June 14, 1973

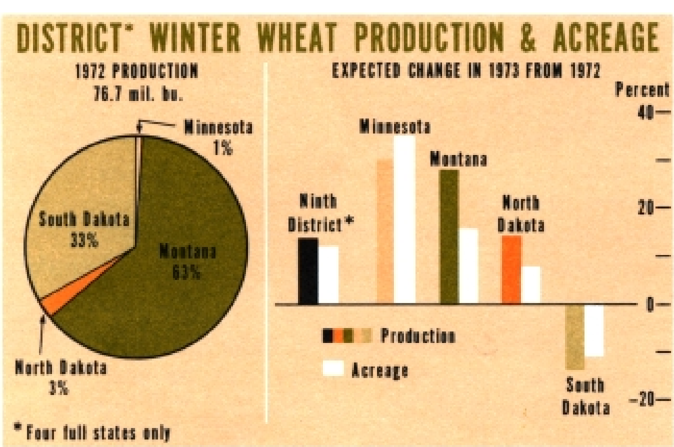
Montana
North Dakota
South Dakota
Minnesota
Northwestern Wisconsin
Upper Michigan

NINTH DISTRICT CONDITIONS
federal reserve bank of minneapolis

AGRICULTURE: Promising Crop Year

With first-half farm incomes breaking records, district agriculturalists expect income to stay high throughout the year.

The weather has been a main factor in this favorable ag outlook. While other major agricultural producing areas of the nation were plagued with late snows, heavy rains and floods, a mild and early spring in the district permitted small grain seeding to progress faster than usual. District farmers were able to complete planting with few delays. The wheat-producing areas of Montana and the Dakotas did suffer from too little moisture in mid-May, but rainfall later in the month alleviated the problem.



The first published estimate of district crop output provides a promising indicator of overall gains in small grain production. Winter wheat in the district, according to the U.S. Department of Agriculture, should be up 14 percent from last year, for a total of 87 million bushels. The most significant gain is the 28 percent increase expected in Montana, the district's most important winter wheat-producing state.

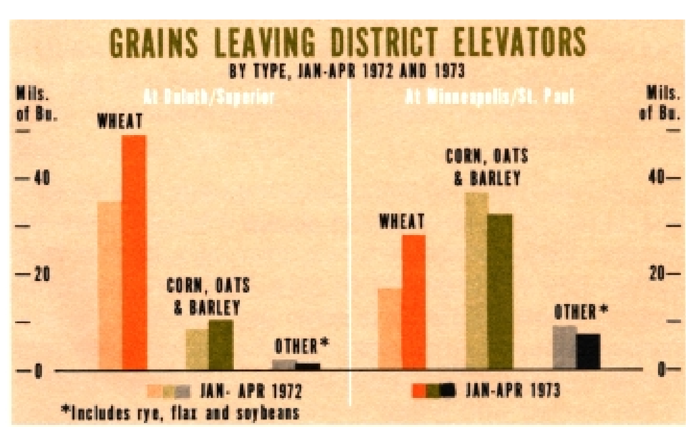
Rounding out the early estimates, total wheat production in the United States is expected to reach a record 1.7 billion bushels in 1973, 12 percent more than last year. Production of winter wheat alone will rise 8 percent to total 1.3 billion bushels.

If wheat production fulfills expectations, supplies should be sufficient to bring prices down somewhat even though carryover supplies from last year's crop are greatly reduced. The combination of production increases and still relatively high prices should also ease wheat demand both at home and abroad. Consequently, the U.S.D.A. estimates that total wheat disappearance will be down from last year's record levels.

EXPORTS: Shipping Ag Commodities

The transportation system of the Upper Midwest has managed to cope extremely well with the heavy demands placed on it since last fall. Due primarily to the sharply increased shipments out of the twin ports of Duluth/Superior and increased rail shipments from Minneapolis/St. Paul, there have been few problems moving the huge amount of agricultural exports from this area in recent weeks. Shipments by barge, however, have been severely curtailed by spring flooding on the Mississippi and its northern tributaries.

