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CHAPTER 5

The Main Sectors of the Capital Market During the Postwar Period

WITH the limited resources at our disposal, it was obviously impossible to investigate and to discuss the main segments of the American capital market in a way that would bring out all significant changes that occurred during the postwar period in the size of each of these markets; in the supply of and the demand for funds by the different economic sectors and, in particular, by the main groups of financial institutions; in the characteristics of capital market instruments and the methods of issuing them and trading in them; in absolute and relative interest or yield rates; and in the competitive relationships to other sectors of the capital market.

However, with the help of the basic statistics of flows of funds and related stocks that underlie this entire study, it is relatively easy to draw up a table for each of the main capital market instruments, showing averages of net flows for the three postwar cycles as well as an average annual net flow for the entire period from 1946 through 1958 for each of the seven main economic sectors and the thirteen subsectors of the financial sector.

These figures permit a comparison of the activity in each sector of the capital market during the three postwar cycles and of the position of the main sectors as suppliers of funds to, or as recipients of funds from, the market. An attempt is then made to explain the trends in the size and the structure of the market shown by these figures by institutional changes during the postwar periods. These explanations have been kept to fairly obvious connections except in cases where they could be based on specialized studies that form part of the Postwar Capital Market Study—home mortgages, corporate bonds and loans, and state and local government securities—or on substantial analytical work that has been done by others, such as for the market for Treasury securities.

The statistical tables unfortunately could not be extended to cover in a similar fashion the 1930's, 1920's, and the period before World War I. The preparation of data comparable to those available for the postwar period would have been too time-consuming and in many cases unfeasible. However, the data presented, although not comparable in all details, usually permit a comparison of the orders of magnitude of the structural changes in the main segments of the capital market between the postwar period as a whole, on one side, and the 1920's and the period 1900–12, on the other; the 1930's and the years of World Wars I and II are omitted because they are dominated by special factors not regarded as relevant to the American capital market of the midtwentieth century.

It bears repeating that the very brief discussion of the different capital markets presented in the following chapters is not a substitute for specialized monographs and thorough analysis; it is intended only as a first orientation and a suggestion for a more intensive study of the statistical record and of the historical, institutional, and analytical literature.

The same pattern will be followed in the discussion of each of the five main sectors of the capital market. After a brief characterization of the organization of the market and of changes in it during the postwar period, we shall discuss changes from one cycle average to the next during the postwar period and then review long-term trends since the turn of the century. No specific discussion is offered of seasonal movements since the quarterly figures in the Federal Reserve Board's flow-of-funds statistics, which are necessary for this purpose, are available only back to 1952, and since it proved impossible with the resources available to subject the quarterly figures to seasonal analysis.

The discussion will be based on tables in standard form giving information on the volume of the capital market instrument outstanding, on rates of changes in volume outstanding over each of the three postwar cycles and over longer periods, on the distribution of amounts outstanding among the main holder groups, on the importance of the instrument in the portfolio of the main holder groups (i.e., in the share of the instrument holders' total assets and in uses of funds by them), and on average interest rates for cycles and longer periods of time. The discussion will necessarily have to be highly condensed. Annual figures for all the series in the standard tables (excluding those of interest rates) and for many breakdowns by type of asset and, for financial enterprises, by subsector will be found for the postwar period in Volume II of *Studies in the National Balance Sheet of the United States.* For the prewar period, similar data can be found, although not always in exactly comparable form, in Appendix A of *Financial Intermediaries in the American Economy since 1900,* and in Volume I of *A Study of Saving in the United States.*

The five capital market instruments studied in Chapters 6 to 10—U.S. government securities, state and local government securities, residential mortgages, corporate bonds, and corporate stock—have been selected for the following reasons: they are of large absolute size; each of them accounts for a substantial fraction of total financial assets; they are fairly standardized in their legal form and the methods of issuance, trading, and redemption; and, together with short-term loans to business and consumers, they are crucial in the expansion and contraction of credit in the economy and in the formation of interest rates.

Table 43 and Chart 9 provide a bird's-eye view of the absolute size of these five capital market instruments and of their importance among all main instruments at the beginning of the postwar period and in 1958 when our statistical records terminate. For the postwar period, the five selected instruments accounted for 60 per cent of the net flow of funds of the ten main instruments, whereas their share in the total stock was about 90 per cent in 1945 and more than 80 per cent in 1958. The main reason for this discrepancy is that common stock, included among the five instruments, increased very sharply in value as a result not primarily of net sales of stock but of the sharp rise in stock prices, and that Treasury securities, although accounting for one-half of the total stock of the ten main instruments in 1945 and still more than one-fifth in 1958, showed virtually no net increase. The discrepancy is particularly pronounced for Cycle I. The five instruments accounted only for little more than two-fifths of the net flow of the ten main instruments, although their share in the stock was higher than four-fifths. In Cycles II and III they accounted for

