

Monthly Review



TWELFTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF SAN FRANCISCO

November 1956

Review of Business Conditions 138

**Twelfth District Bank Loans to
Farmers 140**

REVIEW OF BUSINESS CONDITIONS

BUSINESS activity in the Twelfth District, as measured by preliminary employment data, advanced to a new high in October. The September-October gain in District nonfarm employment exceeded that of a year ago. At the same time, insured unemployment was at the lowest October level since 1952. Recent District employment gains have been generated largely by continued expansion of activity in durable goods manufacturing and by a high level of nonresidential building. Labor markets remain tight in those District centers where production of aircraft and parts, missiles, metals, and machinery is concentrated. In addition, inflationary pressures apparent in the national economy also extend to the District. These are: a sustained high level of aggregate demand, a new record level of industrial production, expanding incomes, and a tense international situation.

Some slowness in consumer spending, however, was noted by District retailers in September and October. This stemmed principally from a lag in automobile sales during the model changeover period. Home building also continues at more moderate levels than last year. This fact, plus an early spell of bad weather, hastened seasonal declines in lumbering activity. The demand for funds by business firms continued strong in the District, though much of the loan expansion this fall has reflected customary seasonal borrowings.

District nonagricultural employment expands

Preliminary employment data, covering the states of Washington, Arizona, and California, which have about 80 percent of all nonfarm workers in the District, show a rise between September and October of a little less than 1 percent after seasonal adjustment. Construction employment dropped slightly, compared with a decline of more than 2 percent between September and October in 1955. Employment in manufacturing expanded by more than 1 percent, in contrast to a drop of the same percentage amount between September and October in 1955. The gain in manufacturing employment in California was sufficient to offset seasonal declines in canning

and lumbering. In fact, manufacturing employment in California in October topped the year-ago level by the largest margin since November 1955. The greatest gain over the month was in automobiles, though increases also occurred in machinery, electrical equipment, aircraft, and in certain nondurable industries that have displayed consistent growth for some time. In Washington, aircraft and machinery also showed employment increases, though these did not offset declines in other manufacturing industries.

There is substantial evidence that employment expansion in the larger labor markets in the District is somewhat restricted by shortages of labor. The United States Department of Labor reports that job opportunities slightly exceeded the number of job applicants in several of the District's major labor markets. The Department also reports that, in October, 20 percent of the total United States inventory of job openings on file with state employment agencies was listed in District states, mostly in California and Washington. In shortest supply were skilled workers and professional managerial workers, though shortages were also mentioned for clerical, sales, and stenographic skills. In addition, scattered reports indicate that District retailers are having difficulty recruiting sufficient help for the holiday season. In some areas workers will be released by seasonal declines in canning and lumbering, but many of these workers withdraw from the labor market. Also, the industries releasing workers are not located in the areas where the greatest shortages currently exist.

The present tightness in District labor markets is reflected by the current low level of insured unemployment. In October, insured unemployment in the District rose seasonally from September but was at the lowest October level since 1952.

District employers circumvent the labor shortage problem in various ways. The most noticeable involves lengthening the work week. Average hours worked per week in manufacturing in California in September, for example, exceeded the national average. However, in Washington

and Oregon the average work week in manufacturing fell short of the national average, primarily because of reduced activity in lumbering. The longest work weeks in manufacturing industries in Pacific Coast states are found in transportation and ordnance, as the labor shortage is most severe for producers of automobiles, aircraft and parts, and missiles.

Retail trade shows sluggishness

All sources of information about retail trade in the District show a decline from August to September to a level below that of September 1955, largely because of lagging automobile sales. In addition, a slight decline was noted in District department store sales in October, although they were 3 percent above a year ago. One important factor in the future course of retail trade, of course, is the reception which will be given 1957 model automobiles. Production figures for October are well below a year ago, partly because of model changeovers. Sales figures are also down, though this may be due to the fact that the inventory of old models on hand at the time new models were introduced was only a third as large as a year ago. In addition, production problems reduced the flow of new models to dealers. Currently, assembly plants in California are operating on overtime schedules to fill the pipeline that runs from manufacturer to dealer and to meet the expected increase in demand.

District retailers plan for record-breaking Christmas sales in line with the record level of earnings and employment in most areas. However, they face two problems: higher financing costs on inventories and the possibility of labor shortages.