The earliest opening in the history of the St. Lawrence Seaway was a major factor in increasing shipments from Duluth/Superior. As of May 1, 23 ocean-going vessels had arrived at the twin ports, compared to only 10 last year. In the first four months of this year, a total of over 200 vessels left the ports, four and one-half times as many as in the same period in 1972. Of this total, 37 carried grain and 157 carried iron ore; the comparable figures for 1972 were 8 shiploads of grain and 35 of iron ore.



Another factor partially responsible for this spring's heavier traffic at Duluth/Superior ports was the delay in shipments of grain to the Soviet Union last fall. Due to a disagreement between the two governments over the proportions of total grain sales to be shipped in national vessels, shipping from these northern ports was postponed until November, nearly the end of the Great Lakes shipping season. The agreement, now in force, calls for one-third of the grain shipments to be made in U.S. bottoms, one-third in Soviet ships, and one-third in the vessels of other nations.

Rail shipments of grain out of Minneapolis/St. Paul have also expanded sharply this year. In the first four months of 1973, 51.4 million bushels left the metropolitan area, 44 percent more than a year earlier. This more than offset the decline of nearly 11 million bushels shipped by barge between the two years.

One major grain transporting firm reported an increase of more than one-third in the number of cars loaded with grain between January-April 1973 and the same four months in 1972. But, another major shipper noted that none of the several hundred barges they had sent from the Twin Cities had yet to reach their destination at Gulf ports. According to their estimates, river barge shipping is currently five weeks behind schedule.

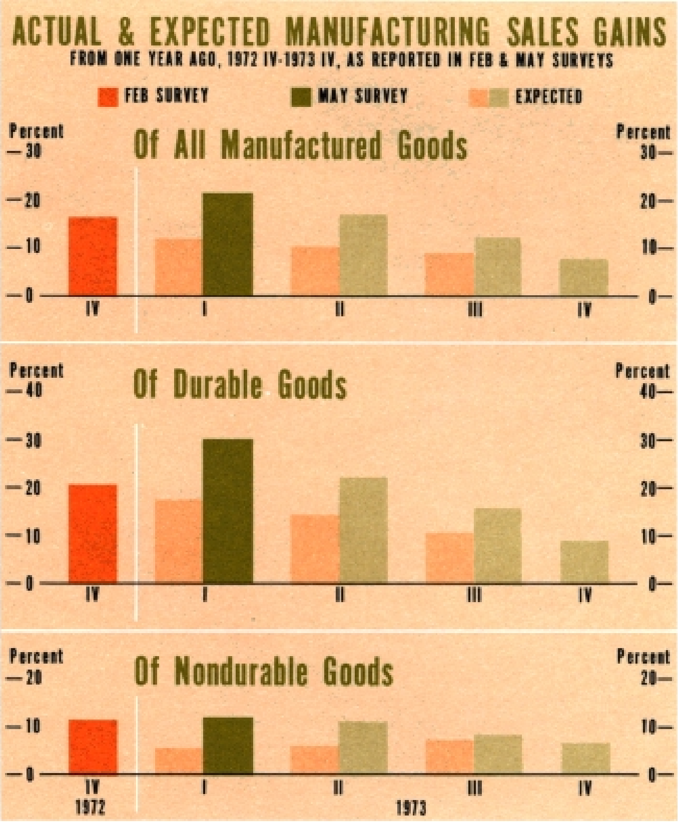
MANUFACTURING: Still at Record Pace

Our second quarter Industrial Expectations Survey shows that the district's manufacturing industries had an extremely strong first quarter and are expected to continue strong for the rest of 1973.

According to the May survey, district industrial sales in the first quarter increased a record 21.8 percent from a year ago. Survey respondents expect gains to reach 17.6 percent in the second quarter, 13.9 percent in the third quarter, and 12.8 percent in the fourth.

Sales of manufactured goods also broke records, surpassing year-earlier levels by 21.8 percent in the first quarter. They are expected to increase by 17.2 percent in the second. These gains noticeably exceeded both durable and nondurable goods manufacturers' expectations as reported in February's survey. However, since the wholesale price index for manufactured goods was up 6.3 percent in the first quarter, part of the recent rise in manufacturing sales stems from price increases.