TABLE 43

STRUCTURAL CHANGES IN MAIN CAPITAL MARKET INSTRUMENTS DURING THE POSTWAR PERIOD

	Outstandings (billion dollars)		Aggregate Net Flows, 1946-58		NET FLOWS (ANNUAL AVERAGES) Amounts (billion dollars)			Distribution (per cent)		
	1945 (1)	1958 (2)	Billion Dollars (3)	Per Cent (4)	Cycle I 1946-49 (5)	Cycle II 1949-54 (6)	Cycle III 1954-58 (7)	Cycle I 1946-49 (8)	Cycle II 1949-54 (9)	Cycle III 1954-58 (10)
1. U.S. Treasury securities[a]	275.7	274.3	-1.4	-0.3	-4.8	3.7	0	-26	11	0
2. State and local govt. securities	21.2	61.1	39.9	9.3	1.6	3.1	4.2	9	9	10
3. Nonfarm residential mortgages	23.3	133.0	109.8	25.5	5.5	8.0	11.2	30	23	26
4. Corporate bonds	27.5	88.8	61.3	14.2	3.6	4.2	6.5	19	12	15
5. Corporate stocks	146.6	465.4	41.2	9.6	2.0	2.9	4.2	11	8	10
6. Five selected instruments	494.3	1,022.6	250.8	58.3	7.9	21.9	26.1	43	63	60
7. Nonfarm nonresidential mortgages	7.5	27.6	20.1	4.7	1.2	1.1	2.2	6	3	5
8. Farm mortgages	4.8	11.3	6.5	1.5	0.2	0.5	0.7	1	1	2
9. Bank loans	13.3	53.8	40.5	9.4	2.8	2.6	3.9	15	8	9
10. Consumer loans	5.7	46.1	40.4	9.4	3.0	3.2	3.4	16	9	8
11. Trade credit	28.1	100.4	72.2	16.8	3.5	5.2	7.5	19	15	17
12. Total	553.7	1,261.8	430.5	100.0	18.6	34.5	43.8	100	100	100

Source: National Balance Sheet, Vol. II.
Cols. 1-2, line 1: Table IV-b-13.
Cols. 1-2, line 2: Table IV-b-14.
Cols. 1-2, line 3: Table IV-b-11a.
Cols. 1-2, line 4: Table IV-b-15.
Cols. 1-2, line 5: Tables IV-b-16 and IV-b-17.
Cols. 1-2, line 6: Sums of lines 1 through 5.
Cols. 1-2, line 7: Table IV-b-11b.
Cols. 1-2, line 8: Table IV-b-12.
Cols. 1-2, line 9: Table IV-b-9.
Cols. 1-2, line 10: Table IV-b-6.
Cols. 1-2, line 11: Table IV-b-7.
Cols. 1-2, line 12: Sums of lines 6 through 11.
Cols. 3-10: Tables VIII corresponding to the above.

[a] Domestic holdings only.

Note: Components may not add to totals because of rounding here and elsewhere in this chapter.