Nonresidential construction booms

Construction activity in the District continues to parallel national trends. However, the movements are more pronounced here. While residential construction has declined nationally, the drop has been greater in the District. And while nonresidential building has soared in the nation, the District has shown a greater percentage increase.

Preliminary estimates indicate that the number of residential building permits granted in District states has fluctuated considerably in recent months. In September, residential permits dropped sharply to the lowest level of 1956. In October, permits rose by 30 percent, though they were still below the August level and down 9 percent from October 1955. Nationally, housing starts in October remained at the September level, but were 12 percent below October 1955.

Weakness in regional residential construction activity is reflected by a decline in requests for appraisals for Government-guaranteed loans from offices in the District. Although FHA applications for new homes increased 25 percent from September to October, they were well below October 1955. Requests for VA appraisals dropped an additional 7 percent between September and October. So far in 1956, VA appraisals are down 50 percent and FHA applications have dropped 32 percent from the first 10 months of 1955.

Using preliminary estimates for recent months, the number of District residential permits through October is 18 percent less than in the same 10-month period of 1955. Value figures show a 15 percent decline from the first 10 months of 1955. The total value of all construction permits granted, however, is up over 3 percent—more than in the nation.

Figures on the value of permits authorized through July for the District show, compared with the corresponding period a year ago, an increase of 116 percent in construction of factories, 54 percent for office and bank buildings, 31 percent for educational buildings, but only 5 percent for stores and other mercantile buildings. In fact, gains over last year in the District exceed national percentage changes for every nonresidential category except gasoline and service stations.

Adjustments continue in the District's lumber industry

Considerable attention has been devoted to assessing the impact of the national decline in residential building on the District's lumber industry. Through September, Douglas fir production was down nearly 7 percent from a year ago, and

FEDERAL RESERVE BANK OF SAN FRANCISCO

production of western pine had slipped about 3 percent. Yet production of California redwood was up 1 percent, and plywood production had increased 6 percent. Latest reports indicate that new orders for Douglas fir rose in October to the highest level since April, though stocks rose also. While some individual lumber prices showed signs of stabilizing towards the end of October, the Bureau of Labor Statistics reported that the lumber price index in October dropped a little more than 1 percent from September and the index for plywood prices showed a further drop of 3 percent.

The effect of the residential housing slump on the economy of the Pacific Northwest has not been as pronounced as in past periods of distress. The expansion of the plywood industry and also of the pulp and paper products industry, plus more intense efforts to utilize wood "waste" products, cushioned employment declines in Washington and Oregon. Furthermore, the continued expansion of other manufacturing industries, particularly aircraft and parts in Washington, has partially offset the income and employment declines in lumber.

Business demand for funds remains strong

Loans of weekly reporting banks in the Twelfth District continued to rise in the four-

week period ending November 14 as the demand for funds remained strong. The gain in the District amounts to 38 percent of the national increase in loans of weekly reporting member banks. The increase in commercial and industrial loans accounted for 93 percent of the District rise in total loans outstanding. Moreover, 56 percent of the national expansion in commercial and industrial loans occurred in this District. Real estate loans had a much smaller gain than in the previous four-week period. Nevertheless, the District accounted for about one-half of the total national growth in real estate loans in the period under review.

A large share of the increase in business loans occurred in the second week in November as District retailers made substantial net borrowings. Throughout the four-week period commodity dealers and food and liquor manufacturers followed their usual seasonal practice of increasing their indebtedness to District commercial banks. Metals and metal products producers, wholesalers, and construction firms also made sizable net borrowings. Repayments by lumber, sales finance, and textile firms exceeded their borrowings during the period. In order to help meet the loan demand, District banks continued to liquidate their holdings of United States Government securities.

MAJOR developments have occurred in the field of agriculture during the past few years. Farm size and farm use of both machinery and agricultural chemicals have increased, while net farm income has declined. Changes such as these have affected the capital requirements of agriculture and the ability of farmers to make these expenditures out of current income. Moreover, they have influenced both the volume and characteristics of farm loans.

