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RECENT CREDIT EXPANSION

Demand for credit has been large in 1952 and growth in the total of long-term and short-term credit outstanding has been substantial, particularly in recent months. Businesses and consumers have expanded their borrowing throughout the year to help finance large expenditures for plant and equipment, housing, and durable consumer goods. Business borrowing for seasonal and other purposes has also been large in the last half of the year, following a less than seasonal decline in the first half. Increased borrowing by State and local governments to finance capital improvements has added further to the demand for credit. Since midyear the Federal Government has also been a borrower.

To a considerable extent, credit expansion has been financed with funds accumulated by individuals in savings institutions. There has been a continuing large growth in savings deposits, savings and loan shares, insurance and pension reserves, and certain other savings forms. In addition, State, local, and foreign governments have supplied an increased amount of short-term funds to the money market, and since midyear nonfinancial corporations have bought large amounts of Treasury bills. Such funds have become available from cash reserves and temporarily idle working balances, from cash proceeds of financing operations completed in advance of actual disbursements for various capital projects, and, in the case of corporations, from balances accumulated for tax payments.

At commercial banks, loan expansion has been substantial in 1952. Commercial banks have also increased their portfolios of Government securities, although the level of their holdings has fluctuated considerably since midyear, increasing in connection with the major new financing operations of the Treasury but subsequently declining somewhat as banks sold short-term Government securities to other investors. The expansion in deposits of businesses and individuals which accompanied growth in bank credit in 1952 has been largely in the form of time deposits and only to a moderate extent in demand deposits—a development which contributed to sustained high level activity without further inflation.

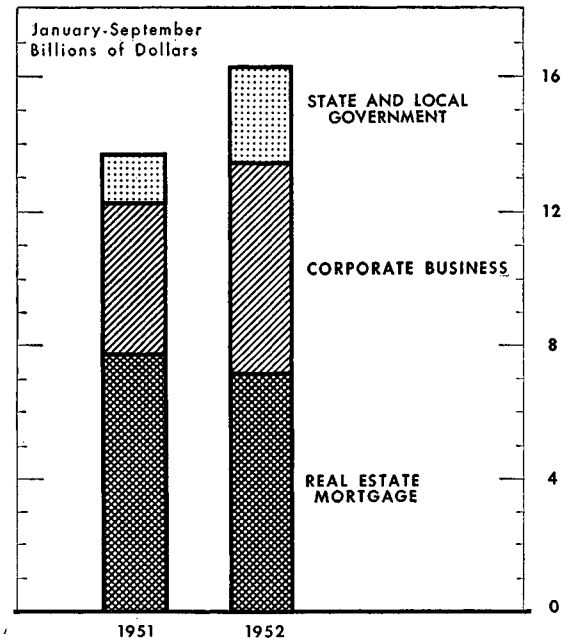
To obtain the additional reserves required by total deposit expansion, member banks found it necessary to increase significantly their borrowing at the Federal Reserve Banks. Since borrowing from the Federal Reserve is only a temporary means of adjusting a bank's reserve position, the increase in such borrowing exerted a restraining influence on monetary expansion.

CREDIT DEMAND IN CAPITAL MARKETS

The capital markets have supplied an exceptionally large volume of funds in 1952. During the first nine months the increase in real estate mortgage indebtedness, together

with growth in long-term financing of business corporations and State and local governments, totaled an estimated 16.3 billion dollars—nearly one-fifth more than in the corresponding period last year. A smaller growth in real estate mortgage indebtedness this year was more than offset by greater increases in long-term corporate business and State and local government debt, as is shown in the chart. In the case of business corporations, the increase this year was nearly two-fifths greater than last, while growth in State and local government debt was more than twice that of 1951.

GROWTH IN LONG-TERM FINANCING SELECTED TYPES



NOTE.—Estimates by Federal Reserve on basis of data from Securities and Exchange Commission, *Bond Buyer*, Census Bureau, Home Loan Bank Board, and Department of Agriculture. Corporate business includes long-term debt and equity financing.

Corporate security issues. New capital raised by business through security issues in 1952 has been much greater in volume than in any recent year and may reach an all-time high. Public offerings and take-downs on private placements with insurance companies for the first ten months of the year are estimated at 7.6 billion dollars, which exceeds the total for the full year 1950 or 1951.