A breakdown of manufacturing sales into durable and nondurable goods sales shows that durables increased 30.5 percent from a year ago in the first quarter and are expected to gain 22.7 percent in the second. These particularly large gains have come primarily from the nonelectric machinery and primary metals industries. Sizable advances were also reported in the lumber and wood products, fabricated metals,

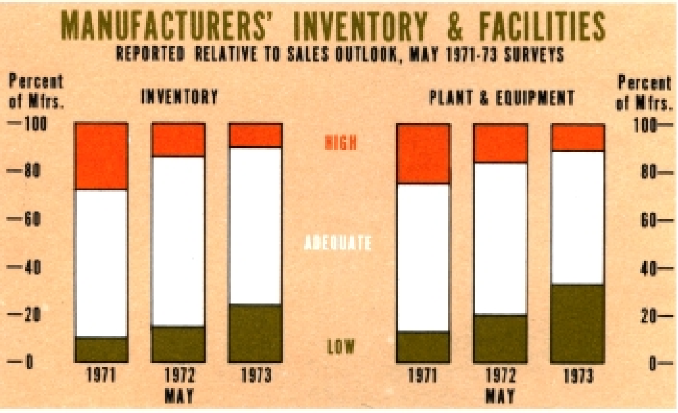


electric machinery, transportation equipment and scientific instruments industries.

Nondurable goods sales advanced 12.4 percent in the first quarter and should come in 11.3 percent higher in the second. These gains can be traced to increases in food and kindred product sales which undoubtedly reflect recent food cost increases.

Thanks to these booming sales, district manufacturing activity expanded significantly in the first quarter. The industrial use of electric power rose 5.2 percent and manufacturing employment was up 5.9 percent from a year ago. Weekly hours worked in manufacturing averaged 41.2 hours, compared to 40.4 hours one year ago, indicating that district manufacturers are using their work force very intensively.

Further evidence of the recent acceleration in district manufacturing activity can be seen in the survey respondents' attitudes toward their inventories and facilities. In general, more respondents felt that



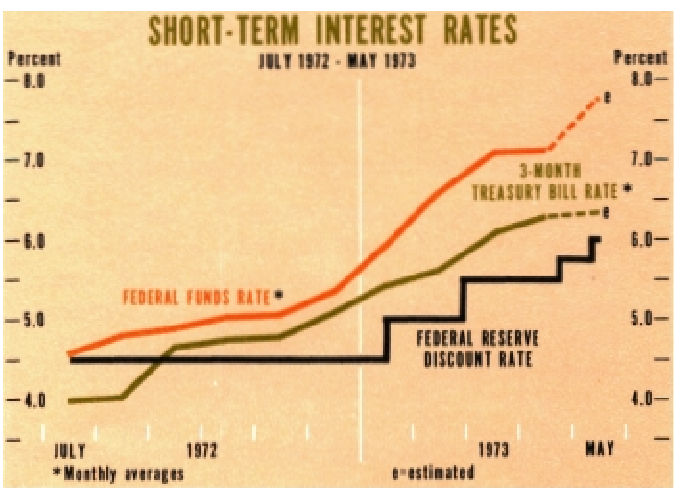
their supplies and equipment were inadequate to meet sales demand this May than last May or even the year before.

Manufacturing sales are expected to slow in the last half of the year which means that the rate of expansion in manufacturing industries will probably slow as well. Strong sales growth, though, is expected by the survey's mining respondents. Mining sales, up 22.0 percent in the first quarter, are expected to be the same in the second and third quarters and nearly double to 40.2 percent in the fourth. These gains are probably tied to price increases and may be revised in later surveys.

BANKING: Recent Changes from the Board

The Board of Governors of the Federal Reserve System initiated a number of actions in recent months intended to restrain the rapid growth of bank credit and improve the nation's financial flow mechanism.

One of these actions, a quarter point increase in the discount rate, went into effect May 11. In announcing the change from 5¾ to 6 percent, the Board stated that the increase was designed to bring the discount rate into better alignment with other short-term interest rates. The Board has changed the discount rate four times in 1973 so far.



The Board also recently modified Regulation A, which governs Federal Reserve lending to member banks, to establish a "seasonal borrowing privilege." This modification (described in detail on the back page) mainly permits smaller, rural banks to borrow funds to offset seasonal declines in deposits and accommodate seasonal expansion in loan demand.