As banks are one of the major sources of farm credit, a national survey of bank loans to farmers was conducted by the Federal Reserve

System in mid-1956 to provide detailed current information regarding the characteristics of bank borrowers and of their loans. The survey was designed to yield reliable estimates by Federal Reserve Districts as well as for the nation. A similar survey was conducted in 1947, but in that year the realized net income of farm operators was at its peak, and farmers were using a relatively small amount of credit. Hence, not only does the recent survey provide an opportunity to examine in some detail the current characteristics of bank borrowers and of their loans, but it also permits identification of some of the changes

that have occurred since 1947. This article summarizes the results of the 1956 survey.¹

The agricultural loan survey was designed to obtain a sample of all bank loans to farmers that were held by insured commercial banks on June 30, 1956, excluding, however, loans directly guaranteed by the Commodity Credit Corporation. Seventy-eight banks in the District, 53 of them members of the Federal Reserve System, participated in the survey. These banks held over 90 percent of the outstanding farm loan volume.

Farm borrowings up considerably

Farmers had \$738 million of credit outstanding at Twelfth District commercial banks in mid-1956, and almost half of the District farmers had outstanding farm loans at District banks. This loan volume is more than twice the amount outstanding in 1947 and represents about 15 percent of the outstanding farm debt held by all the nation's commercial banks. District farmers also obtain almost the same proportion of the national cash receipts from farm marketings.

Commercial bank credit was extended to 143,000 borrowers in the form of 234,000 loans. These loans ranged in size from a few dollars to over \$100,000, resulting in an average indebtedness per borrower considerably higher than in other sections of the country and more than twice the national average. This difference stems from the larger size of farm operations in the District. Average farm size in the District, according to the 1954 Census of Agriculture, was twice that of the nation in terms of acreage and over twice as large in terms of value of farm land and buildings per farm. The average size of individual loans, as well as average borrower indebtedness, was much higher than the national average. Moreover, loan size was somewhat higher than the average size of outstanding farm loans in the District in 1947.

Purpose of loan

The purposes for which loans are obtained by farmers may be divided into three broad groups. These groups are: current expense loans, inter-

mediate-term investment loans, and loans to buy farm real estate. Current expense loans are generally seasonal loans with repayment periods of less than one year. Loans for production purposes, for family living expenses, and for feeder livestock are usually loans of this type. Intermediate-term loans are made for such purposes as the purchase of machinery, automobiles, irrigation equipment, and consumer durables and generally have a repayment period of somewhat longer than one year. Loans for the purpose of purchasing farm real estate usually have a repayment period of several years.

Current expense loans account for the largest portion of the District's outstanding dollar volume of bank loans to farmers, 43 percent in mid-1956 (Table 1). This reflects the traditional position of banks as the principal suppliers of seasonal credit needs of farmers. Of the loans for current expense, loans for current operating and family living purposes were by far the most important loans in the District both in terms of number of notes and in volume of loans outstanding, accounting for a third of the loan volume and slightly more than a third of the notes. Even so, there were relatively fewer loans of this type in the District than in the country as a whole; but the average size loan in the District

TABLE 1
FARM LOANS OF INSURED COMMERCIAL BANKS,
TWELFTH DISTRICT—BY MAJOR PURPOSE OF LOAN
(Outstanding on June 30, 1956)

Major purpose of loan	Amount outstanding (in dollars)	Per-cent of dollar volume	Number of loans	Average size of loan (in dollars)
Current operating and family living	245,566,801	33.3	86,364	2,843
Purchase of feeder livestock	69,069,135	9.3	6,733	10,258
Current expense	314,635,936	42.6	93,097	3,380
Purchase of machinery, trucks, etc.	90,663,651	12.2	62,959	1,440
Purchase of other livestock	58,892,927	8.0	8,593	6,854
Improvement of land and buildings	43,285,518	5.9	15,256	2,837
Purchase of auto or other consumer durables	19,843,719	2.7	24,194	821
Intermediate-term investment	212,685,815	28.8	111,003	1,917
Purchase of farm real estate	101,772,503	13.8	10,623	9,580
Consolidation or payment of other debts	55,002,092	7.4	9,363	5,874
Other, or not ascertained	54,301,826	7.4	10,012	5,424
Total	738,398,172	100.0	234,097	3,154

¹ An article summarizing the results of the survey on a national basis appears in the November 1956 *Federal Reserve Bulletin*.

FEDERAL RESERVE BANK OF SAN FRANCISCO

was over three times larger, again reflecting the larger size of District farming enterprises. The average size of loans for purchase of feeder livestock was also larger in the District than in the nation; and, within the District, feeder livestock loans were of larger size than other types of current expense loans on the average. As a result, they were much more important in the District in terms of loan volume than in terms of number.