CHART 9

NET FLOW THROUGH MAIN CAPITAL MARKET INSTRUMENTS, 1946–58

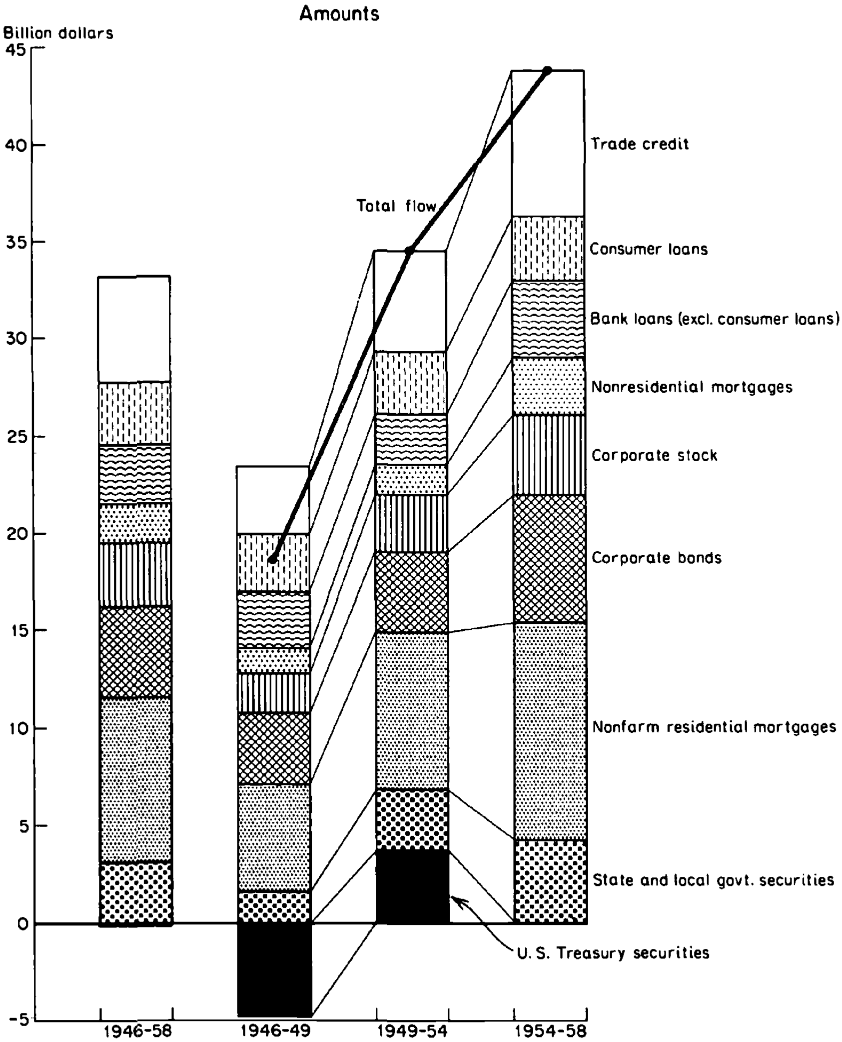
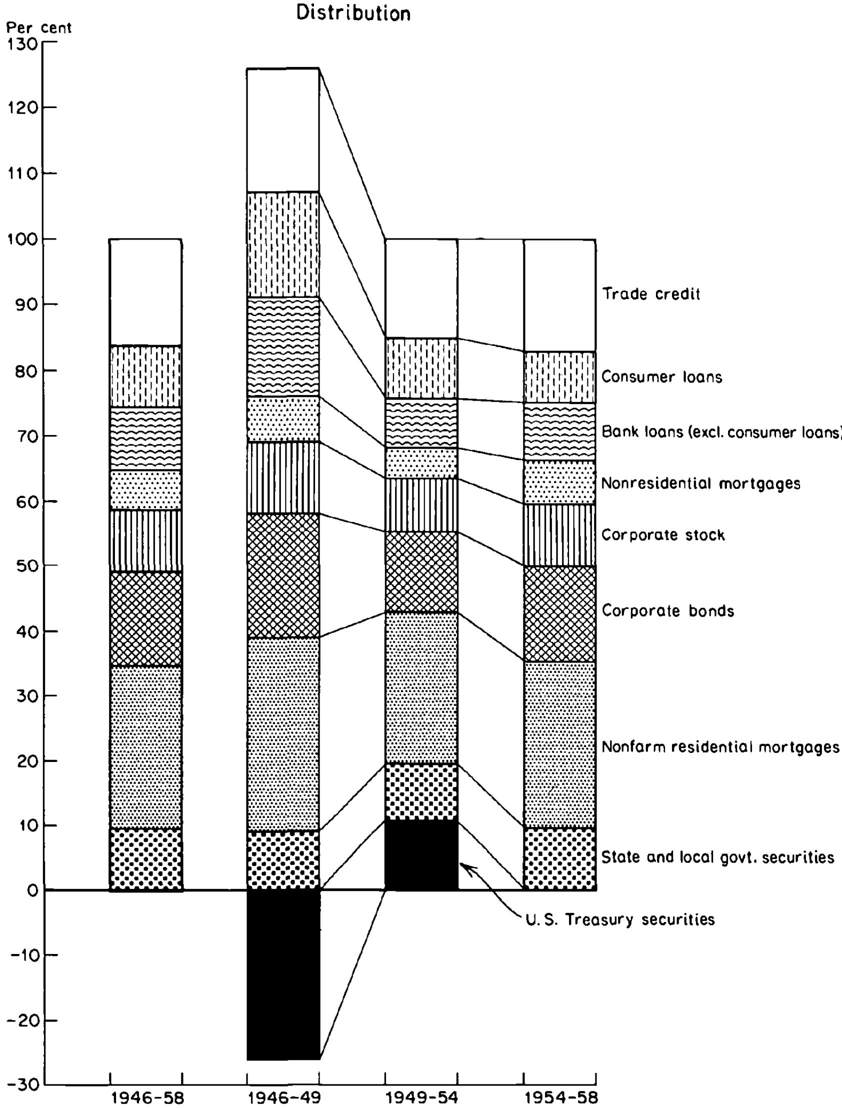


CHART 9 (CONCLUDED)
Distribution



Source: Table 43. Annual averages.

more than three-fifths of total net flows, but their share in the stock was still much higher. Cycle I also differs from Cycles II and III in the distribution of the aggregate flow among individual instruments, particularly in the considerable reductions in volume of Treasury securities, and the high share of bank loans to business and of consumer credit.

In historical perspective, the share of the five instruments during the postwar period was high, as will be seen in Table 44 and Chart 10. Changes in the distribution of the flows are less pronounced. The share of the five selected instruments was not very different in 1901–12 and 1913–29 from that in the postwar period. The distribution during 1930–39, in which these instruments accounted for more than the total net flow in all ten main instruments because the remaining five instruments showed negative rather than positive flows, may be regarded as abnormal.[1]

Shorter-term variations in the net supply and absorption of the main capital market instruments can be followed in Tables 45 and 46, which provide annual data for the postwar period in absolute terms and in percentages of the year's total, and in Table 47 and Chart 11, which show annual rates of change. Among the main capital market instruments, residential and other mortgages, state and local government securities, and corporate stock exhibited considerably more stability than short-term loans and Treasury securities. Most of the main instruments conform in their annual movements to the business cycle, particularly short-term loans and corporate securities. State and local government securities and, less clearly, residential mortgages tend to move countercyclically.