A third action, announced May 16, is intended to help restrain the rapid expansion of bank credit. Prior to this, total commercial bank credit (loans and investments) nationally rose at a seasonally adjusted annual rate of 20 percent in the first quarter. To slow credit expansion somewhat, the Board:

- increased from 5 to 8 percent the reserve requirements on large denomination certificates of deposit ($100,000 or more) and commercial paper funds in excess of the amounts outstanding on the base date—the week ended May 16. Amounts outstanding on the base date continue at a 5 percent reserve requirement. Banks with less than $10 million in these two types of funds combined are not subject to marginal reserve requirements.

- reduced from 20 to 8 percent the reserve requirement on certain foreign borrowings of U.S. member banks, primarily Eurodollars. The reserve-free base still held by some banks will be gradually eliminated. This change makes Eurodollars, large CDs and bank related commercial paper more interchangeable.

- proposed a 5 percent reserve requirement on funds raised by member banks through sales of finance bills, also known as ineligible acceptances or working capital acceptances. Under this proposal, finance bills would also be part of the total obligations subject to the 8 percent reserve requirement. Traditional bankers' acceptances, those that apply to specific transactions such as foreign trade and shipment and storage of domestic goods, are not subject to reserve requirements under the current proposal.

- suspended ceilings on interest rates commercial banks may pay on large-denomination CDs that mature in 90 days or longer. Because market interest rates have been above the interest rate ceiling in the longer maturity ranges, recent CD sales have been squeezed into the 30- to 89-day maturity range where maximum rates have been suspended since mid-1970. This change will permit banks to maintain a balanced structure of deposits. Interest rate ceilings on other deposits, including passbook savings and consumer-type CDs (under $100,000), remain unchanged.

What Do These Actions Mean?

On a national basis, the cost of funds available for lending is likely to rise. The suspension of maximum rates on large CDs may lead banks to bid for longer maturity funds to meet buoyant loan demand. The higher direct cost of these funds added to the indirect costs stemming from higher marginal reserve requirements are likely to result in higher interest rate charges to large business loan customers. Policymakers hope that small businessmen and consumers will be spared these higher rates.

In the district, only a few banks will be affected by the suspension of maximum interest rates on large CDs and the imposition of higher marginal reserve requirements. Probably no more than two dozen member banks have more than $10 million in large CDs or commercial paper. Not surprisingly, these are mostly large city banks with total deposits in the $100 million range.

NINTH DISTRICT income and finance

INDICATOR		UNIT	1973 MAY	1973 APR.	1973 MAR.	1972 APR.	Percent Change APR.-APR.
MEASURES OF CONSUMER INCOME & FINANCIAL POSITION	Total Personal Income*						
	Nonagricultural Personal Income*						
	Average Weekly Earnings in Manufacturing[1]	Dollars	n.a.	168.02e	167.10p	160.14	+ 4.9
	Consumer Installment Credit Outstanding[2]	Million $	n.a.	1,874	1,847	1,530	+22.5
	Time and Savings Deposits at Member Banks	Million $	7,964	7,921	7,885	6,672	+18.7
	Savings Balances at Savings & Loan Assoc.[3]	Million $	n.a.	n.a.	5,401	4,691	
	Cash Farm Receipts[3]	Million $	n.a.	396	468	312	+26.9
MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS	CITY BANKS[4,5]						
	Adjusted Loans and Discounts[6]	Million $	3,755	3,673	3,654	2,897	+26.8
	Commercial and Industrial Loans	Million $	1,703	1,721	1,670	1,305	+31.9
	Real Estate Loans	Million $	647	642	628	533	+20.4
	Gross Demand Deposits	Million $	2,124	2,098	2,023	2,069	+ 1.4
	Time Deposits	Million $	2,295	2,289	2,289	1,808	+26.6
	U.S. Government Securities	Million $	400	414	438	426	- 2.8
	Other Securities	Million $	857	825	866	656	+25.8
	COUNTRY BANKS[4,7]						
	Loans and Discounts	Million $	5,494	5,345	5,288	4,480	+19.3
	Gross Demand Deposits	Million $	2,784	2,710	2,688	2,399	+13.0
	Time Deposits	Million $	5,668	5,632	5,591	4,864	+15.8
	U.S. Government Securities	Million $	1,071	1,127	1,153	1,186	- 5.0
	Other Securities	Million $	1,776	1,759	1,743	1,525	+15.3
MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS	Total Reserves[8]	Million $	731	727	720	790	- 8.0
	Required Reserves	Million $	727	723	717	784	- 7.8
	Excess Reserves	Million $	4	4	3	6	-33.3
	Borrowings from FRB	Million $	17	32	61	0	+3,100.0
	Ratio of Loans to Total Deposits—City Banks[4]	Percent	85.8	84.6	85.3	76.2	+11.0
	Ratio of Loans to Total Deposits—Country Banks[4]	Percent	65.0	64.1	63.9	61.7	+ 3.9
MEASURES OF PRICE LEVELS	Consumer Price Index—Minneapolis[9,10]	Index	n.a.	130.8	n.a.	124.2	+ 5.3
	Prices Received by Farmers—Minnesota[9]	Index	n.a.	162	166	117	+38.5

