagged below its normal rise during the spring.

NONFARM PAYROLL EMPLOYMENT
(In Thousands, Seasonally Adjusted)

	Average Monthly Change			
	December- March	March- June	June- July	July- August
Total	278	197	-31	167*
Government	33	42	-10	-4
Private industry	245	154	-21	171*
Manufacturing	55	25	-12	120*
Nonmanufacturing	190	129	- 9	51

* The August figures include an increase of 95,000 in the transportation equipment industry, which is attributable to inadequate seasonal adjustment factors for the early model changeover in the auto industry.

The average workweek of factory production workers edged down one-tenth of an hour to 40.6 hours in August. Although down slightly

from the recent March high of 40.9 hours, the workweek was near its average level of the past two years.

Total unemployment was little changed between July and August but a rounding effect did result in the rate sliding back down to 3.5 per cent. Although higher than last winter, joblessness has not shown a sustained increase, nor do the insured unemployment figures suggest rising layoffs late in August.

Retail sales. Retail sales for the last week in August raised our estimate for the month as a whole. Instead of the Greenbook estimated increase of about 1 per cent, it is possible that sales could rise around 2 per cent above the July level. Part of the strength, however, seems to be attributable to the automotive products group of stores and thus may not be consistent with the slight decline indicated in unit automobile sales for the month. Our estimated August level of sales is 1-1/4 per cent above the April peak in the series, but only 3.5 per cent above a year ago.

Dealer deliveries of new domestic autos for August as a whole were at a seasonally adjusted annual rate of 8.1 million units, 9 per cent below a year earlier and 1 per cent below a month ago.

The Domestic Financial Situation

Corporate and municipal bond markets continued to weaken this week with yields in both markets advancing to new peaks. While new issues generally met with favorable responses from investors, market participants, nonetheless, seemed to be highly concerned over the uncertain economic outlook, the supply of new corporate bond offerings, and unfolding pressures in the municipal market stemming from factors noted in the Greenbook.

BOND YIELDS

	Bond Yields	
	New Corporate Aaa ^{1/}	Long-term State ^{2/} and Local Bonds
<u>1968</u>		
Low	6.13 (8/30)	4.07 (8/9)
High	6.92 (12/13)	4.85 (12/29)
<u>1969</u>		
Low	6.90 (1/10)	4.82 (12/24)
High	7.90 (9/5)	6.37 (9/5)
<u>Week of:</u>		
August 1	7.75	5.93
8	7.57	5.80
15	7.53	5.91
22	7.61	6.02
29	7.82	6.26
September 5	7.90	6.37

^{1/} With call protection (includes some issues with 10-year call protection).

^{2/} Bond Buyer (mixed qualities).

Late this week the calendar of corporate bonds began to build up--headed by a \$150 million industrial offering. Rumors of other large offerings also arose as underwriters reported some borrowers have apparently depleted alternative sources of funds and new bank commitments were not available. In light of this changed market atmosphere, the volume of corporate bonds estimated for September has been revised upward \$200 million, to \$1.2 billion. This estimate explicitly assumes that a large proportion of the \$600 million of convertible bond offerings tentatively scheduled for September will be postponed, continuing a pattern evident since June.

CORPORATE SECURITY OFFERINGS^{1/}
Monthly or Monthly Averages
(Millions of dollars)

	Public Bond Offerings		Private Bond Offerings		Stocks		Total	
	1968	1969	1968	1969	1968	1969	1968	1969
Year	894	--	554	--	382	--	1,830	--
QI	821	886	574	513	330	674	1,726	2,073
QII	1,035	1,136	548	526	319	709	1,902	2,371
QIII	869	1,087e	454	517e	389	467e	1,711	2,071e
July	1,244	1,360e	528	500e	372	500e	2,144	2,360e
August	637	700e	400	500e	396	400e	1,433	1,600e
September	727	1,200e	433	550e	398	500e	1,556	2,050e

Memo:								
Jan.-July	973	1,016e	556	517e	331	644e	1,861	2,242e
Aug.-Sept.	682	950e	417	525e	397	450e	1,495	1,925e

e/ Estimated.

1/ Data are gross proceeds.

The estimated volume of municipal bond offerings in September has been revised downward \$100 million, to \$750 million. Postponements and cancellations of municipal bond issues accelerated sharply this week, and it now appears they will exceed our earlier implicit allowance for this factor.

STATE AND LOCAL GOVERNMENT OFFERINGS
Monthly or Monthly Averages
(Millions of dollars)

	Long-Term		Net Short-Term ^{2/}		Total	
	1968	1969	1968	1969	1968	1969
Year	1,381	--	- 38	n.a.	1,343	n.a.
QI	1,246	930	- 56	328	1,190	1,258
QII	1,285	1,208	5	394 ^e	1,290	1,602
QIII	1,537	888 ^e	- 38	n.a.	1,499	n.a.
July	1,469	1,063	523	190 ^e	1,992	1,253 ^e
August	1,699	850 ^e	204	575 ^e	1,963	1,425 ^e
September	1,444	750 ^e	-902	n.a.	542	n.a.

