

MONTHLY

Business Review

FEDERAL RESERVE BANK of CLEVELAND

February, 1958

IN THIS ISSUE

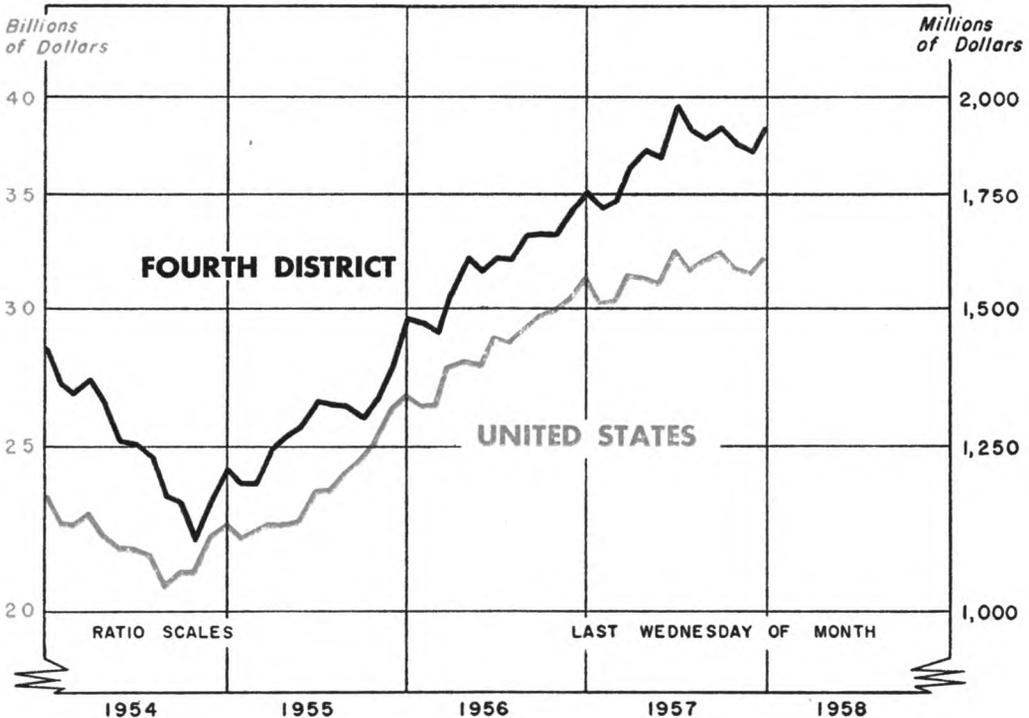
Trends in Bank Loans to Business 3

Whittling Down the Stake in
Farm Price Supports 7

Notes 10

BUSINESS LOANS OUTSTANDING

Weekly Reporting Member Banks



Trends in Bank Loans to Business

(Fourth District)

THE TREND in business loans outstanding at banks in the Fourth Federal Reserve District changed markedly during the past year. The turning point, as shown on the cover chart, appears to have occurred during June when outstanding business loans at the District's 17 weekly reporting member banks reached a record level of \$1,978 million. During the previous 32 months, business loans outstanding had been rising sharply, increasing nearly 80 per cent between the low point in October, 1954, and the peak in June, 1957. Over the last six months of 1957, however, business reduced its obligations about 4 per cent.

The continued upward trend in business borrowing during the first half of 1957 was largely a result of tax borrowing. About \$209 million was added to outstanding business loans near the March and June payment dates for Federal income taxes, but the net addition to such loans over the entire six-month period amounted to only \$174 million. Similarly, the major exceptions to the steady reduction in bank loans outstanding during the second half of the year occurred near the September and December tax payment dates. The revised Mills tax plan required payments of 40 per cent of the 1956 tax liability on both the March 15 and the June 15 payment dates. The September and December rate was 15 per cent of the 1957 tax liability.