NOTES

e—Partially estimated; all data not available

n.a.—Not available

p—Preliminary; subject to revision

r—Revised

sa—Seasonally adjusted

*—District and U.S. data not comparable

saar—Seasonally adjusted annual rate

FOOTNOTES

1. Excluding Northwestern Wisconsin
2. All commercial banks; estimated by sample
3. Excluding Northwestern Wisconsin and Upper Michigan
4. Last Wednesday of the month figures
5. Selected banks in major cities
6. Net loans and discounts less loans to domestic commercial city banks
7. All member banks, excluding the selected major city banks
8. Average of daily figures of the four or five weeks ending on Wednesday which contain at least four days falling within the month
9. Index: 1967 Base Period
10. Quarterly

UNITED STATES income and finance

Percent Change APR.-APR.	1973 MAY	1973 APR.	1973 MAR.	1972 APR.	UNIT	INDICATOR	
+ 9.7	n.a.	1,008.9p	1,001.3	919.4	Billion $, saar	Total Personal Income	MEASURES OF CONSUMER INCOME & FINANCIAL POSITION
+ 9.6	n.a.	979.1p	971.1	893.4	Billion $, saar	Nonagricultural Personal Income	
+ 7.4	164.02p	163.61	162.38	152.28	Dollars	Average Weekly Earnings in Manufacturing	
+18.8	n.a.	62.5	61.4	52.6	Billion $	Consumer Installment Credit Outstanding[2]	
+18.1	n.a.	260.8	258.5	220.8	Billion $	Time and Savings Deposits at Member Banks	
+16.3	n.a.	217.1	216.2	186.6	Billion $	Savings Balances at Savings & Loan Assoc.	
+25.7	n.a.	4.4	5.0	3.5	Billion $	Cash Farm Receipts	
						CITY BANKS[4,5]	MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS
+22.8	n.a.	242.0	238.3	197.0	Billion $	Adjusted Loans and Discounts[6]	
+20.0	n.a.	101.9	99.9	84.9	Billion $	Commercial and Industrial Loans	
+19.1	n.a.	48.1	47.5	40.4	Billion $	Real Estate Loans	
+ 3.1	n.a.	151.3	149.4	146.8	Billion $	Gross Demand Deposits	
+20.0	n.a.	176.1	174.3	146.7	Billion $	Time Deposits	
- 7.8	n.a.	24.7	25.4	26.8	Billion $	U.S. Government Securities	
+ 2.2	n.a.	55.0	55.3	53.8	Billion $	Other Securities	
						COUNTRY BANKS[4,7]	
+18.4	n.a.	88.8	87.6	75.0	Billion $	Loans and Discounts	
+10.2	n.a.	56.3	55.0	51.1	Billion $	Gross Demand Deposits	
+14.3	n.a.	84.7	84.2	74.1	Billion $	Time Deposits	
- 0.6	n.a.	17.8	17.9	17.9	Billion $	U.S. Government Securities	
+11.3	n.a.	32.4	31.9	29.1	Billion $	Other Securities	
- 0.8	n.a.	32,350	31,811	32,604	Million $	Total Reserves[8]	MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS
- 1.1	n.a.	32,095	31,635	32,437	Million $	Required Reserves	
+52.7	n.a.	255	176	167	Million $	Excess Reserves	
+1,317.6	n.a.	1,678	1,833	119	Million $	Borrowings from FRB	
+11.6	n.a.	78.8	78.2	70.6	Percent	Ratio of Loans to Total Deposits—City Banks[4]	
+ 5.2	n.a.	63.0	62.9	59.9	Percent	Ratio of Loans to Total Deposits—Country Banks[4]	
+ 5.1	n.a.	130.7	129.8	124.3	Index	Consumer Price Index[9]	MEASURES OF PRICE LEVELS
+30.8	163	157	159	120	Index	Prices Received by Farmers[9]	