We may round out this summary with a look at the changes in interest rates for the main types of financial assets for which data are provided in Table 48. Since interest rates were at an all-time low at the end of World War II and were held down during the early part of the postwar period by the policies of the Federal Reserve System, it is not astonishing that the trend of interest rates was definitely upward through most of the postwar period for all types of claims, with of course cyclical and seasonal fluctuations. In general the rise was more pronounced, in absolute and still more in relative terms, for

[1] The sources for these data are the same as the sources for Table 44, except for corporate stocks, which are taken from *A Study of Saving*, Vol. I, Tables V-9 and V-10.

TABLE 44

TRENDS IN VOLUME AND DISTRIBUTION OF MAIN CAPITAL MARKET INSTRUMENTS, SELECTED YEARS, 1900-58

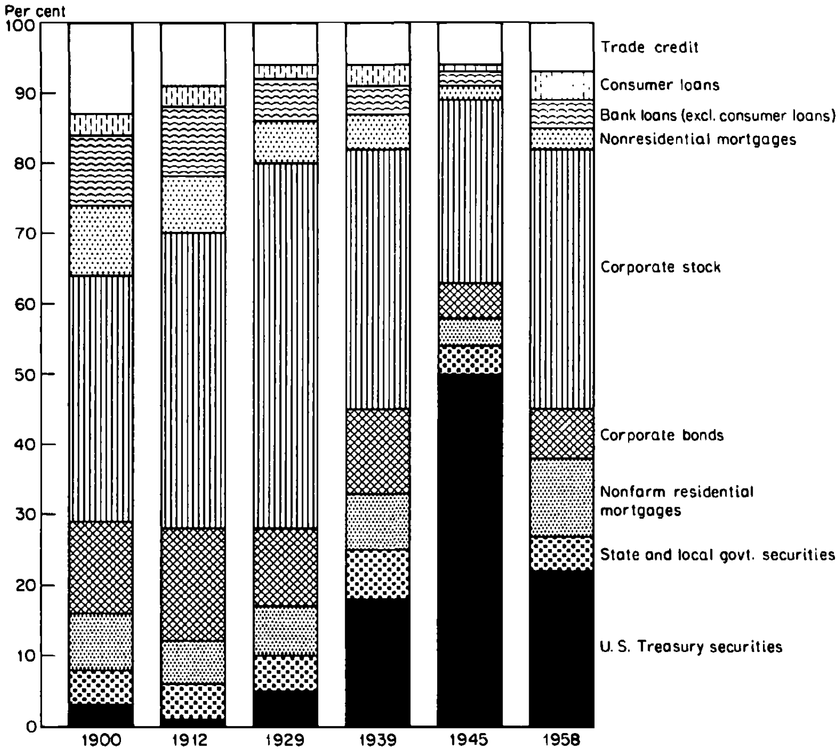
	Absolute Values (billion dollars)						Shares (per cent)					
	1958 (1)	1945 (2)	1939 (3)	1929 (4)	1912 (5)	1900 (6)	1958 (7)	1945 (8)	1939 (9)	1929 (10)	1912 (11)	1900 (12)
1. U.S. Treasury securities	274.3	275.7	47.0	16.2	1.2	1.2	22	50	18	5	1	3
2. State and local govt. securities	61.1	21.2	19.8	16.9	4.4	2.0	5	4	7	5	5	5
3. Nonfarm residential mortgages	133.0	23.3	20.8	24.9	5.0	3.0	11	4	8	7	6	8
4. Corporate bonds	88.8	27.5	32.5	38.1	14.5	5.2	7	5	12	11	16	13
5. Corporate stock	465.4	146.6	100.1	186.7	38.0	13.9	37	26	37	52	42	35
6. Five selected instruments	1,022.6	494.3	220.2	282.8	63.1	25.3	81	89	82	79	70	64
7. Nonfarm nonresidential mortgages	27.6	7.5	8.1	11.9	2.7	1.5	2	1	3	3	3	4
8. Farm mortgages	11.3	4.8	6.6	9.6	4.3	2.3	1	1	2	3	5	6
9. Bank loans (n.e.c.)	53.8	13.3	9.8	20.5	9.0	3.9	4	2	4	6	10	10
10. Consumer loans	46.1	5.7	7.8	8.6	2.9	1.0	4	1	3	2	3	3
11. Trade credit	100.4	28.1	14.7	25.7	8.1	5.7	8	5	6	7	9	14
12. Total	1,261.8	553.7	267.2	359.1	90.1	39.7	100	100	100	100	100	100

Source: National Balance Sheet, Vol. II.
Cols. 1-2, lines 1-5, 7-11: Lines 8 of Tables IV-b-13, 14, 11a, 15, 16, 17, 11b, 12, 9, 6, and 7.
Cols. 3-6, lines 1-5, 7-8, 10-11: Lines 8 of Tables IV-b-13d, 14a, 11c-1, 15a, 17b, 11c-4, 12a, 6a, and 7a.
Cols. 3-6, line 9: Table Ia, line II-9.