^{e/} Estimated.

^{1/} Data are for principal amounts of new issues.

^{2/} EXCLUDES note offerings of Housing Assistance Administration and Renewal Assistance Administration.

^{3/} Combines GROSS long-term and NET short-term issues.

KEY INTEREST RATES

	1969			
	Lows	Highs	Aug. 11	Sept. 4
<u>Short-Term Rates</u>				
Federal funds (weekly averages)	5.95 (1/1)	9.57 (9/3)	9.57 (8/6)	9.57 (9/3)
3-months				
Treasury bills (bid)	5.87 (4/30)	7.15 (8/27)	7.01	7.04
Bankers' acceptances	6.38 (2/17)	8.50 (7/9)	8.00	8.13
Euro-dollars	7.14 (1/2)	12.50 (6/10)	10.26	11.36
Federal agencies	6.03 (3/28)	7.81 (7/23)	7.58	7.54
Finance paper	6.13 (3/11)	8.25 (7/30)	8.00	7.63
CD's (prime NYC)				
Highest quoted new issue	6.00	6.00	6.00	6.00
Secondary market	6.40 (4/30)	8.70 (7/23)	8.50	8.25
6-months				
Treasury bills (bid)	5.96 (4/30)	7.38 (7/15)	7.23	7.25
Bankers' acceptances	6.50 (2/17)	8.62 (7/9)	8.12	8.25
Commercial paper	6.25 (1/7)	8.75 (7/9)	8.38	8.25
Federal agencies	6.32 (1/16)	8.14 (7/30)	7.82	7.96
CD's (prime NYC)				
Highest quoted new issue	6.25	6.25	6.25	6.25
Secondary	6.50 (1/30)	9.00 (7/23)	8.50	8.30
1-year				
Treasury bills (bid)	5.86 (1/16)	7.47 (7/1)	7.39	7.36
Prime municipals	3.90 (1/2)	5.75 (9/3)	5.30 (8/6)	5.75 (9/3)
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	6.11 (1/20)	7.26 (9/3)	7.04	7.25
20-years	5.91 (6/5)	6.46 (5/28)	6.18	6.42
Corporate				
Seasoned Aaa	6.56 (1/2)	7.10 (7/16)	6.98	7.04 (9/3)
Baa	7.26 (2/3)	7.94 (9/3)	7.83	7.94 (9/3)
New Issue Aaa				
No call protection	7.03 (1/23)	7.80 (6/18)	--	--
Call protection	6.90 (2/20)	7.90 (9/3)	7.57 (8/6)	7.90 (9/3)
Municipal				
Bond Buyer Index	4.82 (1/23)	6.37 (9/4)	5.80 (8/6)	6.37
Moody's Aaa	4.57 (1/2)	5.80 (9/4)	5.70 (8/6)	5.80
Mortgage--implicit yield				
in FNMA weekly auction <u>1/</u>	7.66 (1/6)	8.47 (7/7)	8.29	8.34 (9/2)

1/ Yield on 6-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years.

APPENDIX A: BANK LENDING PRACTICES SURVEY. AUGUST 1969*

About one-half of the respondent banks in the August 15 Bank Lending Practices Survey indicated that the demand for business loans had remained unchanged during the preceding three months, while nearly 40 per cent of the banks thought it had strengthened. Moreover, almost 65 per cent felt that the demand for business loans would remain about the same over the next three months, but about 20 per cent anticipated further strengthening.

Most banks firmed further their terms and conditions on loans to nonfinancial businesses, while no banks eased lending policies to business borrowers. Nearly 80 per cent of the respondents indicated that they had raised interest rates on loans to businesses--probably reflecting the May increase in the prime rate--and almost 70 per cent tightened policies with regard to compensating balance requirements. Moreover, two-thirds to four-fifths of the banks followed more restrictive policies when reviewing credit lines or loan applications of new or nonlocal service area customers, and scrutinized loan applications more closely with regard to such factors as the intended use of the loan or the value of the applicant as a depositor or source of collateral business. In addition, 40-50 per cent stiffened lending terms to established or local service area customers, as well as with regard to the maturity of term loans and standards of credit worthiness.

Lending terms and conditions for "noncaptive finance companies" also were tightened further. Over 60 per cent of the respondents indicated a reduced willingness to establish new or larger credit lines to finance companies, and about one-half raised interest rates on finance company loans. Moreover, about 40 per cent of the banks tightened compensating balance requirements and adopted more strict enforcement of these requirements.