Next in importance for District farm borrowers were loans to finance intermediate-term investments, which accounted for 29 percent of the farm loan volume of District banks. Loans of this type were generally for smaller amounts than for other purposes—a little more than half as large as outstanding loans for current expense. As a group, however, these loans were the most common in the District. In fact, almost half of the individual farm loans in the District were for the purpose of financing intermediate-term investments. Purchase of machinery was by far the most common reason for loans of this type, followed by purchase of consumer durables, improvement of land and buildings, and purchase of livestock (other than feeder livestock). The average size of loans for the purchase of livestock was considerably larger than for other purposes.

Traditionally, banks have not been heavy financiers of farm real estate purchases. This again was indicated in the 1956 survey. Only 7 percent of the borrowers had one or more loans outstanding for this purpose, but these loans made up about 14 percent of the dollar volume of outstanding loans. The loans that were made for this purpose were generally for sizable amounts—the average amount outstanding was almost \$10,000 per loan.

The remaining loans were for the purpose of consolidating and paying other debts or were in the miscellaneous category. These two categories were about of equal importance, with each accounting for a minor portion of the District dollar volume and number of loans.

Net worth and indebtedness of borrowers

The pattern of farm borrowings in the District varied with differences in the net worth of

the borrowers. Credit extended for current expenses was of more importance to the borrowers in the very large and very small net worth groups. Presumably, loans for family living purposes were quite important to the borrowers with low net worths, while production costs became a progressively greater proportion of outstanding loans as the net worth of the borrower increased. Loans to purchase farm real estate also tended to increase in importance as the net worth of the borrowers increased. The reverse was true, however, for intermediate-term investment loans. Loans for these purposes were by far the most important to farmers with small net worths. Bank loans for intermediate-term purposes to borrowers with a net worth of less than \$3,000 accounted for about half of the dollar volume of outstanding loans of borrowers in this net worth category.

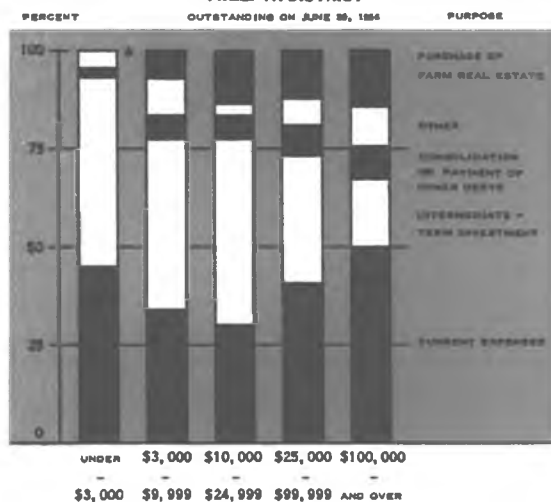
Farmers with high net worths, however, accounted for the bulk of all loans both in terms of number and dollar volume (Table 2). Most of these farmers have a volume of sales sufficient to be classified as commercial farmers. Loans to

TABLE 2
FARM LOANS OF INSURED COMMERCIAL BANKS,
TWELFTH DISTRICT—BY NET WORTH OF BORROWER
(Outstanding on June 30, 1956)

Net worth of borrower	Amount outstanding (in dollars)	Number of borrowers	Average amount per borrower (in dollars)
Under \$3,000	3,102,112	4,109	756
\$3,000-\$9,999	28,542,570	22,073	1,293
\$10,000-\$24,999	89,052,366	41,783	2,131
\$25,000-\$99,999	243,789,228	45,087	5,407
\$100,000 and over	351,868,270	14,010	25,116
Not ascertained	22,043,626	16,256	1,356
Total	738,398,172	143,320	5,152

borrowers with a reported net worth of \$10,000 or more accounted for 77 percent of the number of loans and 93 percent of the dollar amount of loans outstanding in mid-1956. Even in the case of intermediate-term loans, which accounted for a large portion of the bank loans to small farmers, 86 percent of the dollar volume of such loans was to farmers with a reported net worth of \$10,000 or more. The greater importance of short-term bank loans to larger farmers probably results from the tendency for farms to require relatively more funds for operational pur-

CHART 1
**PERCENTAGE DISTRIBUTION OF
 OUTSTANDING LOAN VOLUME
 BY NET WORTH OF BORROWER
 TWELFTH DISTRICT**



*In the "Under \$3000" net worth category, there were no loans for the purchase of farm real estate.

poses as they increase in size and for feeder livestock operations to be highly specialized and larger in terms of capital requirements. In the case of feeder livestock loans, for instance, 95 percent of the dollar volume of outstanding loans for this purpose was extended to borrowers with a net worth of \$25,000 or more, while this group of borrowers accounted for only about two-thirds of the number of loans.