short-term than for long-term rates. Among short-term rates, open-market rates, which had been particularly influenced by monetary policy, rose more than institutional rates (bank loans, savings deposits). Among the main types of long-term claims, the increase was fairly

CHART 10

DISTRIBUTION OF MAIN CAPITAL MARKET INSTRUMENTS OUTSTANDING, 1900–58



Source: Table 44.

uniform except that the yield on state and local government securities increased more than that on Treasury or corporate bonds, partly in reaction to the extraordinary low level to which the yields on state and local government securities had fallen at the end of World War II.

While the increase in short-term rates was in many cases sharper in relative terms from Cycles I to II than from Cycles II to III, re-

TABLE 45

NET SUPPLY OF MAIN CAPITAL MARKET INSTRUMENTS, 1946-58
(billion dollars)

Year	Total (1)	U.S. Government Securities[a] (2)	State and Local Government Securities (3)	Corporate Bonds (4)	Nonfarm Residential Mortgages (5)	Corporate Stock (6)	Five Selected Instruments (7)	All Other Mortgages (8)	Bank Term Loans (9)	Short-Term Loans: Commercial (10)	Short-Term Loans: Consumer (11)
1946	1.8[b]	-18.3	-0.1	1.2	4.8	2.0	-10.4	1.4	1.8	6.2	2.8
1947	28.6	-2.9	1.4	3.3	5.7	2.1	9.6	1.5	1.2	13.0	3.3
1948	22.4	-4.6	2.2	5.2	5.9	1.9	10.6	1.4	0.6	6.9	2.9
1949	20.6	4.2	2.4	3.2	5.3	2.1	17.2	1.2	-0.9	0.2	2.9
1950	42.5	-1.9	3.1	3.1	8.7	2.3	15.3	1.5	0.8	20.7	4.2
1951	33.6	2.5	2.4	4.5	7.8	3.1	20.3	1.7	1.1	9.2	1.3
1952	43.2	6.9	3.2	5.2	7.5	3.6	26.4	1.6	1.2	9.2	4.8
1953	34.0	7.0	3.6	4.8	8.2	2.9	26.5	1.7	-0.2	2.1	3.9
1954	35.6	3.2	4.2	3.5	10.1	3.1	24.1	2.3	0	8.1	1.1
1955	58.0	0.7	3.5	5.7	13.4	3.8	27.1	2.8	1.4	20.3	6.4
1956	40.8	-4.7	3.3	5.8	11.5	4.4	20.3	3.2	3.0	10.6	3.7
1957	39.5	-1.6	4.9	9.9	9.2	4.6	27.0	2.8	1.5	5.4	2.8
1958	53.9	7.9	5.9	5.8	11.7	5.2	36.5	3.5	0.5	13.2	0.2
Average per year											
1946-58	34.9	-0.1	3.1	4.7	8.4	3.2	19.3	2.0	0.9	9.6	3.1
1946-49	20.9	-4.8	1.6	3.6	5.5	2.0	7.9	1.4	0.8	7.8	3.0
1949-54	36.3	3.7	3.1	4.2	8.0	2.9	21.8	1.6	0.5	9.1	3.2
1954-58	45.7	0	4.2	6.5	11.2	4.2	26.2	2.9	1.6	11.7	3.4

Source: National Balance Sheet, Vol. II.
Col. 1: Sum of columns 7, 8, 9, 10, and 11.
Cols. 2-6, 8: Tables VIII-b-13, 14, 15, 11a, 16, 17, 11b, and 12, line 8.
Col. 7: Sum of cols. 2-6.
Col. 9: Table VIII-c-9b, line 8.
Col. 10: Line 8 of Tables VIII-b-7, b-8, b-10, and b-9 minus Table VIII-c-9b.
Col. 11: Table VIII-b-6, line 8.

[a] Purchases by domestic sectors.

[b] Appears unusually small due to the large sales of U.S. government securities.

TABLE 46

DISTRIBUTION OF NET SUPPLY OF MAIN CAPITAL MARKET INSTRUMENTS, 1946-58
(per cent)

Year	Total (1)	U.S. Government Securities (2)	State and Local Government Securities (3)	Corporate Bonds (4)	Residential Mortgages (5)	Corporate Stock (6)	Five Selected Instruments (7)	Other Mortgages (8)	Bank Term Loans (9)	Short-Term Loans: Commercial (10)	Short-Term Loans: Consumer (11)
1946	100	-1,017	-6	67	267	111	-578	78	100	344	156
1947	100	-10	5	12	20	7	34	5	4	45	12
1948	100	-21	10	23	26	8	47	6	3	31	13
1949	100	20	12	16	26	10	83	6	-4	1	14
1950	100	-4	7	7	20	5	35	4	2	49	10
1951	100	7	7	13	23	9	60	5	3	27	4
1952	100	16	7	12	17	8	61	4	3	21	11
1953	100	21	11	14	24	9	79	5	-1	6	11
1954	100	9	12	10	28	9	68	6	0	23	3
1955	100	1	6	10	23	7	47	5	2	35	11
1956	100	-12	8	14	28	11	50	8	7	26	9
1957	100	-4	12	25	23	12	68	7	4	14	7
1958	100	15	11	11	22	10	69	6	1	24	0
Average per year											
1946-58	100	0	9	13	24	9	55	6	3	27	9
1946-49	100	-23	8	17	26	10	38	7	4	38	14
1949-54	100	10	9	12	22	8	61	4	1	25	9
1954-58	100	0	9	14	25	9	57	6	3	26	7

Source: Table 45.