Bank willingness to make other types of loans also was reduced further in the past three months. As in the preceding survey, banks were particularly unwilling to make term loans, as indicated by about 65 per cent of the banks. Mortgage loans, loans to brokers, and participation loans to correspondent banks also came under increasing pressure, with 40-50 per cent of the banks more reluctant to make these loans. Moreover, about 30 per cent of the banks were even somewhat less willing to make loans in the relatively profitable consumer installment area.

* - Prepared by Marilyn Connors, Research Assistant, Banking Section, Division of Research and Statistics.

There was little size of bank variation in the responses, with respect to either current or anticipated loan demand or to most lending terms and conditions (Table 2). However, a higher percentage of larger banks (deposits of \$1 billion or more) did firm policies regarding compensating balances than was the case with smaller banks (deposits of less than \$1 billion). But smaller banks showed a greater trend toward restraint of consumer loans than larger banks. No other responses differed significantly with respect to size of banks.

The reasons given by banks for firmer lending policies changed somewhat from those given in the last survey. Most banks that tightened lending policies continued to cite deposit outflows and the high cost of borrowing funds as major reasons for firming. However, nearly every one of these banks also indicated that their liquidity positions were extremely thin, in contrast to only a few banks that gave this as an explanation in the previous survey. Moreover, fewer banks mentioned strong loan demands than was the case in the previous survey.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
 AT SELECTED LARGE BANKS IN THE U.S. 1/
 (STATUS OF POLICY ON AUGUST 15, 1969 COMPARED TO THREE MONTHS EARLIER)
 (NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	124	100.0	7	5.6	42	33.9	64	51.6	11	8.9	0	0.0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	124	100.0	2	1.6	24	19.4	79	63.7	19	15.3	0	0.0
	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	124	100.0	40	32.3	57	46.0	27	21.7	0	0.0	0	0.0
COMPENSATING OR SUPPORTING BALANCES	123	100.0	36	29.3	48	39.0	39	31.7	0	0.0	0	0.0
STANDARDS OF CREDIT WORTHINESS	123	100.0	19	15.4	31	25.2	73	59.4	0	0.0	0	0.0
MATURITY OF TERM LOANS	123	100.0	26	21.1	26	21.1	71	57.8	0	0.0	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	124	100.0	19	15.3	45	36.3	60	48.4	0	0.0	0	0.0
NEW CUSTOMERS	124	100.0	69	55.6	32	25.8	23	18.6	0	0.0	0	0.0
LOCAL SERVICE AREA CUSTOMERS	123	100.0	16	13.0	44	35.8	63	51.2	0	0.0	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	122	100.0	53	43.4	31	25.4	38	31.2	0	0.0	0	0.0

A - 3

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF AUGUST 15, 1969.

ANSWERING QUESTION	MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY			
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT		
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	123	100.0	39	31.7	41	33.3	43	35.0	0	0.0	0	0.0
INTENDED USE OF THE LOAN	124	100.0	48	38.7	37	29.8	39	31.5	0	0.0	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	123	100.0	30	24.4	29	23.6	64	52.0	0	0.0	0	0.0
COMPENSATING OR SUPPORTING BALANCES	123	100.0	16	13.0	27	22.0	80	65.0	0	0.0	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	123	100.0	24	19.5	28	22.8	71	57.7	0	0.0	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	121	100.0	55	45.5	20	16.5	46	38.0	0	0.0	0	0.0
ANSWERING QUESTION	CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING			
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT		
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	123	100.0	35	28.5	46	37.4	42	34.1	0	0.0	0	0.0
CONSUMER INSTALMENT LOANS	123	100.0	4	3.3	31	25.2	86	69.9	2	1.6	0	0.0
SINGLE FAMILY MORTGAGE LOANS	121	100.0	25	20.7	36	29.8	59	48.7	1	0.8	0	0.0
MULTI-FAMILY MORTGAGE LOANS	120	100.0	40	33.3	30	25.0	50	41.7	0	0.0	0	0.0
ALL OTHER MORTGAGE LOANS	120	100.0	37	30.8	38	31.7	45	37.5	0	0.0	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	124	100.0	17	13.7	44	35.5	62	50.0	1	0.8	0	0.0
LOANS TO BROKERS	123	100.0	33	26.8	40	32.5	50	40.7	0	0.0	0	0.0

