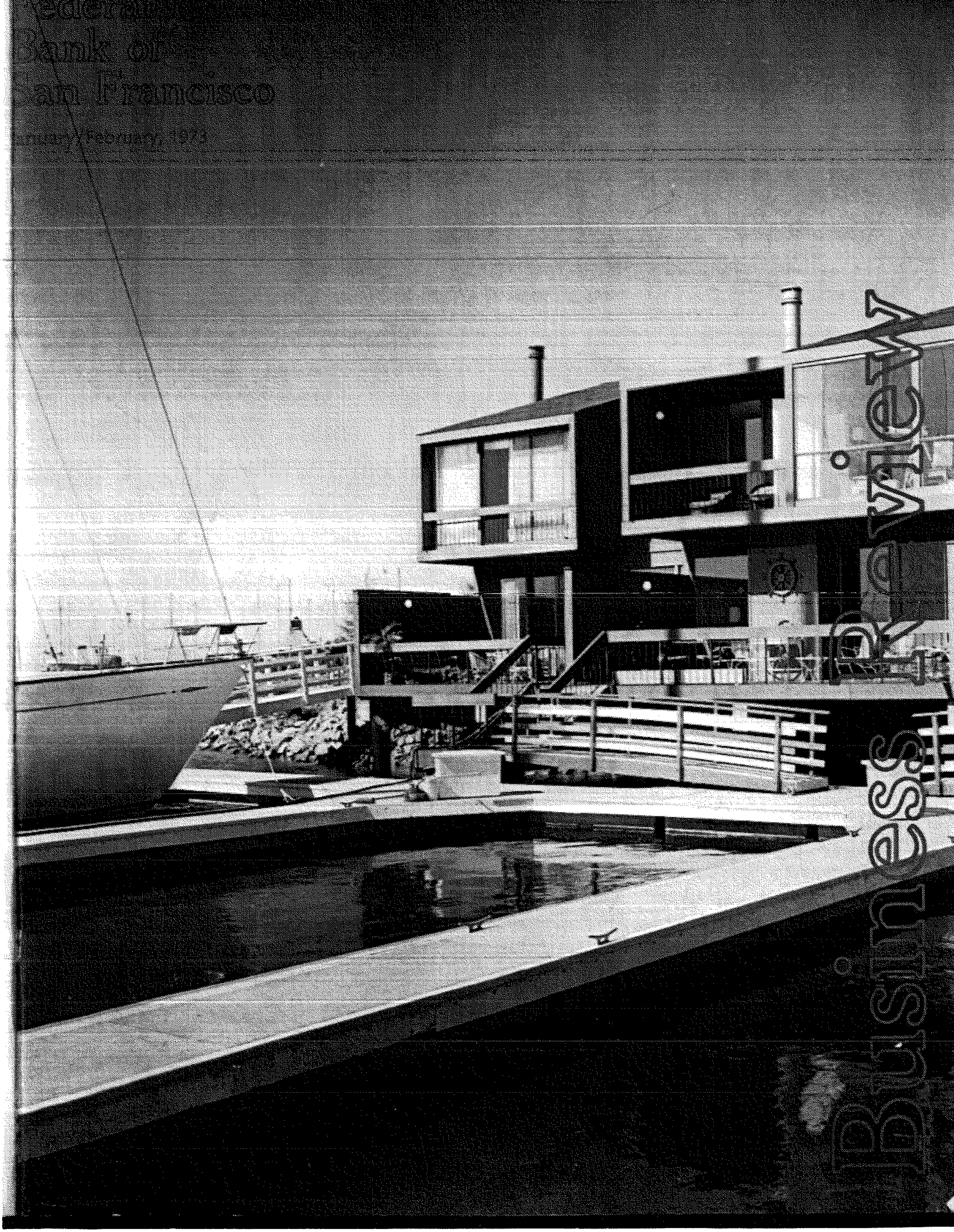
Federal Reserve
Bank of
San Francisco

January/February, 1973



Business Review

Housing: On the Way Down?

After six years of sustained albeit uneven expansion, the Western housing industry appears due for a decline this year.

