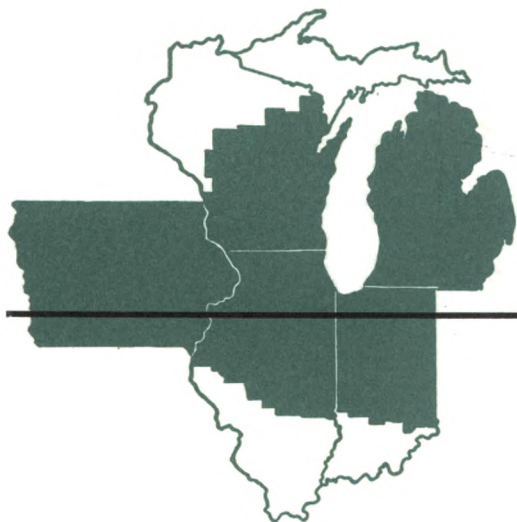


A review by the Federal Reserve Bank of Chicago

Business Conditions

1958 February



Contents

Consumers in the forefront	4
Selected economic indicators: Chicago-Detroit	8
State-local spending in the year ahead	10
Rates on bank loans to business level off, decline	15
The Trend of Business	2-4

THE Trend OF BUSINESS

Since August, most aggregate measures of activity, including industrial production, employment and personal income, have moved downward. Retail sales, after declining in the autumn, rose in December as the final weeks of Christmas buying pushed up sales totals. But this development may have been a temporary reaction from the depressed levels of consumer buying in October and November rather than the assertion of a sustained uptrend in consumer spending at retail.

By December, output of the nation's factories and mines had fallen 6 per cent from the August level. Employment, seasonally adjusted, was down 950,000 or 1.8 per cent, and the average factory work week, at 39.3 hours, was off sharply from the 41 hours a year earlier. Retail trade, although somewhat greater than in November, was 2.1 per cent lower than the peak rate reached in July and August. Significantly, nearly all segments of private activity were moving with the ebbing tide.

Nevertheless, there is widespread expectation that the low point in the current recession will be reached in the next few months, possibly before midyear. Confidence that the 1957-58 letdown will be short-lived is based upon three major premises. First, inventory reductions have played an important role in the slowing pace of activity thus far, and this is usually a short-run phenomenon. Second, an accelerating pace of defense activity is expected to provide support to certain sectors. And third, credit market conditions are

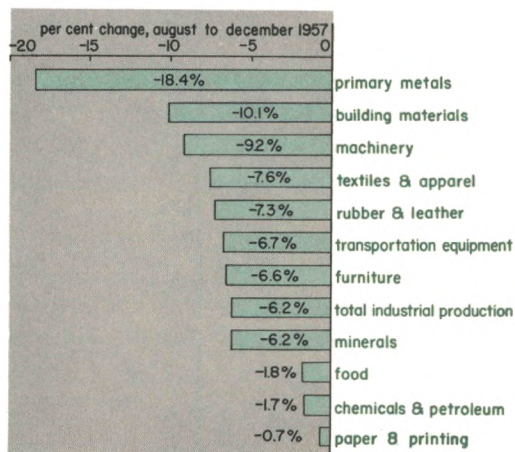
working on the side of business expansion.

Living off the shelf

In October and November, manufacturers' inventories declined by 400 million dollars, while stocks held by trade firms showed no significant change. Available evidence points to a further reduction of stocks in most major lines in December and January — with automobiles in dealers' hands a notable exception. Early in 1958, surveys of retailers and manufacturers indicated continued caution on new buying.

Total spending, the gross national product, dropped by about 6 billion dollars between the third and fourth quarters, but practically

Production decline hits all major industries



all of this decline represented a switch from inventory accumulation to liquidation. Spending on goods and services by final users, therefore, was fairly well maintained at near-record levels and, in the fourth quarter, was 15 billion dollars or 3.6 per cent higher than in the same period of the previous year. This compared with a gain of less than 2 per cent in total spending, including changes in inventories.