A somewhat higher level of business expenditures for new plant and equipment, a marked decline in corporate funds retained from operations, and the funding by some companies of debt owed to commercial banks all contributed this year to an increased corporate demand for long-term financing, both debt and equity. Business expenditures for new plant and equipment, including those of unincorporated concerns, are expected to reach a record high of about 27 billion dollars for the year 1952.

While corporate funds retained from operations (profits before taxes plus current depreciation accruals, less Federal income tax and dividend payments) are estimated to have increased appreciably from the second to the third quarter, the total for the first nine months of 1952 was probably about one-third less than in the same period of 1951. Some further increase is expected for the fourth quarter, but the volume of funds available from internal sources for the full year will be somewhat less than in 1951.

Electric and gas utility companies have floated an especially large volume of securities this year, in part to place on a more permanent basis borrowing from banks for the initial financing of plant and equipment expenditures. Manufacturing concerns have also issued substantial amounts of securities. The principal issuers were in chemical, machinery, petroleum, and steel industries where facilities are being expanded in accordance with defense program objectives of increasing productive capacity for strategic materials and specialized equipment.

Relative costs have continued to favor debt financing over common and preferred stock

financing, although there have been increased efforts to obtain equity capital, particularly through issuance of debentures convertible into stock. The treatment of interest as a deductible expense for income tax purposes and the yield and underwriting differentials necessary to attract investment funds into equity shares continued to encourage borrowing as a source of funds. Moreover, institutional investors, such as life insurance companies, commercial and mutual savings banks, and pension and trust funds, invest primarily in debt obligations, and these institutions have continued to supply the greater part of external long-term funds for business. Direct placements with institutional investors, which have accounted for two-fifths of all corporate security issues during the postwar period, continued in about that proportion during the first three quarters of 1952.

State and local government borrowing. State and local governments accelerated expenditures for construction of schools, highways, and other public facilities in 1952. The bulk of such capital expenditures is financed out of borrowed funds rather than current revenues, and preliminary estimates for the year indicate that the amount of State and local government security issues may exceed 4.5 billion dollars, about one-third more than last year. The volume of prospective issues already announced, together with those approved by voters in the recent election, indicates a sustained large amount of State and local government financing in 1953.

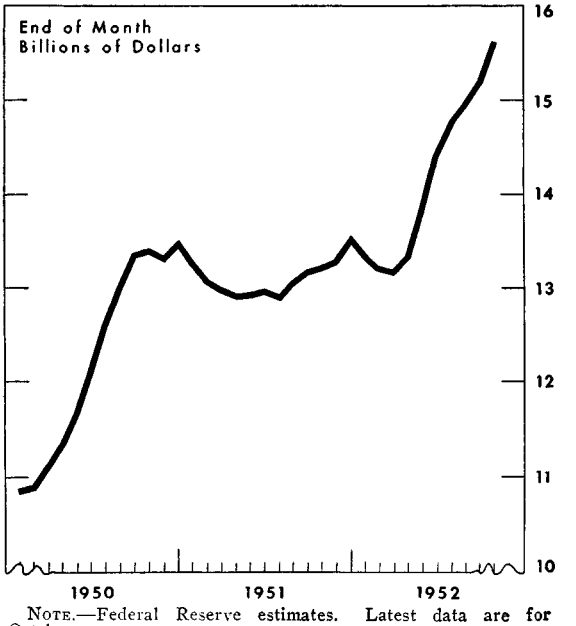
Real estate mortgage credit. The number of new houses completed and sold during the first ten months of 1952 was somewhat smaller than in the same period of 1951, but transfers of existing properties were more numerous. In mortgage financing this was reflected in a volume of new mortgage loans on small properties that was about one-tenth larger in the January-October period of 1952 than a year earlier.

Total outstanding mortgage debt, however, has been increasing less rapidly this year than in 1951. This reflects a much smaller volume of mortgages written on commercial and multi-family residential properties, as well as a larger volume of repayments on outstanding mortgage debt.

Consumer Credit

Consumer borrowing has risen sharply following the suspension of consumer instalment credit regulation on May 7. Expansion has been concentrated in instalment credit. With credit terms eased considerably, more durable goods purchases have been financed on credit, and more credit has been granted on individual purchases. As shown in the chart, the increase in instalment credit outstanding was rapid in May and June. It

CONSUMER INSTALMENT CREDIT



Note.—Federal Reserve estimates. Latest data are for October.

slackened somewhat in July and August, largely as a result of the prolonged steel strike, which curtailed production of automobiles and some other consumer durable goods. The increase since September has again been very large. The ratio of consumer instalment credit granted to expenditures for durable goods is now back to prewar relationships.