SOURCES

PERSONAL INCOME: U.S. Department of Commerce, Office of Business Economics

AVERAGE WEEKLY EARNINGS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

COMMERCIAL BANK FINANCIAL DATA: Federal Reserve Bank of Minneapolis; Board of Governors of Federal Reserve System

SAVINGS AND LOAN ASSOCIATIONS: Federal Home Loan Bank Board

CASH RECEIPTS FROM FARM MARKETINGS: U.S. Department of Agriculture

CONSUMER PRICE INDEX: U.S. Department of Labor, Bureau of Labor Statistics

PRICES RECEIVED BY FARMERS: U.S. Department of Agriculture; Minnesota Farm Price Report

NINTH DISTRICT production and employment

INDICATOR		UNIT	1973 APR.	1973 MAR.	1972 APR.	Percent Change APR.-APR.
MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION	Total Industrial Production*					
	Electrical Energy Consumption: Mfg. and Mining[1]	Index, sa	141	142	136	+ 3.7
	Production Worker Manhours:[1]	Index, sa	106p	105	99	+ 7.1
	Manufacturing	Index, sa	108p	107	100	+ 8.0
	Mining	Index, sa	94p	94	90	+ 4.4
	Total Construction Contracts Awarded	Million $, sa	n.a.	224.1	181.5	
	Residential Buildings	Million $, sa	n.a.	143.4	69.7	
	Nonresidential Buildings	Million $, sa	n.a.	48.2	39.5	
	All Other Construction	Million $, sa	n.a.	32.5	72.3	
	Bldg. Permits: New Housing Units[2]	Number	3,426	2,856	3,745	- 8.5
MEASURES OF MANPOWER UTILIZATION	Civilian Work Force[3]	Thousands, sa	2,691e	2,727p	2,629	+ 2.4
	Total Civilian Employment	Thousands, sa	2,560e	2,593p	2,474	+ 3.5
	Number Unemployed	Thousands, sa	131e	134p	155	-15.5
	Unemployment Rate[3]	Percent, sa	4.8e	4.9p	5.9	-18.6
	Average Weekly Hours in Manufacturing[3]	Hours, sa	41.2e	41.1p	41.0	+ 0.5
EMPLOYMENT BY INDUSTRY SECTOR	Wage and Salary Employment, Nonfarm[3]	Thousands, sa	2,088p	2,090	1,996	+ 4.6
	Manufacturing	Thousands, sa	395p	392	372	+ 6.2
	Mining	Thousands, sa	31p	31	29	+ 6.9
	Construction	Thousands, sa	101p	103	99	+ 2.0
	Transport., Comm., & Public Utilities	Thousands, sa	134p	134	132	+ 1.5
	Trade	Thousands, sa	513p	515	486	+ 5.6
	Finance, Insurance & Real Estate	Thousands, sa	96p	96	93	+ 3.2
	Service Industries	Thousands, sa	370p	371	349	+ 6.0
	Government	Thousands, sa	448p	448	436	+ 2.8
MEASURES OF SPENDING	Total Retail Sales*					
	New Passenger Car Registrations	Thousands, sa	n.a.	n.a.	n.a.	
	Bank Debits[4]	Billion $, saar	254.4	262.8	209.8	+21.3