	<u>GNP</u>	<u>Inventory change</u>	<u>Final buying</u>
1956 Oct.-Dec.	426.0	5.1	420.9
1957 Jan.-Mar.	429.1	— .8	430.0
Apr.-June	434.3	1.7	432.6
July-Sept.	439.0	2.0	437.0
Oct.-Dec. est.	433.0	—3.0	436.0

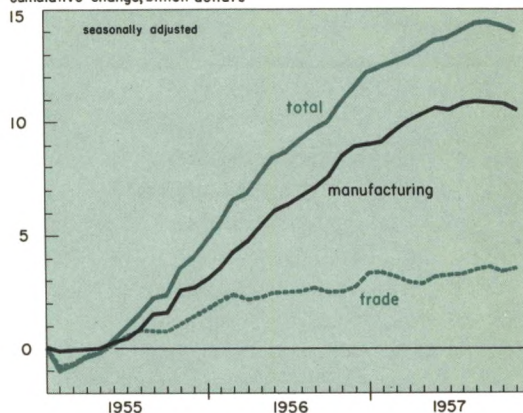
Consumption can exceed production only for limited periods, particularly if the differential is substantial. Despite some rise in stocks relative to sales over the past year, business inventories amount to only one and two-thirds months' sales, and in many lines business buying has been on a hand-to-mouth basis for a year or more. The very fact that inventory liquidation has proceeded so rapidly might suggest that it cannot be continued for a long period. Nevertheless, little comfort can be drawn from the fact that inventory reductions comprise an important depressing force in the economy, unless there is reason to believe that final spending will be maintained or increased.

Defense spending trend reversed

National security outlays dropped about one-half billion dollars on an annual rate basis between the second and third quarters of 1957. But this cutback in disbursements was only a partial measure of the impact of the Defense Department's midyear economy drive. The slowed pace of order placement had widespread effects on manufacturers'

Manufacturers reduce inventories, following two-year rise

cumulative change, billion dollars



backlog of unfilled orders, inventory requirements and planned production schedules. It is estimated that only one-third of the procurement contracts provided for in the current fiscal year were let in the July-December half of the period, although placement of new orders increase toward year-end. In November, new orders of durable goods manufacturers increased slightly, reflecting the step-up in Defense Department ordering. A continued rise in contract lettings in December and January may have boosted the total further.

That defense spending will rise in the period ahead is now apparent. The amount and timing of the increase remains uncertain. Typically, there is a considerable lag between placement of orders and disbursement of funds. However, current spending by manufacturers receiving an increased flow of new orders can be expected to increase.

Borrowing costs fall

Judging by interest rate movements, credit markets have eased markedly since the fall.

Falling yields and rising bond prices have characterized the capital markets ever since the Federal Reserve discount rate charged to member banks was reduced from 3½ to 3 per cent last November.

Since then, congestion in the capital markets has disappeared, and many bond prices have risen by 10 per cent or more. Top-grade seasoned corporates have moved from a 4.2 per cent yield to less than 3.7 per cent. Even larger declines have taken place in the Government and municipal issues. Long-term Government bond yields have moved down from 3.8 to 3 per cent, and municipals from 4 to 3.2 per cent, according to Standard and Poor's. In the short-term markets, rates on Treasury bill yields have dropped more than one percentage point and rates on commercial paper and bankers acceptances have declined appreciably. Following a further reduction in the Federal Reserve discount rate in January, commercial banks announced

lower rates charged on "prime" business loans.

Consumer retains key role

While interest has focused recently on the outlook for defense spending, personal consumption expenditures will continue to play a key role in the trend of business. As noted above, the mild gain in retail sales in December is being viewed with caution until additional evidence is available. In addition to analyzing current spending, efforts have been made for a number of years to measure consumer expectations and their plans for future spending. One recent survey, conducted in November and December, concluded that consumers plan to make fewer major purchases, such as automobiles, than in other recent years. Additional evidence will be provided in the early spring when the findings of the annual survey of consumer finances, being conducted currently, are available.

