market share can be attributed to many factors, including the relative importance of thrift institutions in the SMSA market, price differences of NOWs between banks and thrifts, price differences of checking and NOW accounts at banks, and non-price differences among institutions, such as marketing efforts and auxiliary services.8

The presence of thrifts in the market had some influence on the success of generating NOW accounts. The number of offices and deposits at thrifts was used to measure their importance in the selected SMSAs. These measures generally were related to the success of checking and NOW accounts at banks for NOWs, although a one-to-one relationship did not occur. Banks gained the largest percentage of NOW balances in Lexington, where thrifts had the smallest percentage of offices and deposits.9

A second factor affecting market share has been the pricing policies of banks and thrift institutions. Both banks and thrifts offer NOW accounts that pay interest of 5.25 percent, with no service charges if a minimum or average balance is maintained. If the balance falls below the stipulated amount, the depositor is assessed a monthly service charge that may include transaction fees. The average prices of the three or four largest banks and thrifts operating in the SMSA comprised a basis for price comparisons.10 Pricing elements can include monthly service charges, per transaction fees, and the minimum balance required to avoid any charges. While prices often vary among institutions, the average pricing terms of the largest banks and thrifts are assumed to reflect the auxiliary services than thrifts. Cincinnati and Cleveland thrift institutions apparently were the most competitive with banks, as the three largest savings and loan associations provide other automatic teller machines or overdraft protection.10

Summary

Growth of NOW accounts in the 4D has been rapid, as most depository institutions have utilized their recently announced authority to offer these interest-bearing transaction accounts. Over 75 percent of the NOW balances was generated during January and February of this year, and a large portion of these funds appeared to originate from checking and other types of transaction accounts. Banks have cap-

8. While it is recognized that these factors may be interdependent, they are treated as independent variables in the analysis.

9. Average prices were calculated from the prices charged for checking accounts or deposits at three or four of the largest banks and thrifts during the first five months of this year. When the pricing terms of one of the three largest institutions were not comparable, the prices of the fourth largest institution were used.

10. The Cincinnati savings and loan associations, along with other institutions, provide automatic teller machines on a joint basis.
The figures represent weekly averages based on deposits from other depository institutions, registered only a year. In fact, NOW account balances slowed substantially since the beginning of January and February of this year. While NOW balances are still increasing, the growth has slowed substantially since the beginning of the year. In fact, NOW account balances failed to grow between April and May at 4D institutions.

Despite the large buildup of NOW account balances, total transaction balances at 4D depository institutions registered only a $184-million net increase. Apparently many depositors switched funds from the savings deposits to NOW accounts. The depository institutions experienced declines in demand deposits ($2,330 million). This situation is attributed to the widespread offering of automatic transfer, and telephone and pre-authorized transfers ($230 million). These institutions also reported a $2,653-million net outflow of savings deposits. The savings deposits were transferred from NOW accounts to the Mays of NOW and checking accounts.

In view of these factors, it is not surprising that banks have competed effectively for NOW balances (see Table 2). By February 1981, banks gained 91 percent of NOW balances in the 4D. A large part of these funds probably originated from deposits that were switched from other accounts. Other types of bank deposits—demand, automatic transfer, telephone and pre-authorized, and savings—declined over this two-month period.

Since January 1981, however, thrift institutions have consistently gained an increasing larger share of the net inflows of NOW accounts. After gaining only 7 percent in January, thrifts increased their share of monthly inflows of NOW balances, reaching a high of 29 percent in July. Although the volume of NOW growth has decreased greatly, thrifts have improved their overall share of NOW balances outstanding by 5.6 percentage points since January, reaching 12.5 percent in July. Because of the growth in NOW accounts, thrifts increased their share of total transaction balances from 1.7 percent in December 1980 to 3.1 percent in July 1981. This was accomplished by a $414-million increase in NOW balances, offset by a $353-million decline in other transaction balances, for a net gain of $312 million. In contrast, banks experienced a net reduction of $167 million in transaction balances.

Another way to gauge the relative success of banks and thrifts in attracting NOW accounts is to examine competition in individual market areas. Indeed, the geographic area in which depository institutions compete varies according to the type of product or service provided. Institutions compete for large construction loans in their regional and national markets, whereas in Cleveland to 99.0 percent in Lexington (see Table 3). These variations in the bank competition for such services as individual savings, checking, and NOW accounts generally is confined to smaller regional or local areas.

Table 2 NOW and Transaction Balances and Market Sharea

<table>
<thead>
<tr>
<th>Depository Type</th>
<th>Market Share of NOW Balances</th>
<th>1980</th>
<th>1981</th>
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4. Figures are weekly averages based on daily figures for the first full reporting week (Thursday to Wednesday) in each month. Figures are slightly understated, because smaller institutions do not report on a daily basis.

5. Time deposits increased by $5,9 billion at 4D banks and thrift institutions, and money-market fund rates rose from 7.66 billion to $125.7 billion between December 1980 and July 1981.

6. Lower service charges might make it profitable for high-balance depositors to change institutions, particularly if they prefer to economize on their transaction balances.


Table 3 Market Share and Thrift Competition in Selected SMSAs


7. The share of NOW accounts held by banks and thrift institutions is dependent on the data reported by institutions rather than by office. Several large depository institutions operate in several SMSAs. Estimates are based on the proportion of total deposits held by offices within a given SMSA.

SOURCE: Summary of Deposit Data, Federal Deposit Insurance Corporation; and an informal telephone survey.