

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

for your files  
R. M.

# Office Correspondence

Date March 25, 1947

To Chairman Eccles

Subject: Requested Data

From Richard A. Musgrave R M

## Expansion of Bank Loans and Investments

The main points of Table I are:

(1) The level of commercial and industrial loans (business loans) is now at an all-time high and above the previous peak of 1929.

(2) During the calendar year 1946 commercial and industrial loans increased by nearly 50 per cent. The rate of increase for real estate loans was even sharper. The loan expansion is still continuing. The increase in total loans during 1946 was more moderate because the increase in some categories was offset in part by a sharp decline in loans to brokers and dealers and in loans to others for the purchase and carrying of securities.

(3) Bank investments at the end of 1946 were nearly 15 billion below the end of 1945 figure. This reflects the debt retirement program which was directed to a considerable extent at the repayment of bankheld debt. During the first quarter of this year, holdings of Government securities by commercial banks have declined further, due to continued debt retirement.

The table includes loans and investments at member banks only, that is, at commercial banks which are members of the Federal Reserve System. At the close of 1946 these banks held over 70 per cent of total loans and about 85 per cent of total investments of all commercial banks. The picture provided by member banks is thus fairly representative for the banking system.

## Consumer Credit

Table II shows the increase in consumer credit. During the war, consumer credit declined sharply due mainly to reduced installment purchases, and reached a low of about 5 billion dollars early in 1944. Since then consumer credit has doubled, reflecting primarily a sharp growth in installment credit and charge account credit. It has now returned to the prewar peak. The share of banks in the financing of installment credit increased from about 1/3 before the war to over 40 per cent by the end of 1946. After allowance for seasonal factors, it appears that consumer credit is still expanding.

Corporation Profits

Table III shows corporation profits before, during and after the war. During the war, profits before tax nearly tripled from the 1940 level and profits after tax rose by over 30 per cent. During 1946, estimated profits before tax were considerably below the wartime peak due to reconversion difficulties. However, profits after tax during 1946 climbed above the wartime high and were nearly twice the 1940 level.

At the close of 1946, profits ran much higher than for the calendar year as a whole. Indeed, it is estimated that the annual rate of profits before tax for the fourth quarter of 1946 has returned to about the wartime peak. Due to the repeal of the excess profits tax and lower corporation tax rates, estimated total profits after tax have been 50 per cent above the wartime peak, two and a half times the 1940 level and three times the 1939 level. In view of the continued high level of business activity and rising prices, one may expect the picture for the first quarter of 1947 to be at least as favorable as that for the last quarter of 1946.

Attachments

Table I

LOANS AND INVESTMENTS AT MEMBER BANKS  
(In billions of dollars)

	Dec. 31 1929 <sup>1/</sup>	Dec. 31 1945	Dec. 31 1946	Change Dec. 31, 1945 - Dec. 31, 1946
<b>Loans</b>				
1. Commercial and industrial	11.5	8.9	13.2	+ 4.3
2. Farmers - CCC			.1	+ .1
3. Farmers - Other		.1	.8	+ .7
4. Brokers and dealers	2.5	3.1	1.5	- 1.6
5. Others on securities	7.7	3.4	1.5	- 1.9
6. Real Estate - Farms	.4	.3	.4	+ .1
Real Estate - Residential	} 2.8	2.5	3.9	+ 1.4
Real Estate - Other		.7	1.1	+ .4
7. Automobile installment		.2	.4	+ .2
Other retail installment		} .2	.3	} + .4
Repair			.3	
Installment cash			.3	
Single payment installment		1.2	1.8	+ .6
8. All other loans	1.3	1.1	1.0	- .1
<b>Total loans</b>	<b>26.2</b>	<b>22.8</b>	<b>26.7</b>	<b>+ 3.9</b>
<b>Investments</b>				
9. U. S. Gov't Securities, direct and guaranteed	3.9	78.3	63.0	-15.3
10. All other securities	5.9	6.0	6.6	+ .6
<b>Total</b>	<b>9.8</b>	<b>84.3</b>	<b>69.6</b>	<b>-14.7</b>
<b>Grand Total</b>	<b>35.9</b>	<b>107.2</b>	<b>96.4</b>	<b>-10.8</b>

<sup>1/</sup> Not strictly comparable with classification for 1945 and 1946.



Table II  
 CONSUMER CREDIT  
 (In billions of dollars)

<u>At Banks</u>	<u>Estimated Amount Outstanding, Dec. 31</u>		
	1941	1945	1946
<b>Total</b>	<b>3.4</b>	<b>2.3</b>	<b>3.7</b>
<b>Installment</b>	1.9	.8	1.7
<b>Automobile</b>	.8	.2	.6
<b>Personal</b>	.6	.4	.6
<b>Other</b>	.6	.2	.5
<b>Single Payment Loans</b>	1.5	1.5	2.0
 <u>Other Lenders</u>			
<b>Total</b>	<b>6.5</b>	<b>4.3</b>	<b>6.3</b>
<b>Installment</b>	4.0	1.6	2.3
<b>Charge Accounts</b>	1.8	2.0	3.1
<b>Other</b>	.7	.7	.9
 <u>Grand Total</u>	<b>9.9</b>	<b>6.6</b>	<b>10.0</b>

Table III

PROFITS OF ALL CORPORATIONS  
(in billions of dollars)

<u>Calendar year</u>	<u>Before tax</u>	<u>After tax</u>	<u>Tax liability</u>
1939	6.4	4.9	1.5
1940	9.2	6.2	3.0
1944	24.1	9.8	14.3
1945	20.9	9.1	11.8
1946	20.0	12.0	8.0
4th quarter 1946, season- ally adjusted annual rate	24.0	15.0	9.0

Source: Department of Commerce for 1939, 1944, 1945, 1946.  
Federal Reserve Board for 1946, 4th quarter.