Consumers in the forefront

“**W**hat will consumers do next?” Their shifting pace of buying played a key role in the course of business during 1957. Following a period of stability which lasted through early spring, retail sales began a sharp upward climb. Rising much more rapidly than disposable income (see chart), transactions at the nation's retail counters hit 17 billion dollars in July, 7 per cent above the year-earlier figure. After holding at that pace in August, sales began to slip. By year-end, retail business had dropped relatively more than disposable income, which also

had drifted down somewhat from its August peak, along with employment and industrial production.

Brakes on spending?

Typically, sales at retail show a close tie to variations in the trend of disposable income. But there is more to it than income. Credit availability is important. Stocks of consumer goods are a conditioning factor and changes in the timing of consumer spending frequently arise from changes in “consumer psychology.”

The strong sales surge in mid-1957 was interpreted widely as evidence of favorable consumer attitudes. But the advance was short-lived. Consumers were subjected to a number of dramatic events in the third and fourth quarters of 1957, apparently helping to cool their desire to spend.

Among these “adverse” developments were the topping out of the business boom, the decline in the stock market, the launching of sputnik and the flu epidemic. The effects of these events on consumer behavior cannot be judged precisely, but retailers are prone to believe that each made a contribution to the shift in consumer spending. In addition, unusually warm weather last fall was blamed for depressing sales of some lines. But a year without unseasonable temperatures seems to be the exception rather than the rule.

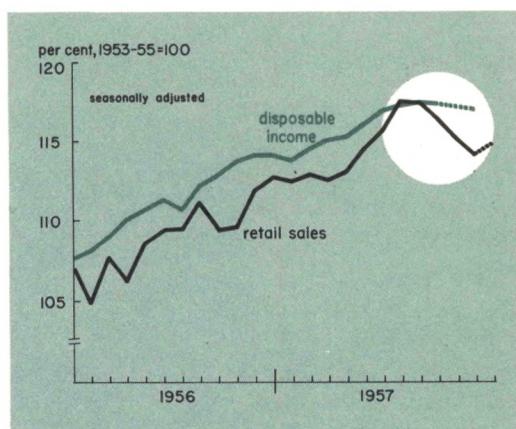
Despite these brakes on spending, aggregate retail trade in 1957, due largely to the midyear surge, compares favorably with 1956. Total dollar volume gained 5 per cent—bettering the 3 per cent rise of the previous year. However, just as in 1956, price increases accounted for half of the pickup.

Credit picture stable

Buying on instalment credit played about as important a role in the retail trade picture during 1957 as it did in 1956. The amount of credit extended in the first eleven months of 1957 exceeded a year earlier by 6 per cent, or 2.2 billion dollars. Nevertheless, repayments showed an even larger percentage increase, and slowed the over-all rise in the volume of instalment debt.

Credit extended to purchase autos increased 7 per cent, equal to the gain in sales of automotive dealers. Although fewer people bought new cars on credit, more used cars were purchased in this manner, and the