The most common net worth of District borrowers was in the range of \$25,000 to \$100,000, compared with the range of \$3,000 to \$10,000 nationally. The District accounted for one out of four of the nation's bank borrowers with a net worth of \$100,000 or more. These borrowers made up only 10 percent of all the District borrowers but accounted for almost half the dollar volume of outstanding loans in the District. On a national basis, these very large farmers accounted for only about a fifth of the dollar volume. At the other extreme, borrowers in the category of net worths of less than \$10,000 accounted for only 4 percent of the loan volume in the District, with about 1 of every 6 borrowers falling in these net worth categories. Nationally,

almost half of the borrowers had a net worth of less than \$10,000.

As indicated previously, there were more loans reported in the survey than there were borrowers. A number of borrowers, therefore, had more than one loan outstanding. Because of the small number of loans for the purpose of purchasing farm real estate, only about 7 percent of the borrowers had outstanding loans for purposes that included purchase of farm real estate. Farmers borrowing for the purpose of purchasing farm real estate tended to borrow more heavily from the same banking office for other purposes than did other borrowers. The average indebtedness for other purposes of this 7 percent of the borrowers was almost \$6,200. This is considerably higher than the average size of the indebtedness of other borrowers.

Loan renewals

A sizable number of loans held by banks in the District were loans that had been renewed. Renewals in the District, however, were not as common as in the country as a whole. About a sixth of the number of outstanding notes at District banks had been renewed, compared with a third nationally. Over half of the renewals in the District were not made on a planned basis, that is, there had been no agreement at the time the note was initiated to renew it on maturity.

Unplanned renewals accounted for a little more than a tenth of the outstanding loan volume. These renewals most frequently occurred on loans made for the purpose of current operating expenses, with renewals for machinery purchases in second position, and feeder cattle loans at the bottom of the list.

Planned renewals, on the other hand, accounted for a slightly larger proportion of the outstanding loan volume in the District. Of the planned renewals, current operating expense loans were again the type of loan most frequently renewed, with loans for the purchase of livestock (other than feeder cattle) in second place. Loans for the purchase of consumer durables and automobiles had the fewest number of renewed notes where the renewal had been planned.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Interest rates

Interest rates paid on outstanding farm loans in the District have increased since 1947. For loans secured by farm real estate the average annual interest rate in 1956 was 5.5 percent, compared with 5.0 percent in 1947. The average interest rate for loans with other types of security was higher than for loans secured by farm real estate and also higher than in 1947. These loans had an average interest rate of 6.3 percent in 1956, compared with 5.5 percent in 1947. Interest rates in the District

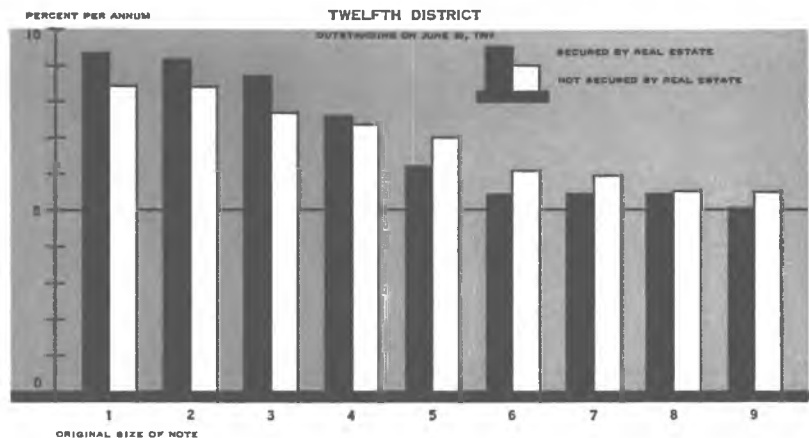
averaged lower than in the country as a whole both for loans secured by farm real estate and those not secured by farm real estate. This does not necessarily indicate a different interest rate structure in the District but is probably the result of the larger size of the original note in the District. As indicated in Chart 2, rates decline as the size of the loan increases.