Federal Treasury Financing

The Federal Government, which on a cash basis had a balanced budget in the fiscal year ending June 30, 1952, began in July to operate at a deficit. While the actual cash deficit for the current fiscal year cannot be gauged accurately at this stage, it may amount to several billion dollars. Seasonal patterns in tax collections will probably result in a cash deficit in the June-December 1952 period in excess of the deficit for the full fiscal year. During this half-year the Treasury will probably have borrowed from the public a net amount of about 7 billion dollars.

The first borrowing for the fiscal year 1953 was the sale on July 1 of over 4 billion dollars of fully marketable bonds. These bonds, which mature in 1958, were the largest Treasury issue for new money since 1945. They were initially allotted almost entirely to nonbank subscribers, some of whom financed their purchases through loans from commercial banks. In the period immediately following the offering, banks purchased a large amount of these bonds in the market.

The remainder of the Treasury's recent financing program has been accomplished by temporary borrowing through tax anticipation bills. Early in October the Treasury issued 2.5 billion dollars of such bills acceptable in payment for taxes next March 15 or redeemable for cash on March 18. This issue was sold at an average rate of 1.72 per cent. In November an additional 2 billion dollars of tax anticipation bills, acceptable for taxes on June 15 or redeemable for cash on June 19, was auctioned at an average rate of 1.85 per cent. Initially, both of the issues were acquired almost entirely by commercial banks, with subsequent distribution made in the market to corporations and other investors as they accumulated funds for tax payments due in March and June.

Some of the funds obtained through these recent security issues have been absorbed by cash redemptions of maturing marketable securities and the excess of redemptions over sales of savings securities. The volume of savings notes outstanding, after declining almost a billion dollars in the first half of the year, has since declined further, reflecting a shift by corporate investors to marketable securities, which under recent market conditions have yielded higher returns. Following a change in savings bond terms in May, sales and redemptions (valued at issue price) have come nearly into balance after a period of more than a year when redemptions exceeded sales, sometimes by large amounts. Since May there has been a small increase in the amount of savings bonds outstanding, reflecting the accrual of discount on bonds.

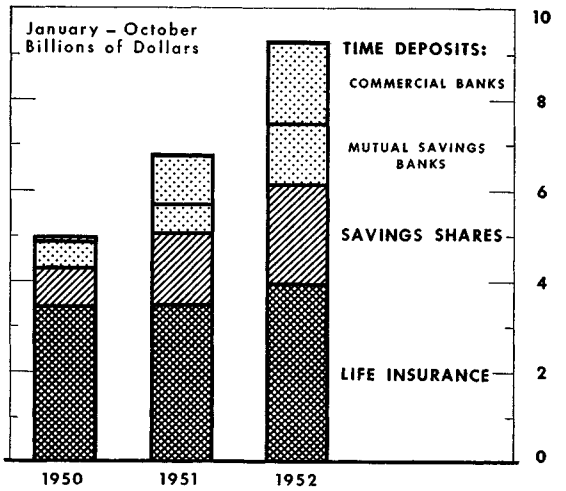
Sources of Long-term Credit

An increased proportion of the credit in 1952 has been supplied from savings accumulated by individuals. Financial assets of individuals have expanded greatly through deposits in savings accounts at commercial banks and mutual savings banks, additions to shares in savings and loan associations, and growth in life insurance company resources, as is shown in the chart. In the first ten months of 1952, this growth

totaled 9.2 billion dollars, as compared with 6.8 billion in the same period last year. In addition to making a substantial volume of funds available for investment by intermediary institutions, individuals have increased their direct purchases of corporate and State and local government securities.

The increased volume of savings accumulated at major savings institutions other than commercial banks has been used almost entirely to finance capital expenditures by businesses and consumers, with a particularly large amount of credit granted to business for plant and equipment outlays. In the first ten months of the year, these savings institutions expanded their holdings of corporate

GROWTH IN SAVINGS - SELECTED FORMS



NOTE.—Data from Institute of Life Insurance, Home Loan Bank Board, and Federal Reserve. Increase in savings and loan shares estimated by Federal Reserve on basis of data for January-September. Life insurance represents increase in total assets.

securities by about 3.3 billion dollars, as is shown in the table. This investment compares with 2.4 billion in 1951. Holdings of real estate mortgages by these institutions increased 4.9 billion dollars in 1952—somewhat less than last year.