Retail sales drop from summer peak, down more than disposable income

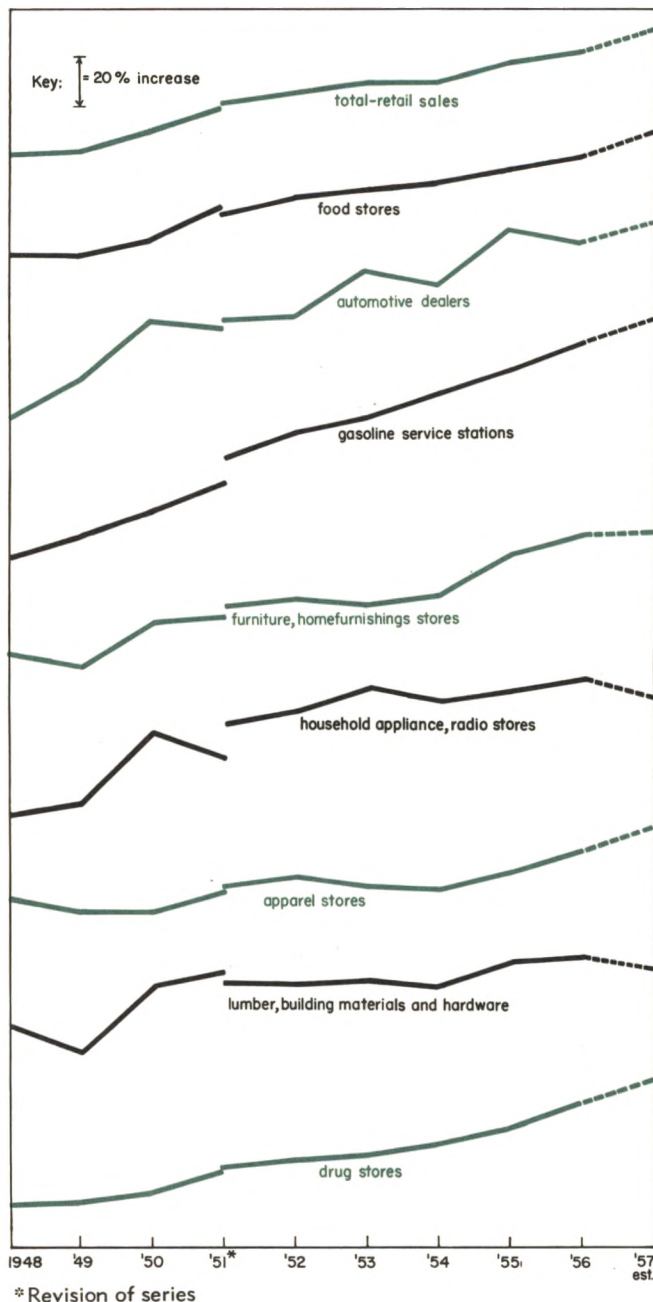


average size of instalment contract rose for both new and used autos.

Moreover, auto instalment loan terms have lengthened somewhat as the 36-month contract has come into wider use. The Federal Reserve Board has reported that perhaps one-half of all new car contracts written in recent months were of the three-year variety. While the 36-month maturity is not quite so common in the Midwest, most Seventh District areas reported an increase in the average maturity of auto contracts as 1957 wore on. In the Chicago metropolitan area, for example, a measurable amount of 36-month paper was reported by commercial banks in November for the first time this year. Extension of instalment credit for purchase of goods other than autos held about even with 1956.

Revolving credit plans have grown further in importance. Under these plans, a line of credit is established for the customer and he can continue “buying on the cuff” each month, whether it be for hard or soft goods, as long as his total debt to the store stays

Consumer purchases undergo sharp growth in the postwar period



within a predetermined limit. Although this growing form of credit extension accounts for less than 10 per cent of non-auto instalment sales, it is substantially more important at department stores. In the Midwest, for example, revolving credit during November accounted for 66 per cent of department store instalment business. A year ago this fraction was 56 per cent.

A soft goods year

With a greater proportion of consumer spending going to non-durable lines last year, almost all soft goods outlets chalked up marked sales increases. Drug stores, gasoline service stations and food stores led the field, recording gains of 8 to 10 per cent (see chart). Apparel, mail order and variety sales topped 1956 by about 5 per cent. Price increases accounted for perhaps one-third of the pickup in food and drugs, whereas only a very modest price rise helped boost the apparel dollar volume.

The strongest ally of apparel merchants is the continued rapid growth in the nation's population of youngsters. The gain in children's clothing sales appears to have outpaced that of adult wear again in 1957, both at speciality shops and department stores. The latest figures indicate that "family store" sales gained more than 10 per cent last year.

In spite of the heavy concentration of apparel lines at depart-

ment stores, these big retailers—both in the Midwest and the nation—failed to keep pace with other merchants. The aggregate 1 per cent gain recorded by department stores fell far short of the 5 per cent pickup reported for apparel speciality shops.

Lagging durables

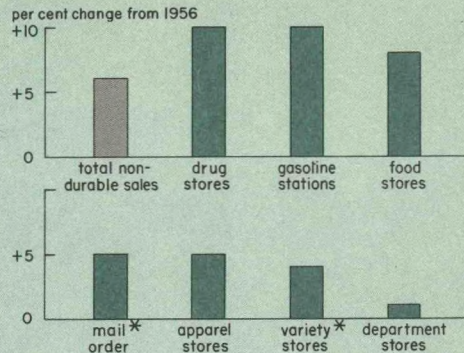
Combined sales of hard goods stores in 1957 ran 4 per cent ahead of the previous year, apparently not much different from the nondurable retail gain. But the auto component, accounting for well over half the sales of consumer durables, obscures the trend in other hard goods. While the number of new cars sold last year just matched 1956, the dollar sales of automotive dealers rose 7 per cent, due in part to higher prices. Used cars were up about 12 per cent, while new car prices increased an estimated 6 per cent.