Bank loans by type of farm

Farmers of general-type farms were the most common type of District agricultural bank bor-

CHART 2

INTEREST RATES FOR AGRICULTURAL LOANS
BY ORIGINAL SIZE OF LOAN



Note: Original size of note groupings are as follows: 1) Under \$250; 2) \$250-499; 3) \$500-\$999; 4) \$1,000-\$1,999; 5) \$2,000-\$4,999; 6) \$5,000-\$9,999; 7) \$10,000-\$24,999; 8) \$25,000-\$99,999; 9) \$100,000 and over.

rower in mid-1956, accounting for a little more than a third of the borrowers (Table 3). The outstanding debt of this type of borrower, however, was comparatively small. Despite the large proportion of borrowers of this type in the District, the proportion was even higher in the country as a whole. At first glance this suggests a higher degree of specialized farming in the District, but the results of the 1954 Census of Agriculture indicated that general farms were as common in the District as in the country as a whole. This combination of circumstances suggests, therefore, that a higher proportion of the specialized farmers in the District turn to commercial banks for credit purposes.

Of the specialized farmers in the District, dairy farmers were the most usual type of bank borrower, followed by producers of unspecified major products. This latter group would include farmers specializing in such products as fruit and vegetables. The third most common type of specialized farm borrower, meat animal producers, also had the largest balance outstanding per borrower. Although there were relatively few borrowers in the District that specialized in cotton production, they borrowed quite heavily and had the second largest outstanding balance per borrower.

TABLE 3

FARM LOANS OF INSURED COMMERCIAL BANKS,
TWELFTH DISTRICT—BY TYPE OF FARM
(Outstanding on June 30, 1956)

Type of farm	Amount outstanding (in dollars)	Number of borrowers	Average amount per borrower (in dollars)
General	185,560,214	49,329	3,762
Meat animal	182,222,912	16,126	11,300
Other major product ¹	132,440,066	21,977	6,026
Dairy	114,331,149	25,723	4,444
Cash grain	71,022,516	12,198	5,822
Cotton	28,027,383	4,118	6,806
Poultry	10,949,276	3,963	2,763
Not ascertained	13,844,656	9,886	1,400
Total	738,398,172	143,320	5,152

¹ Includes farms specializing in the production of such products as fruits, vegetables, nuts, etc.

Borrower characteristics

Owner-operators of farms were the leading type of borrower from commercial banks. They accounted for about three-fourths of the number of borrowers in the District, tenant borrowers—14 percent, and the landlords—2 percent. Corporate borrowers were relatively unimportant in the District, making up less than 1 percent of the number of borrowers but accounting for 5 percent of the total outstanding loan volume.

There are some farmers that derive a sizable portion of their gross income from off-farm employment. These part-time farmers made up 12 percent of the farm borrowers in the District and borrowed primarily for current expense and intermediate-term investment purposes. About one of every ten of these borrowers had an outstanding loan that was made primarily for the purpose of purchasing farm real estate. This is a somewhat higher proportion than for all borrowers.

Older farmers had a larger amount of outstanding debt per borrower than young farmers (Table 4). There also were more farm borrowers in the older age groups. Farmers 45 years of age or older accounted for almost half of all farm borrowers whereas young farmers, under 35 years of age, made up only 16 percent of the borrowers. Corporate borrowers were few in number but had an outstanding balance on their loans of over \$80,000 per borrower.

TABLE 4
FARM LOANS OF INSURED COMMERCIAL BANKS,
TWELFTH DISTRICT—BY AGE OF BORROWER
(Outstanding on June 30, 1956)

Age of borrower	Volume out-standing (in dollars)	Number of borrowers	Average debt per borrower (in dollars)
Under 25	3,698,597	2,776	1,332
25 - 34	72,245,596	19,669	3,673
35 - 44	211,468,150	43,778	4,831
45 and over	396,505,305	68,251	5,810
Corporate farms	37,776,984	448	84,323
Not ascertained	16,703,540	8,399	1,989
Total	738,398,172	143,320	5,152

Loans to farmers by size of bank

Large banks, those with deposits of \$10 million and over, held the bulk of the outstanding farm loan volume in the District (Table 5).