In addition to the accelerated rate of tax payment, a decline in the liquidity position of business contributed to the need for bank loans to finance tax obligations. Information collected from all nonfinancial corporations in the nation by the Securities and Exchange Commission indicates that corporate liquidity has declined steadily since 1954, despite additions made to working capital. Reflecting large expenditures for plant and equipment expansion from internal funds, the ratio of cash and Government securities to current

liabilities has declined from 51 per cent at the end of 1954 to 41 per cent at mid-1957.

The volume of business borrowing at tax payment dates has been intensified by the practice of sales finance companies of borrowing from business concerns on short-term notes that are scheduled to mature near the payment date. When sales finance companies make such notes, they shift from banks to business as a source of financing, returning to banks when the notes become due.

As shown on the cover chart, changes in business loans at Fourth District weekly reporting banks follow a pattern similar to business borrowing trends throughout the nation. However, the rate of decline in 1954 and the rate of increase posted in 1955 and 1956 were both somewhat larger in the Fourth District than in the nation. The tendency of outstanding business loans at Fourth District banks to vary over a wider range than the national average reflects in part the high degree of industrial concentration in the area.

Business Loans by Type of Business

Sample data obtained from 14 large member banks in the Fourth District indicate that the change in the trend of business loans during 1957 was not followed by all types of industry. As shown on the accompanying chart depicting the changes in outstandings, the bulk of the decline in business borrowing at 14 Fourth District banks between the first and second halves of 1957 occurred in three industries — manufacturers of metals and metal products, sales finance companies, and public utilities. The reduction in borrowing was less marked in the petroleum and textile industries. Three industry groups — commodity dealers, manufacturers of food-liquor-tobacco products, and trade firms — made small additions to their bank obligations dur-

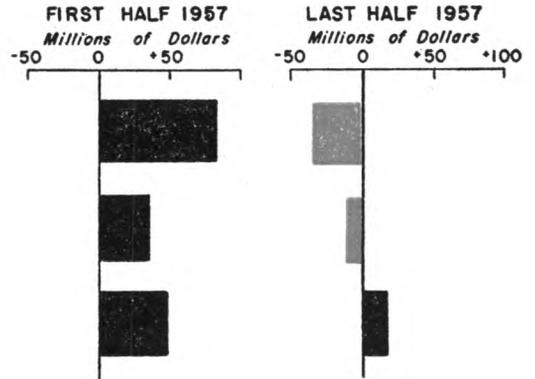
After significant first-half gains, BUSINESS LOANS outstanding at 14 Fourth District weekly reporting banks declined during the second half of 1957, but changes varied widely among industries.

Much of the first-to-second half change was due to:

METALS MANUFACTURERS

SALES FINANCE COMPANIES

PUBLIC UTILITIES



... but the shift was also felt by:

PETROLEUM, COAL and CHEMICAL MANUFACTURERS

TEXTILE, APPAREL and LEATHER MANUFACTURERS

MISCELLANEOUS MANUFACTURING and MINING FIRMS



Seasonal forces were the main influence in borrowing by:

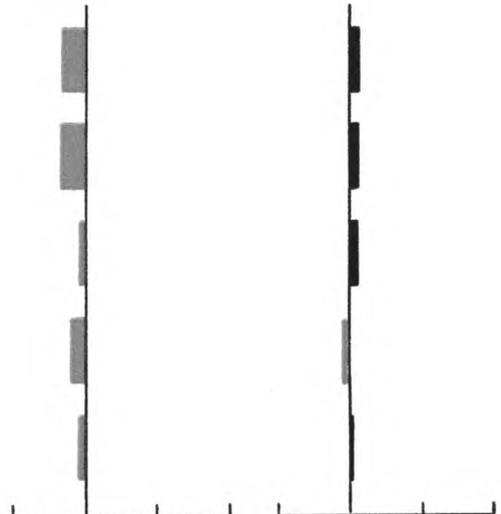
COMMODITY DEALERS

FOOD, LIQUOR and TOBACCO MANUFACTURERS

TRADE FIRMS

CONSTRUCTION FIRMS

ALL OTHER INDUSTRIES



ing the second half in contrast to reductions posted earlier in the year. Construction firms repaid bank debt during both semi-annual periods, but the volume of repayments declined sharply in the second half.