Nonautomotive hard goods have barely held even with 1956. Furniture and appliance stores recorded a slight decrease, while the lumber, building material and hardware group turned in the largest decline of any major retail category.

The decline in furniture and appliance store sales came on the heels of marked increases in the previous two years. However, furniture continued to do better than appliances, as in other recent years. Since 1953, sales at furniture and homefurnishing stores gained more than one-fourth, while household appliance and radio-TV just managed to hold even. This is a reversal of the sales trend established earlier in the postwar period when a host of products, such as television, air conditioners, dryers and garbage disposers, burst on the scene.

Arrival of new or vastly improved products enabled appliance and radio-TV stores to match the sales gains of the nation's two fastest growing retailers—the automotive

Most nondurable lines show marked sales gains in 1957 . . .



autos offset sagging sales of other hard goods



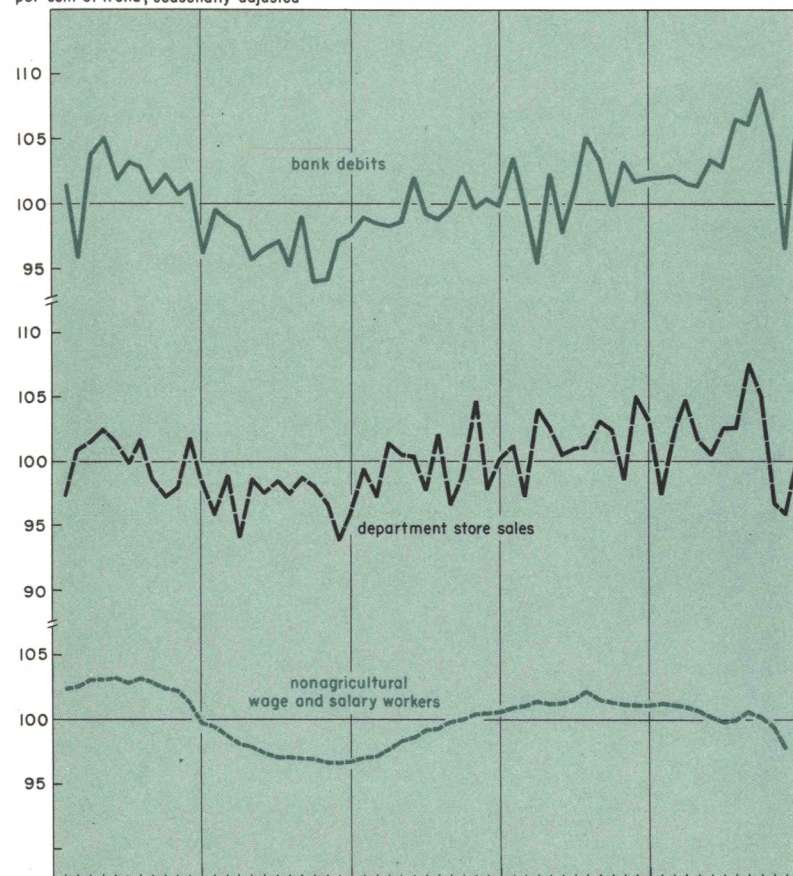
dealer and the gasoline service station—in the 1948-53 period. These were the years when the depressed demands from the war had largely worn off, yet consumer demand for new appliances was pushing sales up.

Some reversal of the autumn slide in overall retail trade was reported in December. Sales in the Christmas month, seasonally adjusted, exceeded the November level by 1 per cent. The retail total was once again buoyed up by soft goods as nondurable store sales rose 6 per cent over a year ago. In contrast, sales at hard goods stores were down—with automotive dealers recording their first drop in thirteen months.