TABLE 47

RATE OF GROWTH OF SUPPLY OF MAIN CAPITAL MARKET INSTRUMENTS, 1946-58
(per cent)

Year	Treasury Securities: Total (1)	Treasury Securities: Long-Term: Savings Bonds (2)	Treasury Securities: Long-Term: Others (3)	State and Local Government Securities (4)	Corporate Bonds (5)	Corporate Stock: Common (6)	Corporate Stock: Preferred (7)	Mortgages: Total Nonfarm (8)	Mortgages: Nonfarm Residential (9)	Mortgages: Farm (10)	Bank Term Loans (11)	Short-Term Bank Loans (12)	Consumer Credit (13)	Trade Credit (14)	Security Credit (15)
1946	-6.6	3.4	-0.9	-0.6	4.5	1.4	1.4	19.8	20.7	2.9	62.6	30.5	48.3	13.1	-53.3
1947	-1.1	4.7	-0.9	6.7	11.6	1.4	3.2	19.0	20.1	3.4	26.9	24.5	38.8	19.7	-27.5
1948	-1.8	5.8	-3.1	9.8	16.2	1.4	2.6	16.1	17.4	4.4	9.3	9.6	24.6	7.6	9.0
1949	1.7	3.1	-5.4	9.5	8.6	1.5	2.2	12.2	13.3	5.5	-13.3	-4.1	20.1	-1.9	24.7
1950	-0.7	2.4	-3.7	11.5	7.6	1.6	1.8	16.9	19.4	9.7	15.2	29.2	23.8	33.2	21.1
1951	1.0	-0.9	10.6	8.0	10.3	1.5	3.9	13.3	14.5	9.1	17.7	15.7	6.2	8.9	-7.4
1952	2.7	0.5	0.6	9.8	10.9	1.7	3.0	11.3	12.2	8.8	16.4	6.8	20.7	9.9	16.5
1953	2.7	-0.2	-6.0	10.0	9.0	1.2	2.4	11.2	12.0	7.0	-1.8	1.9	14.1	-0.2	16.2
1954	1.2	0.7	10.8	10.6	6.0	1.4	2.5	12.7	13.1	6.7	0.3	2.0	3.5	7.7	32.3
1955	0.2	0.3	5.5	8.0	9.3	1.3	0.4	14.6	15.4	9.4	16.3	18.7	19.6	16.9	14.2
1956	-1.7	-2.6	-6.0	7.1	8.6	1.1	2.8	11.5	11.4	9.3	29.4	7.6	9.4	10.5	-7.8
1957	-0.6	-6.7	-2.2	9.7	13.6	1.2	2.4	8.4	8.2	6.0	11.8	1.4	6.6	3.7	-4.5
1958	3.0	-2.5	7.1	10.7	7.1	1.4	2.7	9.9	9.7	7.1	3.6	3.2	0.4	8.9	20.7
Average															
1946-49	-2.0	4.2	-2.6	6.3	10.1	1.4	2.3	16.7	17.8	4.0	18.2	14.3	32.5	9.3	-17.7
1949-54	1.4	0.5	2.2	10.0	8.8	1.4	2.7	13.0	14.2	8.2	9.2	10.2	13.4	11.4	15.0
1954-58	0.2	-2.9	1.0	8.9	9.6	1.2	2.1	11.1	11.1	7.9	14.9	7.5	8.8	9.9	4.9
1946-58	0	0.6	0.3	8.5	9.4	1.3	2.4	13.6	14.4	6.8	13.7	10.6	17.4	10.3	0.9

Source: National Balance Sheet, Vol. II.

Cols. 1-5, 7-10, 13-15: Lines 8 of Tables IV-b-13, 13b, 13c, 14, 15, 16, 11, 11a, 12, 6, 7, and 8, for the denominator; the corresponding Table VIII figures for the numerator.