A - 4

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

	NUMBER ANSWERING QUESTION		SIZE OF BANK MUCH FIRMER POLICY		-- TOTAL DEPOSITS IN BILLIONS MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
	FACTORS RELATING TO APPLICANT 2/											
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	31	32	44	27	25	41	0	0	0	0
INTENDED USE OF THE LOAN	100	100	43	36	28	31	29	33	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	24	24	24	23	52	53	0	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	13	13	36	14	51	73	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	22	18	29	19	49	63	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	44	46	18	16	38	38	0	0	0	0
	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSFS	100	100	29	28	36	38	35	34	0	0	0	0
CONSUMER INSTALMENT LOANS	100	100	2	4	18	29	80	64	0	3	0	0
SINGLE FAMILY MORTGAGE LOANS	100	100	18	22	25	32	57	45	0	1	0	0
MULTI-FAMILY MORTGAGE LOANS	100	100	39	30	25	25	36	45	0	0	0	0
ALL OTHER MORTGAGE LOANS	100	100	36	28	27	34	37	38	0	0	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	22	9	28	40	50	50	0	1	0	0
LOANS TO BROKERS	100	100	26	27	39	29	35	44	0	0	0	0

A - 6

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIFR MEANS THEY WERE LESS IMPORTANT.

TABLE 2-A

NET RESPONSES OF BANKS IN LENDING PRACTICES SURVEYS
(In per cent)

	Aug. 1967	Nov. 1967	Feb. 1968	May 1968	Aug. 1968	Nov. 1968	Feb. 1969	May 1969	Aug. 1969
Strength of loan demand ^{1/} (compared to 3 months ago)	20.2	18.8	-8.0	64.8	-2.4	25.6	54.4	60.0	30.6
Anticipated demand in next 3 months	63.2	71.2	50.0	66.4	--	20.8	49.2	41.8	5.7
<u>LENDING TO NONFINANCIAL BUSINESSES^{2/}</u>									
Terms and Conditions									
Interest rates charged	21.6	30.4	34.4	93.6	0.8	-27.2	86.2	91.0	78.3
Compensating or supporting balances	20.8	25.0	16.1	56.8	4.8	10.4	64.3	75.6	68.3
Standards of credit worthiness	12.0	8.9	7.3	32.8	4.8	4.8	32.8	41.4	40.6
Maturity of term loans	5.6	12.1	1.6	32.8	1.6	1.6	30.3	42.3	42.2
Reviewing Credit Lines									
Established customers	1.6	6.4	-0.8	28.0	-5.6	-1.6	32.5	47.2	51.6
New customers	16.8	21.6	10.5	64.8	-5.6	6.4	61.7	80.2	81.4
Local service area customers	0.8	6.5	2.5	30.0	-5.6	-4.1	30.9	46.7	48.8
Non-local service area customers	16.1	18.9	11.6	56.9	10.6	15.4	49.5	71.3	68.8
Factors Relating to Applicant (Net percentage indicating more important)									
Value of depositor as source of business	25.6	20.0	19.2	54.4	12.8	16.0	58.6	67.2	65.0
Intended use of loan	10.4	14.4	12.0	44.4	8.1	6.4	54.5	71.6	68.5
<u>LENDING TO NONCAPTIVE FINANCE COMPANIES^{2/}</u>									
Terms and Conditions									
Interest rates charged	6.4	10.4	22.4	60.5	2.4	-26.4	53.3	50.8	48.0
Compensating or supporting balances	9.6	11.2	5.6	25.0	2.4	2.4	22.9	27.9	35.0
Enforcement of balance requirements	14.4	17.6	12.8	32.3	8.1	3.2	29.5	42.6	42.3
Establishing new or larger credit lines	13.7	14.4	7.2	53.2	15.3	4.8	54.9	62.4	62.0
<u>WILLINGNESS TO MAKE OTHER LOANS^{3/}</u>									
Term loans to businesses	6.4	11.2	-4.0	49.6	4.8	-0.8	48.8	64.3	65.9
Consumer instalment loans	-16.1	-16.1	-22.6	-0.8	-11.3	-15.3	4.2	17.2	26.9
Single-family mortgage loans	-8.2	4.1	-4.9	32.0	-14.1	-3.3	30.8	45.5	49.7
Multi-family mortgage loans	9.0	14.0	7.4	36.4	8.2	4.1	40.1	57.5	58.3
All other mortgage loans	9.8	14.0	--	43.4	3.4	1.7	42.5	62.0	62.5
Participation loans with correspondent banks	-6.4	-4.8	8.8	16.0	1.6	--	18.7	38.4	48.4
Loans to brokers	1.6	3.2	1.6	23.4	6.5	1.6	34.2	40.0	59.3

^{1/} Per cent of banks reporting stronger loan demand minus per cent of banks reporting weaker loan demand. Positive number indicates net stronger loan demand, negative number indicates net weaker loan demand.

^{2/} Per cent of banks reporting firmer lending policies minus per cent of banks reporting weaker lending policies. Positive number indicates net firmer lending policies, negative number indicates net easier lending policies.

^{3/} Per cent of banks reporting less willingness to make loans minus per cent of banks more willing to make loans. Positive number indicates less willingness, negative number indicates more willingness.

NOTE: 133 banks participated in the February 1967 Survey; 125 banks have participated in the surveys since that time.