To a large extent the greater attraction of institutional investor funds into corporate

INCREASE IN ASSETS OF CERTAIN MAJOR INSTITUTIONAL INVESTORS
[In billions of dollars]

Asset and institution	January-October	
	1951	1952
Total assets	5.8	7.7
Business loans and securities	*2.4*	*3.3*
Life insurance companies	2.2	2.7
Mutual savings banks [1]	0.2	0.6
Real estate mortgages	*5.6*	*4.9*
Life insurance companies	2.8	1.7
Mutual savings banks	1.4	1.2
Savings and loan associations [2]	1.4	2.0
United States Government securities	*−2.9*	*−0.9*
Life insurance companies	−2.1	−0.7
Mutual savings banks	−0.9	−0.3
Savings and loan associations [2]	0.1	0.1
Other loans, investments, and assets	*0.7*	*0.4*
Life insurance companies	0.6	0.3
Mutual savings banks	0.1	(3)
Savings and loan associations [2]	(3)	0.1

[1] Includes changes in holdings of State and local government securities.
[2] First nine months.
[3] Less than 50 million dollars.
Source.—Institute of Life Insurance, Federal Reserve System, Home Loan Bank Board.

securities reflected the higher yields on corporate obligations, as compared with yields on mortgages, particularly Government insured and guaranteed mortgages. Acquisitions of FHA-insured mortgages by life insurance companies, for example, have been one-fourth smaller this year than last, and acquisitions of VA-guaranteed mortgages have been two-thirds smaller. For conventional mortgages, on which interest terms are more flexible, acquisitions by life insurance companies have shown only a small decline.

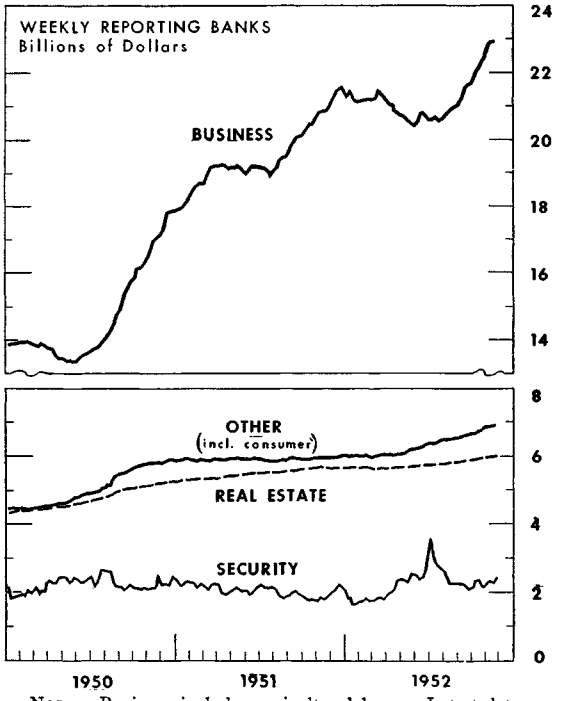
BANK CREDIT EXPANSION

Total loans at commercial banks, excluding interbank loans, increased about 4 billion dollars during the first ten months of both 1951 and 1952. From the middle of this year through October, however, such loans rose about 2¾ billion dollars, considerably more than in the corresponding period of 1951. The recent loan expansion has been dominated by a large but essentially seasonal growth in loans to business enterprises and

a sharp expansion in consumer instalment credit. Real estate and agricultural loans have also increased.

Business borrowing from commercial banks has been large since midyear, as is shown in the chart, but the increase until recent weeks was about the usual seasonal volume. From June through October, business loans at weekly reporting banks increased about 1.7 billion dollars as compared with 1.4 billion during the same period of 1951 and 2.7 billion in 1950. In November, however, the expansion was considerably larger this year than last. Seasonal growth in business borrowing from banks usually begins about mid-July, quickens from about mid-August through mid-November, and then slackens through mid-December. This year the rise began later than usual, lagged in August, but picked up sharply thereafter.

BANK LOANS



NOTE.—Business includes agricultural loans. Latest data are for November 26.