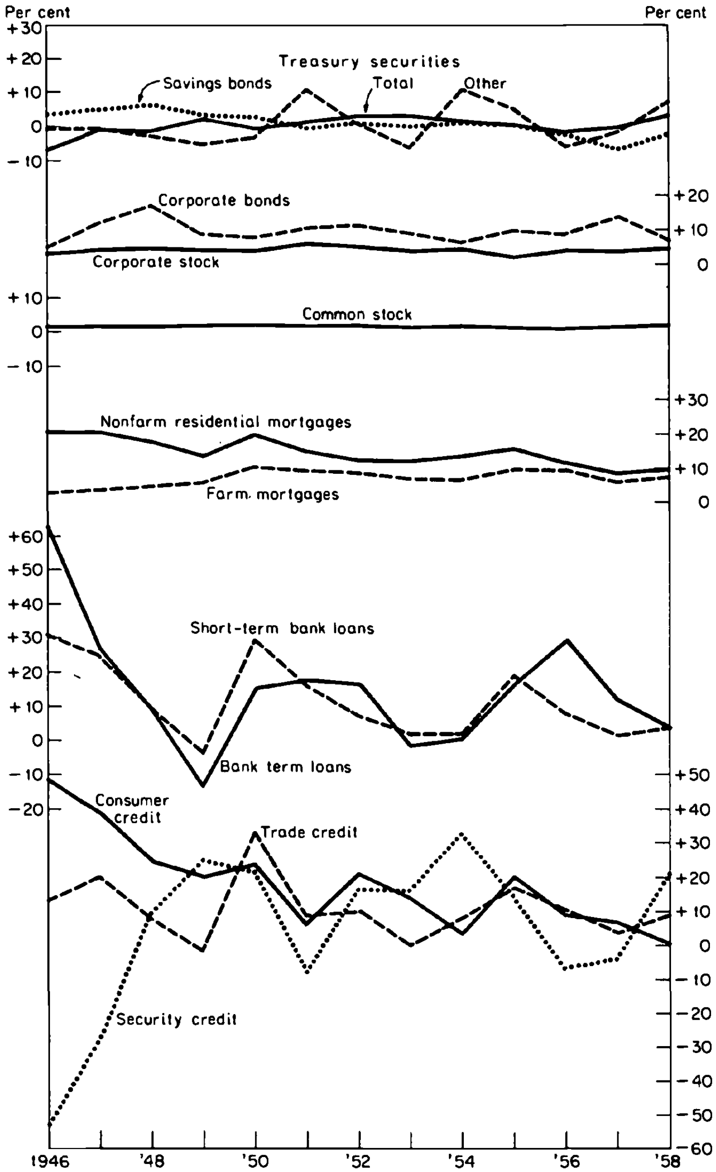
Col. 6: Net purchase of common stock (Table VIII-b-17, line 8) as per cent of common stock outstanding (Table IV-b-17, line 8) at end of previous year.

Col. 11: Table IV-c-9b, line 8, for the denominator; Table VIII-c-9b, line 8, for the numerator.

Col. 12: Table IV-b-9, line 8, minus Table IV-c-9b, line 8, for the denominator; the corresponding Table VIII figures for the numerator.

CHART 11

RATE OF CHANGE IN SUPPLY OF MAIN CAPITAL MARKET INSTRUMENTS, 1946–58



Source: Table 47.

TABLE 48

CHANGES IN INTEREST RATE STRUCTURE DURING THE POSTWAR PERIOD
(per cent)

			Cycle Averages			Absolute Changes	In Cycle Averages			Per Cent Changes	In Cycle Averages		
	1946 (1)	1958 (2)	Cycle I 1946-49 (3)	Cycle II 1949-54 (4)	Cycle III 1954-58 (5)	1946-58 (6)	Cycles I-II (7)	Cycles II-III (8)	Cycles I-III (9)	1958÷1946 (10)	Cycles II÷I (11)	Cycles III÷II (12)	Cycles III÷I (13)
I. Short-term claims													
1. Treasury bills	0.38	1.84	0.79	1.50	2.27	1.46	0.71	0.77	1.48	384	90	51	187
2. Treasury notes (9-12 months)	0.82	2.09	1.00	1.58	2.44	1.27	0.58	0.86	1.44	155	58	54	144
3. Treasury certificates (3-5 years)	1.16	2.90	1.41	1.95	2.90	1.74	0.54	0.95	1.49	150	38	49	106
4. Savings deposits, mutual savings banks	1.57	3.07	1.66	2.15	2.78	1.50	0.49	0.63	1.12	96	30	29	67
5. Savings and loan assoc. depos.	2.37	3.38	2.42	2.67	3.09	1.01	0.25	0.42	0.67	43	10	16	28
6. Time deposits, comm. banks	0.84	2.21	0.88	1.10	1.70	1.37	0.22	0.60	0.82	163	25	55	93
7. Bank loans	2.34	4.34	2.47	3.22	4.12	2.00	0.75	0.90	1.65	85	30	28	67
II. Long-term claims													
1. Treasury bonds	2.19	3.43	2.31	2.58	3.08	1.24	0.27	0.50	0.77	57	12	19	33
2. State and local secur., avg.	1.46	3.36	1.99	2.25	3.00	1.90	0.26	0.75	1.01	130	13	33	51
3. High-grade municipal secur.	1.10	2.92	1.56	1.82	2.56	1.82	0.26	0.74	1.00	165	17	41	64
4. Corporate bonds, avg.	2.74	4.16	2.93	3.12	3.67	1.42	0.19	0.55	0.74	52	6	18	25
5. Highest-grade corp. bonds	2.53	3.79	2.68	2.88	3.41	1.26	0.20	0.53	0.73	50	7	18	27
6. New issues of high-grade corp. bonds	2.57	4.19	2.83	3.11	3.84	1.62	0.28	0.73	1.01	63	10	23	36
7. Conventional mortgages	4.30	5.70	4.44	4.76	5.28	1.40	0.32	0.52	0.84	33	7	11	19
8. FHA secondary mortgages	4.24[a]	5.76	--	4.44	5.13	1.52[a]	--	0.69	--	36[a]	—	16	—
III. Stock													
1. Preferred stock	3.53	4.45	3.90	4.07	4.28	0.92	0.17	0.21	0.38	26	4	5	10
2. Common stock	3.97	4.05	5.40	5.82	4.22	0.08	0.42	-1.60	-1.18	2	8	-27	-22