The debt reduction by metals manufacturers during the second half of 1957 was clearly contraseasonal; it was accompanied by a slowdown in inventory accumulations and in production. Large primary metals producers, such as steel, were affected by the slackened sales volume of consumer durables and inventory reductions by durable goods producers.

On the other hand, the reduced borrowing rate of sales finance companies and public utilities during the second half of 1957 appears to be largely a shift from bank to nonbank financing rather than a curtailment of their operations. In both cases bank loans were partly replaced by funds raised in the capital market. Sales finance companies borrowed from nonbank investors on short-term notes and in some cases on sales of long-term debentures. Public utilities raised a record

volume of long-term funds through new security issues during the second half of 1957.

Additions to bank loans by commodity dealers and food processors were less than expected despite increased inventories and a reduced marketing volume during the second half of the year. Trade firms in reducing their bank obligations responded to a decline in demand for consumer durables by reducing inventories.

Consumer Spending and Business Spending

Changes in the rate of consumer spending and business spending during 1957 were also reflected in the trend of business loans. In the chart on the next page, all manufacturing and mining industries and public utilities have been grouped together as industries most responsive to business spending. All other industries, principally trade firms, sales finance companies, commodity dealers, and construction firms, have been grouped together as industries most responsive to consumer spending.

CHANGES IN LARGE BUSINESS LOANS OUTSTANDING

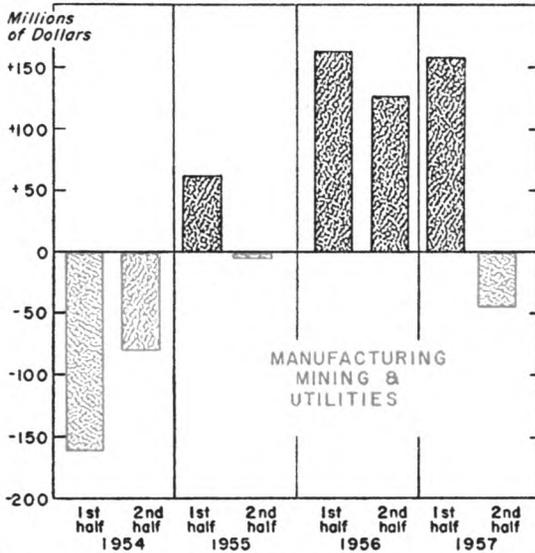
at 14 Fourth District Weekly Reporting Banks