TABLE 5
FARM LOANS OF INSURED COMMERCIAL BANKS,
TWELFTH DISTRICT—BY SIZE OF BANK
(Outstanding on June 30, 1956)

Size of bank (total deposits ¹)	Amount out-standing (in dollars)	Number of borrowers	Average amount per borrower (in dollars)
Under \$3 million	22,248,208	8,072	2,756
\$3 million to \$10 million	71,337,342	21,035	3,391
\$10 million and over	644,812,622	114,213	5,646
Total	738,398,172	143,320	5,152

¹ As of June 30, 1956.

They served 80 percent of the borrowers and held almost 90 percent of the outstanding balances. On the other hand, small banks, those with deposits of less than \$3 million, held only 3 percent of these balances but served 6 percent of the borrowers. Farmers borrowing from small banks most often borrowed for current expense purposes. These are normally short-term notes. Current expense loans accounted for the largest share of outstanding loan volume at large banks, but farmers borrowing for intermediate-term investment purposes constituted the largest group in terms of number of borrowers. Medium-sized banks also concentrated their lending (on a borrower basis) to those farmers borrowing for intermediate-term purposes, but a higher proportion of their customers had outstanding loans for the purpose of buying farm real estate than either the large or small banks.

Direct and purchased loans of banks

Not all of the farm loans held by banks were initially made by the bank, but direct loans accounted for by far the largest number of loans and the largest proportion of the outstanding loan volume. Direct loans by banks were most commonly made to borrowers for current expense purposes, with a high proportion made for the purpose of current operating expenses. Loans purchased by banks made up about 11 percent of the total outstanding loan volume. The outstanding balance on these purchased loans averaged considerably smaller than for direct loans made by banks—\$1,150 as compared with \$4,036. The most common type of loan purchased by banks was that made for intermediate-term investment purposes. Loans of this type accounted for over

FEDERAL RESERVE BANK OF SAN FRANCISCO

95 percent of the number of loans and of the outstanding balance of all purchased loans. Of the intermediate-term investment loans, those made for the purpose of buying machinery accounted for 80 percent of the volume and about three of each four loans.

Importance of farm credit

To serve the credit needs of farmers, commercial banks in the Twelfth District held outstanding loans of almost three-quarters of a billion dollars in mid-1956. While this sum, large as it

may seem in absolute terms, accounts for only about 5 percent of the outstanding loan volume held by District commercial banks, the concentration of farm loans in the rural areas of the District, however, makes the farm borrower very important in those regions. Moreover, intelligent use of credit by the farmer permits him to make improvements that could not otherwise be accomplished with limited capital resources. District banks serve the farmer primarily through credit for current operating and family living expenses.



BUSINESS INDEXES—TWELFTH DISTRICT¹
(1947-49 average=100)

Year and month	Industrial production (physical volume) ¹							Total nonagr-cultural employment	Total mfg employment	Car-loadings (number) ²	Dep't store sales (value) ³	Retail food prices ⁴	Waterborne foreign trade ⁵	
	Lumber	Petroleum ¹		Cement	Lead ²	Copper ³	Electric power						Exports	Imports
		Crude	Refined											
1929	95	87	78	54	165	105	29	....	....	102	30	64	190	124
1933	40	52	50	27	72	17	26	....	....	52	18	42	110	72
1939	71	67	63	56	93	80	40	....	55	77	31	47	163	95
1947	97	100	98	96	94	106	90	99	100	106	99	96	129	81
1948	104	101	100	104	105	101	101	102	102	100	104	103	86	98
1949	100	99	103	100	101	93	108	99	97	94	98	100	85	121
1950	113	98	103	112	109	113	119	103	105	97	105	100	91	137
1951	113	106	112	128	89	115	136	112	120	100	109	113	186	157
1952	116	107	116	124	86	112	144	118	130	101	114	115	171	200
1953	118	109	122	130	74	111	161	121	137	100	115	113	140	308
1954	112	106	119	133	70	101	172	120	134	96	113	113	131	260
1955	122	106	122	145	73	117	192	127r	143r	104	122	112	164	307
1955														
September	118	106	132	159	70	128	196	129r	144r	107	127r	112	174	363
October	116	105	129	155	72	131	197	129r	145r	104	126	112	152	348
November	110	106	123	128	67	128	206	130r	148r	98	125	112	143	325
December	123	106	120	130	63	119	198	130r	149r	98	123	112	164	328
1956														
January	129	106	130	135	70	134	199	131r	149r	107	130	112	136	354
February	125	106	128	145	77	129	204	132r	150r	99	124	111	126	323
March	117	105	128	149	77	131	219	132r	150r	103	128	112	150	395
April	119	105	122	160	82	140	203	133r	150r	105	131	113	175	397
May	118	105	129	173	74	135	211	132r	152r	107	122	113	183	519
June	117	105	125	161	81	135	215	134r	153r	105	126	114	204	427
July	115	105	132	160	75	110	212	134r	152r	102	132	115	215	559
August	118	105	128	171	75r	123	212	135r	153r	101	131	114	....	....
September	113	104	136	....	78	125	209	135	153	107	131	114	....	....