[a] 1948 instead of 1946.

NOTES TO TABLE 48

Source

Section I

Line 1: Rates of new issues of 3-month bills in Federal Reserve Bulletin (e.g., February 1959, p. 173).

Lines 2-3: Ibid.

Line 4, 1945-58: Balance of deposits outstanding, from National Association of Mutual Savings Banks worksheets.

Line 4, 1945-47: Interest payment on saving deposits from NAMSB worksheets.

Line 4, 1948-58: Interest payment on saving deposits, from Mutual Savings Banking Annual Report, May 1960, Table F-31. p. F-22.

Line 5: Combined Financial Statements, Members of the Federal Home Loan Bank System: annual reports of 1948 (p. 9), 1956 (p. 10), and 1958 (p. 14) were used for deposits and annual reports of 1947 (p. 41) and 1958 (p. 50) for dividend payments.

Line 6: Annual Reports of FDIC: issues of 1945 (p. 129), 1953 (p. 107), and 1958 (p. 197) were used for time and saving deposits, and issues of 1945 (p. 128), 1954 (p. 138), and 1958 (p. 196) for interest payments.

Line 7: Federal Reserve Bulletin (e.g., February 1959, p. 173). The series is an average of interest rates prevailing in 19 large cities.

Section II

Line 1: U.S. government (taxable) long-term bonds in ibid. For 1946-51, series maturing in 15 years or over; for 1952-56, series maturing in 12 years or over; and for 1957-58, series maturing in 10 years or over.

Line 2: Average yield on state and municipal bonds Aaa, Aa, A, and Baa, in Moody's Municipal and Governments Manual, 1960, pp. A-22 to A-23. This series has been published in the FR Bulletin since 1955.

Line 3: Average yield on municipal high-grade bonds Aaa (ibid.).

Line 4: Average yield on corporate bonds outstanding Aaa, Aa, A, and Baa (Federal Reserve Bulletin for various years; primary source is Moody's Investor Service).

Line 5: Average yield on corporate bonds outstanding Aaa (ibid.).

Line 6: Average yield on new issues of high-grade corporate bonds (from unpublished figures of Banker's Trust Company, annual data only).

Line 7, 1947-56: Saul Klaman, The Postwar Residential Mortgage Market, Princeton for NBER, 1961, p. 285, Table A-4. 1946 figure was extrapolated back from 1947.

Line 7, 1957-58: FHA Research and Statistics Release, Nos. 23 and 46.

Line 8, 1946-47: N.a., figure for 1948 used instead.

Line 8, 1948-56: Secondary source: Leo Grebler, Housing Issues in Economic Stabilization Policy, NBER Occasional Paper 72, 1960, p. 117.
Primary source: Jack M. Guttentag, "Some Studies of the Post-World War II Residential Construction and Mortgage Markets," unpublished Ph.D. dissertation, Columbia University, 1958, p. 70.

Line 8, 1957-58: Weekly Bond Buyer, March 6, 1961, p. 17.

Section III

Line 1: Primary source: Standard and Poor's. Secondary source as follows:

Line 1, 1946-48: 1949 Statistical Supplement to Survey of Current Business, p. 103.

Line 1, 1949-52: Business Statistics, 1953 Supplement to the Survey of Current Business, p. 101.

Line 1, 1953-54: Ibid., 1955, p. 100.

Line 1, 1955-58: Ibid., 1959, p. 103.

Line 2: Primary source: Moody's Investor Service. Secondary source: same as line III-1.

flecting the abandonment of the peg of interest rates on government securities early in Cycle II, the opposite relation obtained for long-term securities. The yield of corporate securities and home mortgages advanced by less than one-tenth from Cycles I to II. From Cycles II to III, on the other hand, yields on long-term debt advanced by between fully one-tenth (conventional home mortgages) to more than one-third (state and local government securities), with an average of about one-fifth. Only one of the main capital market instruments showed a decline in yield—common stock from Cycles II to III. The sharp increase in price-dividend and price-earnings ratios, which is reflected in this movement, is the result of a level shift in investors' evaluation of prospective corporate profits and dividends and of the possibilities of appreciation of common stock.