TYPE OF INDUSTRY	1954		1955		1956		1957	
	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half
	(in millions of dollars)							
Manufacturing and Mining	-137,714	- 79,610	+ 58,531	+ 25,462	+152,610	+ 65,325	+108,555	- 61,168
Food, Liquor, and Tobacco.....	- 15,223	- 5,532	- 4,931	+ 10,219	- 848	+ 18,710	- 15,318	+ 5,662
Textiles, Apparel, and Leather..	+ 1,492	- 5,289	+ 3,319	- 4,702	+ 10,269	- 9,993	+ 10,195	- 11,503
Metals and Metal Products.....	- 91,614	- 57,629	+ 14,349	+ 21,585	+104,889	+ 26,218	+ 82,138	- 32,620
Petroleum, Coal, Chemicals, and Rubber.....	- 11,998	- 3,535	+ 26,550	- 2,308	+ 8,540	+ 20,455	+ 12,659	+ 1,344
Other Manufacturing and Mining	- 20,371	- 7,625	+ 19,244	+ 668	+ 29,760	+ 9,935	+ 18,881	- 24,051
Trade	- 8,674	+ 16,753	- 6,407	+ 21,298	- 907	+ 3,053	- 2,036	+ 4,967
Wholesale Trade.....	- 545	+ 10,040	- 7,321	+ 9,548	+ 2,478	+ 3,901	- 4,062	- 3,459
Retail Trade.....	- 8,129	+ 6,713	+ 914	+ 11,750	- 3,385	- 848	+ 2,026	+ 8,426
Other Industries	- 54,120	+ 29,757	+ 53,544	+ 96,652	- 40,640	+146,117	+ 57,876	+ 14,909
Commodity Dealers.....	- 4,886	+ 15,496	- 19,521	+ 24,351	- 11,586	+ 17,465	- 14,490	+ 6,031
Sales Finance Companies.....	- 15,602	+ 6,244	+ 50,158	+ 77,773	- 55,779	+ 40,745	+ 34,856	- 7,089
Public Utilities.....	- 19,482	+ 1,966	+ 2,597	- 29,240	+ 11,182	+ 61,596	+ 48,439	+ 15,431
Construction Firms.....	+ 3,455	- 563	+ 5,764	+ 12,324	+ 10,702	+ 11,245	- 7,944	- 1,256
All Other Types.....	- 17,605	+ 6,614	+ 14,546	+ 11,444	+ 4,841	+ 15,066	- 2,985	+ 1,792
All Industries	-200,508	- 33,100	+105,668	+143,412	+111,063	+214,495	+164,395	- 41,292

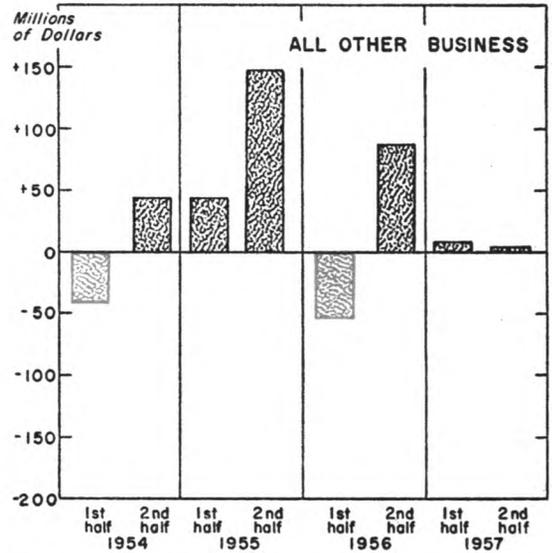
CHANGES IN BUSINESS LOANS OUTSTANDING

By Type of Business

14 Fourth District Weekly Reporting Banks



Outstanding loans to manufacturing, mining, and utilities climbed markedly in 1956 and early 1957, as business investment provided the upward thrust behind the boom.



Outstanding loans to businesses most responsive to consumer decisions rose in late 1954 and in 1955, reflecting the role of consumer spending in the recovery.

As indicated on the chart, "consumer-responsive" businesses markedly increased their bank loans at weekly reporting banks in 1955. Much of the increase can be attributed to borrowing by sales finance companies to finance the large share of the 7,000,000 autos that were purchased on more lenient credit terms. Borrowing by "business-responsive" firms also increased in 1955, but by narrower margins. Conversely, in 1956 "business-responsive" firms stepped up their borrowing pace as the rate of business expenditures for new plant and equipment increased sharply. Consumer buying slowed, car sales dropped nearly one-sixth, and borrowing from banks by "consumer-responsive" firms fell behind the 1955 pace.

In late 1957, it appears that both a reduced rate of business expansion and a slowdown in consumer spending contributed to the decline

in business loans outstanding at weekly reporting banks in the Fourth District. "Business-responsive" firms added \$157 million to their bank obligations in the first six months of 1957 in sharp contrast to a net reduction of \$46 million during the second half. "Consumer-responsive" firms added \$7 million to their bank-held debt during the first half of the year. The net addition during the second half amounted to a slight \$4 million, contrasting sharply to the comparable change in each of the three preceding years.