Where the Money Came From

Major Western banks expanded their sources of funds strongly during 1972, and allocated those funds almost entirely to loans.

Pollution Control: Two Industries

The copper and forest-products industries face heavy costs in cleaning up the air and water pollution they cause.

Business Review is edited by William Burke, with the assistance of Karen Rusk (editorial) and Janis Wilson (graphics).
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Where the Money Came From

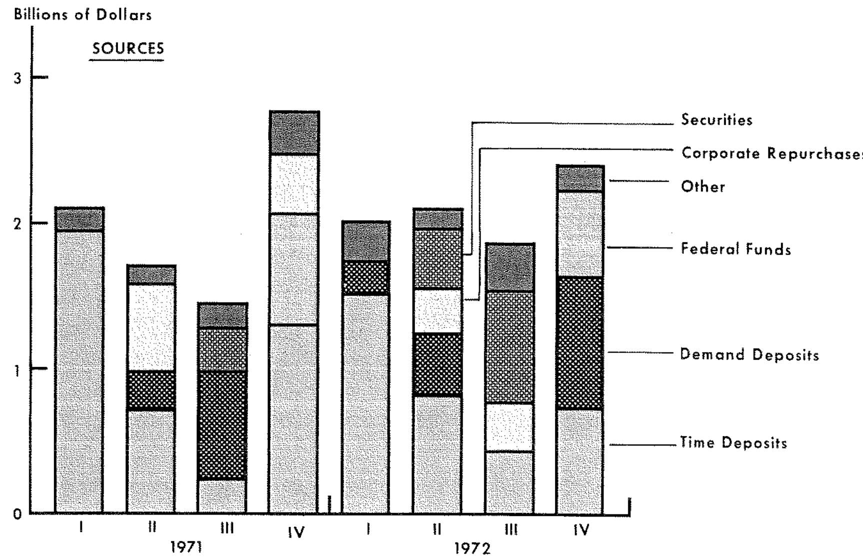
Major Twelfth District banks expanded their sources of funds by a record $8.4 billion during 1972 (daily average basis). This was the second consecutive year of record gains. Banks obtained an ample supply of funds early in the year, with the help of an accommodative monetary policy and a structure of low interest rates. Yet even after monetary policy began to firm later in the year, banks were still able to expand their supply of funds, although at higher costs and with a reduction in their security holdings.

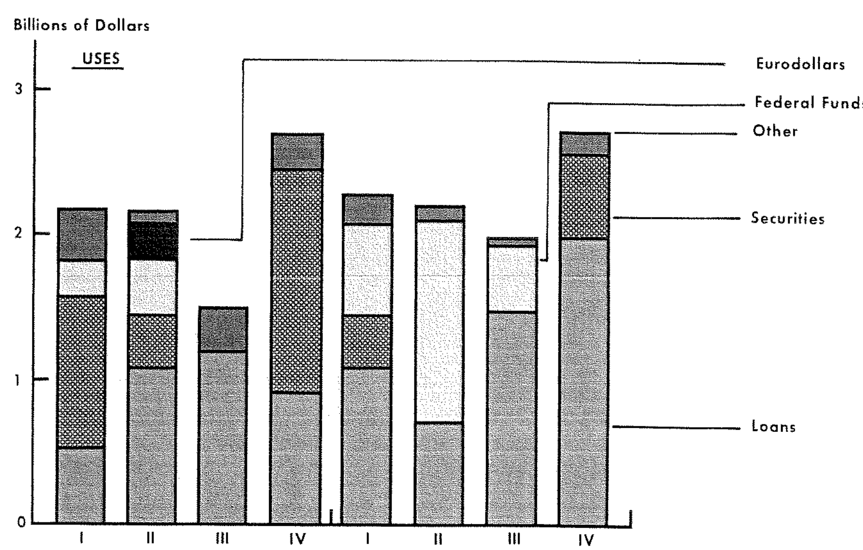
A relatively constant increase in sources of funds occurred over the course of the year, with increases of over $2 billion in every quarter except the third. In contrast, sharp fluctuations in quarterly patterns occurred in each of the three previous years. During tight-money 1969, new sources weakened substantially over the course of the year, while in the easier atmosphere of 1970 the reverse pattern prevailed. The 1971 picture was mixed, as weakness during the middle two quarters was followed by a strong surge in the final quarter of the year. (Data are not adjusted for seasonal fluctuations.)