NOTES

e—Partially estimated; all data not available

n.a.—Not available

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r—Revised

sa—Seasonally adjusted

*—District and U.S. data not comparable

saar—Seasonally adjusted annual rate

FOOTNOTES

1. Index: 1967 Base Period; Weights: 1967
2. A sample of permit-issuing centers
3. Excluding Northwestern Wisconsin
4. Six standard metropolitan statistical areas
5. A sample of centers blown up to represent total permits issued
6. 226 standard metropolitan statistical areas, excluding the seven leading centers

UNITED STATES production and employment

Percent Change APR.-APR.	1973 APR.	1973 MAR.	1972 APR.	UNIT	INDICATOR	
+ 9.0	123.0p	121.8	112.8	Index, sa	Total Industrial Production	MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION
					Electrical Energy Consumption: Mfg. and Mining*	
	n.a.	101p	96	Index, sa	Production Worker Manhours:[1]	
	n.a.	101p	96	Index, sa	Manufacturing	
	n.a.	93p	96	Index, sa	Mining	
+ 7.6	7,951.3	8,405.3	7,391.1	Million $, sa	Total Construction Contracts Awarded	
+13.9	3,975.3	4,516.5	3,489.0	Million $, sa	Residential Buildings	
+19.4	2,567.2	2,682.8	2,149.3	Million $, sa	Nonresidential Buildings	
-19.6	1,408.8	1,206.0	1,752.8	Million $, sa	All Other Construction	
	n.a.	n.a.	184.2	Thousands	Bldg. Permits: New Housing Units[5]	
+ 2.5	88,350p	88,268	86,184	Thousands, sa	Civilian Work Force	MEASURES OF MANPOWER UTILIZATION
+ 3.3	83,917p	83,889	81,209	Thousands, sa	Total Civilian Employment	
-10.9	4,433p	4,379	4,975	Thousands, sa	Number Unemployed	
-13.8	5.0p	5.0	5.8	Percent, sa	Unemployment Rate	
+ 0.5	41.0p	40.9	40.8	Hours, sa	Average Weekly Hours in Manufacturing	
+ 3.9	75,042p	74,933	72,246	Thousands, sa	Wage and Salary Employment, Nonfarm	EMPLOYMENT BY INDUSTRY SECTOR
+ 5.1	19,740p	19,627	18,790	Thousands, sa	Manufacturing	
- 0.3	603p	611	605	Thousands, sa	Mining	
+ 1.6	3,550p	3,609	3,493	Thousands, sa	Construction	
+ 2.5	4,591p	4,589	4,481	Thousands, sa	Transport., Comm., & Public Utilities	
+ 4.0	16,188p	16,215	15,561	Thousands, sa	Trade	
+ 3.6	4,031p	4,024	3,892	Thousands, sa	Finance, Insurance & Real Estate	
+ 4.3	12,726p	12,695	12,206	Thousands, sa	Service Industries	
+ 3.0	13,613p	13,563	13,218	Thousands, sa	Government	
+13.8	41.3	41.9	36.3	Million $, sa	Total Retail Sales	MEASURES OF SPENDING
	n.a.	894.1	753.2	Thousands, sa	New Passenger Car Registrations	
+20.5	5,199.1	5,233.4	4,313.0	Billion $, saar	Bank Debits[6]	

SOURCES

INDUSTRIAL PRODUCTION: Board of Governors of Federal Reserve System

ELECTRICAL ENERGY CONSUMPTION: Federal Reserve Bank of Minneapolis

PRODUCTION WORKER MANHOURS: Federal Reserve Bank of Minneapolis

CONSTRUCTION CONTRACTS AWARDED: Board of Governors of Federal Reserve System; F. W. Dodge Corporation

NEW HOUSING UNITS AUTHORIZED: Federal Reserve Bank of Minneapolis; U.S. Department of Commerce, Bureau of Census

EMPLOYMENT, UNEMPLOYMENT, AND HOURS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

RETAIL SALES: U.S. Department of Commerce, Bureau of Census

NEW PASSENGER CAR REGISTRATIONS: Automotive News Magazine

BANK DEBITS: Board of Governors of Federal Reserve System

SEASONAL BORROWING PRIVILEGE

The Board of Governors of the Federal Reserve System recently modified Regulation A—the rules pertaining to Federal Reserve lending operations—by establishing a "seasonal borrowing privilege" for eligible member banks. This revision changes the handling of seasonal credit by Reserve Banks without changing the overall objectives of the regulation. Its ultimate goal is to provide reasonably assured credit access to banks with relatively large seasonal needs for funds and thereby assist banks to better meet the credit needs of the communities they serve.