In the coming months, both consumer spending and business spending will be carefully watched for signs of renewed strength and a reversal of the present decline in business activity. Increased spending by either consumers or business would most likely stimulate business confidence and business demands for bank credit.

Whittling Down the Stake in Farm Price Supports

THE STOCKPILE of farm commodities accumulated under price support operations of the Commodity Credit Corporation was at an unprecedented level two years ago. At that time the value of the inventory of commodities acquired, plus price-support loans held and guaranteed, represented an investment of nearly \$9 billion. The storage costs alone were reported to have exceeded a million dollars per day. By November of last year the stockpile had been whittled down despite virtually peak levels of crop and livestock production.

This contraction in the corporation's investment in farm commodities came about largely because of an aggressive disposal program. The smaller quantity of 1957 crops placed under price-support agreements and the lower level of price supports which prevailed were additional factors in pulling the investment down to \$7.2 billion at the end of November—a drop of about 20 percent. (See chart.)

Surplus Disposal

The surplus disposal program was aided by an unusually large volume of exports, particularly of cotton, wheat, and rice in the fiscal year ended last June. Foreign shipments of agricultural products since June have remained close to the high year-ago levels even though cotton, wheat, and rice are no longer being exported at peak rates.

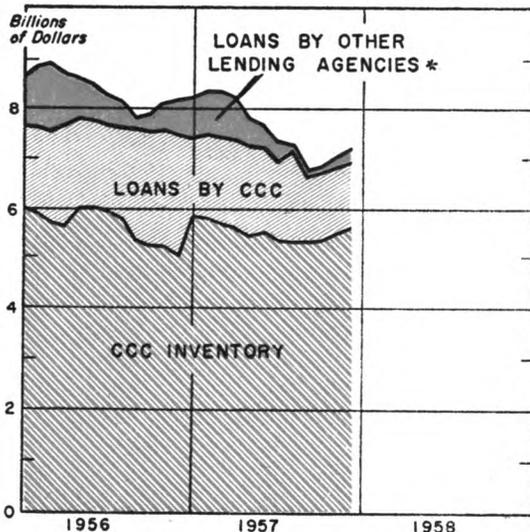
A large volume of export shipments for commercial sale and for foreign aid programs, together with domestic sales and donations, has reduced holdings of a majority of the commodities listed in an accompanying tabulation. Holdings of dairy products have been

reduced from the level of two years ago by sales at reduced prices for special uses, and donations to school lunch programs. A net accumulation of dried milk and butter occurred during the past year, however, because of an increase in price-support purchases. Corn, sorghum grains and barley holdings have mounted under the pressure of large crops.

Smaller Quantity of 1957 Crops Supported

Another development that has tended to hold the price support investment well below year-ago levels is the smaller quantity of 1957

The contraction in price-support investment has been largely confined to guaranteed loans; but loans and inventory holdings of the Commodity Credit Corporation have also declined.



*Guaranteed by Commodity Credit Corporation

**QUANTITY OF MAJOR COMMODITIES
HELD UNDER PRICE SUPPORT**
(November 30, 1957)

	Million Units	Percent change from	
		1956	1955
Wool, lbs.	19.8	-76.2%	-86.7%
Oats, bu.	58.3	-22.3	-37.1
Cotton, bales.	5.9	-43.8	-53.6
Rice, cwt.	12.8	-37.5	-44.1
Tobacco, lbs.	933.0	-11.7	- 7.8
Wheat, bu.	951.0	-11.2	-14.3
Cheese, lbs.	245.0	- 4.3	-30.2
Dried Milk, lbs.	157.0	+ 8.3	-19.9
Butter, lbs.	84.0	(1)	-56.3
Grain Sorghums, cwt.	64.5	+29.2	+13.8
Corn, bu.	1,268.0	+12.7	+45.6
Barley, bu.	145.9	+62.7	+43.2

(1)—No butter held, 11-30-56.

crops placed under price support. The high moisture content of a considerable portion of the 1957 crops of corn and sorghum grain precludes holding substantial amounts of those grains under price-support agreements. The moisture content was so high in many instances that producers have apparently found it more practical to feed the grain to livestock than to incur the expense of drying so that it may be safely held in storage. Recent arrivals on livestock markets indicate that meat animals are being fed to heavier weights.