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT
(amounts in millions of dollars)

Year and month	Condition items of all member banks ¹				Bank rates on short-term business loans ²	Member bank reserves and related items					Bank debits index 31 cities ¹³ (1947-49=100) ¹⁴
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ⁷	Total time deposits		Factors affecting reserves:				Reserves ¹¹	
						Reserve bank credit ⁸	Commer-cial ⁹	Treas-ury ¹⁰	Money in circula-tion ⁶		
1929	2,239	495	1,234	1,790	.....	- 34	0	+ 23	- 6	175	42
1933	1,486	720	951	1,609	.....	- 2	- 110	+ 150	- 18	185	18
1939	1,967	1,450	1,983	2,267	.....	+ 2	- 192	+ 245	+ 31	584	30
1947	5,358	7,247	8,922	6,006	.....	- 302	- 510	+ 698	- 206	2,202	95
1948	6,032	6,366	8,655	6,087	.....	+ 17	+ 472	- 482	- 209	2,420	103
1949	5,925	7,016	8,536	6,255	3.20	+ 13	- 930	+ 378	- 65	1,924	102
1950	7,093	6,415	9,254	6,302	3.35	+ 39	-1,141	+1,198	- 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	- 21	-1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	-1,912	+2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	4.14	- 14	-3,073	+3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	4.09	+ 2	-2,448	+2,328	- 30	2,505	168
1955	11,124	7,239	11,864	9,120	4.10	+ 38	-2,685	+2,757	+ 100	2,530	172
1955											
October	10,665	7,487	11,465	9,067	.....	- 43	- 245	+ 174	+ 15	2,417	171
November	10,931	7,238	11,665	9,005	.....	+ 46	- 81	+ 205	+ 18	2,575	181
December	11,115	7,298	11,876	9,084	4.25	+ 8	- 434	+ 417	+ 17	2,530	183
1956											
January	11,193	7,143	11,794	9,070	.....	+ 84	- 322	+ 136	- 99	2,554	188
February	11,323	6,819	11,233	9,095	.....	- 87	- 76	+ 95	- 7	2,488	179
March	11,476	6,731	11,112	9,103	4.34	+ 71	- 178	+ 188	+ 35	2,516	183
April	11,669	6,730	11,530	9,099	.....	+ 82	- 270	+ 371	- 7	2,578	190
May	11,837	6,566	11,144	9,139	.....	- 22	- 233	+ 217	+ 47	2,498	182
June	12,030	6,482	11,262	9,294	4.44	+ 5	- 405	+ 341	+ 32	2,404	186
July	12,157	6,396	11,392	9,233	.....	- 6	- 143	+ 240	- 8	2,519	197
August	12,173	6,439	11,356	9,286	.....	+ 4	- 315	+ 247	- 103	2,565	201
September	12,423	6,491	11,581	9,305	4.57	+ 3	- 454	+ 466	- 59	2,640	184
October	12,384	6,468	11,747	9,326	.....	- 5	- 417	+ 312	- 2	2,542	197

¹ Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, National Lumber Manufacturers Association and U.S. Bureau of the Census; petroleum, cement, copper, and lead, U.S. Bureau of Mines; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census. ² Daily average. ³ Not adjusted for seasonal variation. ⁴ Los Angeles, San Francisco, and Seattle indexes combined. ⁵ Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. ⁶ Annual figures are as of end of year, monthly figures as of last Wednesday in month. ⁷ Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. ⁸ Average rates on loans made in five major cities. ⁹ Changes from end of previous month or year. ¹⁰ Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. ¹¹ End of year and end of month figures. ¹² Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. ¹³ Preliminary. ¹⁴ Revised.