Banks experience a seasonal need for funds when they are subject to recurring cycles of deposit outflows or loan demand expansion or a combination of the two. Seasonal fund shortages tend to be greatest in smaller communities where the economic base is dominated by a single seasonal industry such as agriculture or tourism.

Unlike larger city banks that are usually able to meet seasonal needs by borrowing in the national money markets, small and medium-size banks have only limited access to outside funds. While they do not use national money market instruments such as negotiable certificates of deposit and federal funds purchases, small and medium-size banks can get some funds through the correspondent banking system.

They most generally accommodate seasonal deposit and loan fluctuations by acquiring short-term assets during periods when seasonal pressures are low (deposits are high and loan demand low) and disposing of them as seasonal needs expand. U.S. Treasury bills have long been favored for this role because they mature frequently enough to mesh with a bank's seasonal fund needs. Treasury bills also provide a relatively low risk of capital loss if unexpected needs arise and securities must be sold before maturity.

These asset management techniques, however, do not fully accommodate a small community's credit needs. In the first place, the supply of bank funds available for accommodating intermediate- and long-term loans is limited when a bank sets funds aside for seasonal needs: the larger the allocation for seasonal needs, the smaller the allocation for longer-term loans such as business, mortgage, and consumer installment loans. In the second place, the volume of seasonal loan demand that small and medium-size banks can accommodate is limited by the amount of funds available for lending. Bank size, various regulatory provisions, and the liquidity policies of individual bank managers determine the amount of funds available.

Because of these limitations, the Board has decided to extend a "seasonal borrowing privilege" to small and medium-size member banks. Eligibility for this privilege rests on four considerations:

- The bank must lack reasonably reliable access to national money markets.
- It must demonstrate a seasonal need for funds arising from a combination of expected patterns of movement in deposits and loans.
- This pattern must persist for at least eight consecutive weeks.
- Fed credit under this arrangement will ordinarily be limited to the amount by which the bank's seasonal need exceeds 5 percent of its average deposits in the preceding calendar year.

The calculation of the expected amount and duration of a seasonal need for funds in most cases is based on the bank's past record of month-to-month changes in loans and deposits. The seasonal need is directly associated with the dip in available funds (deposits minus loans) to the extent that the dip occurs at about the same time each year. Normally five or six years of data is sufficient to determine a seasonal pattern. However, if the seasonal pattern has recently shifted, some of the older data may appropriately be eliminated.

Quite possibly, recorded loans and deposits may not reveal true seasonal patterns unless certain adjustments are made. Inclusion of investment-type assets such as federal funds sales, commercial paper and loan participations, for example, would tend to obscure the seasonal loan pattern. Adjustments may also be needed for items excluded from recorded loans such as seasonal loans to political subdivisions and participations in local loans purchased by other banks.

Banks planning to take advantage of the "seasonal borrowing privilege" should, to the extent possible, arrange for such credit with the Fed in advance of their actual needs. By law a Federal Reserve loan commitment cannot exceed 90 days. For longer seasonal needs, the Federal Reserve will under ordinary circumstances be prepared to renew the loan under the seasonal borrowing arrangement.

The modification of Regulation A could affect many banks. Based on historical lending and deposit patterns, more than one-third of all member banks in the nation appear to have substantial seasonal calls for credit in their communities. In the Ninth District the proportion appears to be higher, partly due to the relative strength of agriculture in the district's economy.

The Federal Reserve System's expanded emphasis on seasonal borrowing does not reflect a change in monetary policy, nor does it signal a de-emphasis of other, previously established criteria for member bank borrowing. An increase in bank borrowing stemming from use of the "seasonal borrowing privilege" would be countered by open market operations to the extent necessary to meet monetary policy operating objectives. Federal Reserve Banks will continue to provide credit to help member banks adjust to temporary requirements for funds and to cushion more persistent outflows pending an orderly adjustment of assets and liabilities.

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