Another deterrent to the quantity of the 1957 corn crop placed under support agreements is that a relatively high percentage of the growers in the principal corn-growing states exceeded their acreage allotment for corn. Because of over-planting, these growers were ineligible for the full loan rate on corn.

Much smaller than average crops of flaxseed, wheat, cotton, and tobacco, and moderately below average crops of rice, dry beans, and peanuts have also contributed to the smaller volume of 1957 crops placed under price support. The supported quantities of nine of the thirteen major crops, as listed in an accompanying table, were below a year ago, as of December 15.

Additional quantities of a number of the crops were probably placed under support

between December 15 and January 31, the final date for acceptance of support price agreements for all crops except cotton, tobacco, and corn. A recent announcement extended the period for accepting price-support agreements on sorghum grain until February 28, presumably due to the difficulties encountered in drying the grain so that it could be safely stored. It seems improbable, however, that the quantity of crops placed under support in 1957 will equal that of 1956. Thus, the downtrend in the Commodity Credit Corporation's investment in price-support commodities may continue.

Lower Level of Price Supports

Of the thirteen crops that are listed in the table below, all but two, rice and tobacco, were supported at lower levels in 1957 than in the previous year. A general reduction in price-support levels, ranging from about 2 percent for some crops, such as cotton, to as high as a 7-percent reduction for the feed grains, also contributed to the downtrend in the investment in price-supported commodities.

A further easing in price-support rates is indicated for the current year. The announced

**QUANTITIES OF 1957 CROPS
Placed Under Price Support (1)**

	1957 Quantities (million units)	% Change from Corresponding 1956 Quantities
Flaxseed, bu.	2.1	- 83.7%
Corn, bu.	13.7	- 82.5
Tobacco, lbs.	87.4	- 66.4
Cotton, bales.	1.2	- 60.0
Rice, cwt.	4.6	- 54.6
Peanuts, lbs.	143.2	- 50.8
Dry edible beans, cwt.	1.9	- 24.0
Soybeans, bu.	41.1	- 19.1
Wheat, bu.	185.0	- 17.8
Oats, bu.	38.8	+ 18.7
Barley, bu.	95.0	+ 73.6
Rye, bu.	5.1	+129.0
Grain Sorghums, cwt.	49.7	+188.9

(1) Data for tobacco, cotton and peanuts are as of November 30, 1957; data for all other crops are as of December 15, 1957.

support levels for the 1958 crops of wheat and rice, for example, are down 11 percent and 8 percent, respectively, from last year. Lower dairy price supports have also been announced for the year beginning April 1, 1958.

Influence of the Soil Bank Program

Approximately 20 million acres were placed in the acreage reserve of the Soil Bank program in 1957. This acreage consisted of 12.8 million acres of wheat, 4.5 million acres of corn, 3 million acres of cotton, 204,000 acres of rice, and 80,000 acres of tobacco. The influence of the Soil Bank on the final outturn of these crops was tempered by several factors. For one thing, the acreage abandoned due to crop failure of corn, wheat, and rice was significantly smaller than in the previous year. Presumably the acreage planted tended to be the land that was least subject to crop failure. A moderate increase in the average yield per acre of each of these crops also served to prevent the reduction in acreage from being fully reflected in the final production. The reduction in output of cotton and tobacco was somewhat greater in proportion to the reduction in planted acreage than in the case of the other crops, due mainly to a decline in the average yield per acre.