Time deposits crucial

Time deposits were the major source of funds last year, supplying over 40 percent of the year's total expansion, while demand deposits accounted for 20 percent more of the total. Other significant sources included increases in capital accounts, reductions in security holdings, and borrowings through Federal-funds purchases and through repurchase agreements with corporations and public agencies. Banks also obtained minor amounts of funds from increased borrowings at the Federal Reserve discount window and from increased liabilities (mainly Eurodollars) to their own foreign branches.

Time deposits accounted for about 75 percent of the first-quarter increase in funds, as large inflows into passbook savings and consumer-type savings instruments offset seasonal withdrawals of public time deposits. Increases in demand deposits and capital accounts, approximately in equal amounts, also provided substantial amounts of funds. During the second quarter, time deposits supplied about 40 percent of the total, as seasonal outflows of individual savings were more than offset by larger-than-seasonal inflows of public funds





Sources of funds increase at relatively constant pace in 1972 . . . time deposits major source, and loans major use of funds

resulting from the initial withholding of California state-income taxes. Banks also obtained funds from demand deposits and security sales—each about 20 percent of the total—plus borrowings under repurchase agreements (mainly from public agencies) and further increases in capital accounts.

In the summer quarter, demand deposits and time deposits together accounted for no more than 35 percent of total sources, and banks thus were forced to turn to other sources to fill the gap. Securities—normally a use of funds—were sold off to provide 40 percent of total sources, and other funds were obtained through repurchase agreements and new bank-debt obligations.

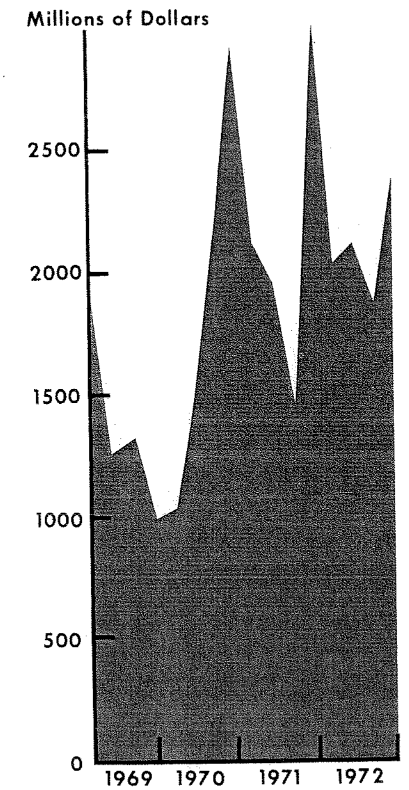
The strong $2.4-billion fourth-quarter increase reflected seasonal inflows of demand deposits, which provided 37 percent of total funds. Time deposits supplied 30 percent more, as banks experienced greater-than-seasonal inflows of public funds and meanwhile stepped up their issuance of large CD's to meet December's peak business-loan demand. Other funds came from reduced Fed-funds sales and from further increases in capital accounts.

Loans, loans, loans

Large Western banks allocated their funds almost entirely to loans during 1972. The strong and sustained demand for mortgage, business and consumer loans accounted for 69 percent of the total uses of funds, and Fed-funds sales accounted for another 16 percent.

During the relatively easy first quarter, banks channeled about 75 percent of their funds into loans and most of the rest into security purchases, and the same general pattern prevailed during the strong fourth quarter. In the two mid-quarters of the year, however, loans absorbed over 95 percent of the increase in funds, while net reductions were made in both U.S. Government and other securities. Minor uses of funds during the year included increases in reserves, borrowings from the Federal Reserve Bank and through repurchase agreements, and repayments of foreign-branch liabilities.

Ruth Wilson



Funds rise evenly in '72, in contrast to 1969-71 pattern