The growth in bank loans to businesses from midyear through October was largely concentrated in those industries—food manufacturers, commodity dealers, and trade concerns—that customarily borrow in the fall. There was also an expansion in loans to petroleum and chemical companies and to sales finance companies, the latter reflecting the growth in consumer instalment credit. In the fall of 1951 there was a large growth in credit to concerns engaged in defense and defense-related activities, mainly metal and metal product manufacturing and public utilities. This year, loans to these concerns were fairly stable through October, but increased thereafter.

Consumer instalment loans at commercial banks have expanded rapidly since May when regulation of the terms of such borrowing was suspended. In the period May-October, consumer instalment credit at banks increased 1.2 billion dollars, about half of the rise in total instalment borrowing by individuals over this period. Banks have also financed consumer purchases indirectly through an increase in their lending to finance companies and retailers.

Real estate loans at commercial banks have increased more this year than last, but bank lending in this area continues to be less than in the early postwar period. Increases in real estate loans have been primarily at small and medium-sized banks.

Since midyear agricultural loans of banks have increased at a somewhat more rapid rate than a year ago. The rise has been primarily in Federally guaranteed loans made in connection with the price support program for wheat.

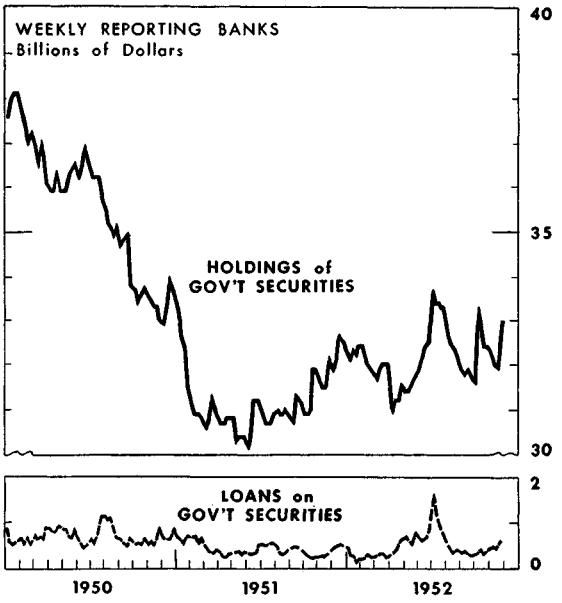
Commercial bank holdings of State and local government securities continued to increase through August at about 100 million dollars a month, approximately the rate of

growth shown over the last several years. Since August, however, total bank holdings of these securities have declined somewhat, reflecting primarily a contraction at New York City banks.

Commercial bank credit has played an important role in the new financing operations carried out by the Treasury since mid-1952, as is shown in the chart. Initially, banks bought Government securities and subsequently sold the same or other Government securities to nonbank investors. Of the 4¼ billion dollars of Treasury intermediate-term bonds issued in early July, commercial banks absorbed over half, largely through market purchases. In the three months July-September, however, the weekly reporting banks reduced sharply their holdings of short-term Government securities, so that their total portfolios at the end of September were smaller than at the end of June.

Treasury tax anticipation bills offered in early October and in late November were originally taken up almost wholly by commercial banks, which find it profitable to subscribe for such offerings to obtain Treasury tax and loan deposits. As the borrowed funds have been drawn on by the Treasury, however, banks have been under pressure to sell these or other short-term securities. During October, as the chart shows, weekly reporting banks increased their holdings of Government securities when the tax anticipation bills were issued and thereafter sold securities in the market to other investors.

BANK FINANCING OF U. S. GOVERNMENT



NOTE.—Latest data are for November 26.

Total commercial bank holdings of Government securities have increased since June, largely at country banks. In the third quarter, Government security portfolios of these banks are estimated to have increased 800 million dollars, whereas holdings of New York City banks declined 600 million, and the portfolios of other large city banks showed little net change.

Expansion of bank credit and deposits in 1952 through November has not been accompanied by an increase in reserves supplied through Federal Reserve open market operations. Member banks have been obliged to borrow increasingly from the Federal Reserve Banks in order to maintain the reserve positions required by law. Member bank borrowing from the Federal Reserve outstanding in November averaged about 1.5 billion dollars, as compared with only about 350 million dollars a year ago and about 500 million in the spring of this year. From the standpoint of the individual bank, borrowing is only a temporary source of reserve funds. As such borrowing increases, banks have a growing need to make other adjustments that will restore their reserve positions. To make such adjustments, borrowing banks are under pressure to liquidate assets or at least to curtail further credit expansion.