The Soil Bank placed no limitations on the production of feed grains other than corn. The acreage sown to barley and sorghum grains, as a consequence, increased substantially over that of the previous year, largely because of the end of the drought in the Great Plains. This increase in acreage, together with an appreciable increase in the yield of sorghum grains and a better than usual yield of barley, accounted for an unusually large outturn of feed grains. The net result was a total volume of crops equal to the record of the previous year. The Soil Bank program, therefore, brought no reduction in the over-all volume of crops (see tabulation) even though it did contribute to a significant cut in the output of cotton and tobacco and a moderate contraction in the outturn of wheat and rice, two of the major food grains.

FARM OUTPUT OF SELECTED CROPS (1947-49—100)

	1957	% change from 1956
Feed grains.....	121	+ 8
Food grains.....	79	- 6
Cotton.....	77	-17
Tobacco.....	83	-23
All Crops.....	106	-0—

Cost of Surplus Disposal

Surplus farm products from Commodity Credit Corporation stocks were moved into consumption channels at record levels from June 1, 1956, to September 30, 1957. Surplus commodities having a cost value of \$5,302 million were disposed of during that 15-month period, according to a statement of the Corporation's commodity operations. In the previous comparable period, disposals are reported to have totaled \$3,800 million.

The accelerated rate of surplus disposal, as previously mentioned, has aided in reducing the Commodity Credit Corporation's total investment in price-supported farm commodities, but it has also involved heavy losses. For the 15 months ended last September, losses to the Commodity Credit Corporation alone approximated \$1,600 million, nearly one-fourth more than in the previous comparable period. Moreover, substantial quantities of surplus commodities were also distributed through special outlets financed by other funds and agencies. Typical of these distributions were exports under the International Wheat Agreement and foreign shipments under the programs of Public Law 480.

The net realized loss on price-support operations advanced to a new high in the year ended June 30, 1957, presumably because of the aggressive disposal program pursued. Net realized losses for the first five months of the fiscal year beginning July 1, 1957, however, were 17 percent below a year earlier. Whether this can be interpreted to mean that losses, too, have turned down is questionable. The current inventory holdings of the Commodity

Credit Corporation are down only moderately from the peak and tend to dampen the prospects of an appreciable reduction in realized losses until greater success is attained in bringing production more nearly in line with domestic and foreign market requirements.

Soil Bank Acreage for 1958

The extent of the reduction in fall-sown grains, mainly winter wheat, was not impressive. The total acreage of wheat land placed in acreage reserve for 1958 was reported to be 3.9 million acres, or less than half of the acreage banked for 1957. Some spring wheat acreage will probably be consigned to the acreage reserve, but the total acreage withheld from wheat seems likely to fall considerably short of the 12.8 million acres of last year.

Early reports indicate that the acreage of cotton land placed in reserve for 1958 is running somewhat higher than had been anticipated. A temporary suspension in the acceptance of agreements was announced late in

January to facilitate proper administration of the program.

The sign-up period for spring-planted crops opened January 13 and is scheduled to close March 8. A feature of the program this year, which is being observed with a great deal of interest, is the procedure whereby entire farms may be placed in the Soil Bank on a bid basis. The operator of a farm submits a bid of a specified amount per acre, for which he will place all or a portion of his farm in the Soil Bank. This procedure is being tried on a test basis in four states this year, namely, Illinois, Maine, Nebraska and Tennessee. Early reports indicate that the new approach has provoked a great deal of discussion, but no indication is available as to its probable acceptance on the part of farmers.

The spring planting intentions of farmers, which will be released next month, are being awaited with much interest. This report will indicate whether or not producers of agricultural products plan to hold a tight rein on production in 1958.

NOTES

Among articles recently published in monthly business reviews of other Federal Reserve banks:

“What’s Wrong with Carloadings?” Federal Reserve Bank of Chicago, January 1958.

“Survey of Foreign Monetary Policies in 1957”, Federal Reserve Bank of New York, January 1958.

(Copies may be obtained by writing to the Federal Reserve bank named in each case.)

Additional copies of the **MONTHLY BUSINESS REVIEW** may be obtained from the Research Department, Federal Reserve Bank of Cleveland, Cleveland 1, Ohio. Permission is granted to reproduce any material in this publication.