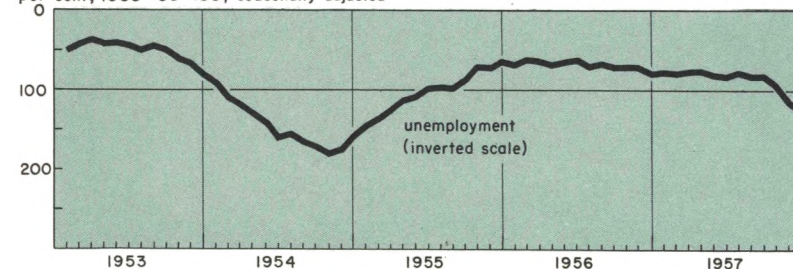
Selected economic indicators: Chicago-Detroit

Chicago area

per cent of trend, seasonally adjusted



per cent, 1953-55=100, seasonally adjusted



Recent trends in various economic series available for the Seventh District's largest cities, Chicago and Detroit, reflect a slowing business pace.

For Chicago, the current business decline follows a period of mildly rising spending and relatively stable employment. The number of non-agricultural workers in this six-county metropolitan area began to edge off in August, a month ahead of the slide in the U. S. as a whole. Significant declines were recorded in October and November, with an accompanying rise in unemployment (scale inverted on chart). Consumer spending as gauged by sales at department stores and the volume of business and personal checks written on local bank accounts, also declined. In December, both measures of spending turned up

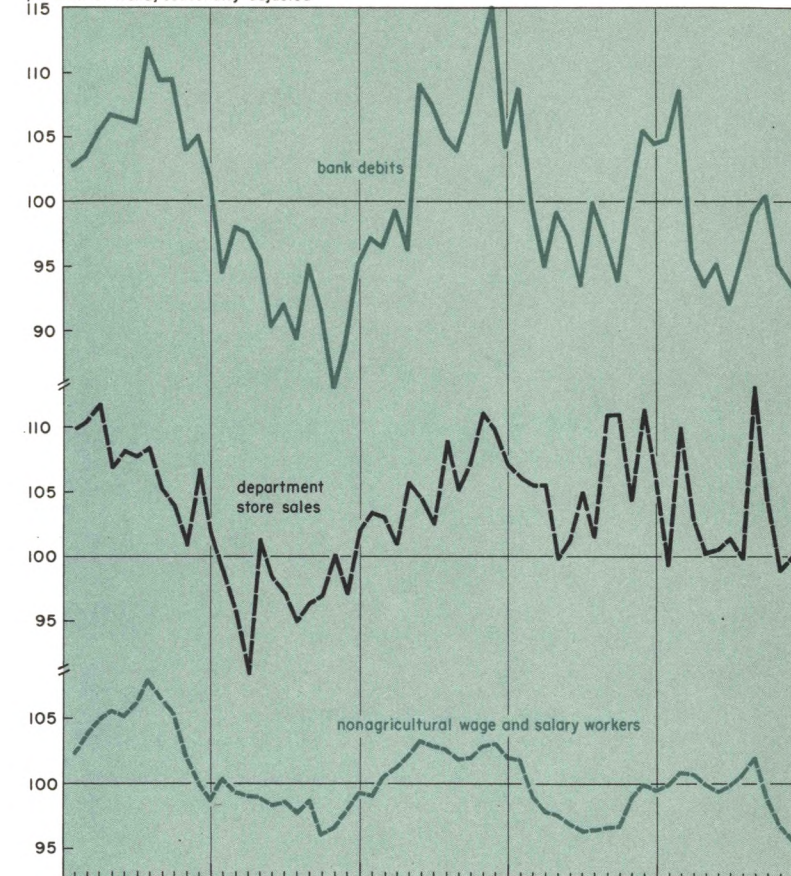
but in view of the irregular behavior of these two series a single month's performance is far from a conclusive indication of future trends.

In Detroit, the most recent drop follows a period which has reflected in large part the ups and downs of the automobile industry. During much of 1956 and 1957, employment and spending in the area has fluctuated somewhat below 1955 peaks. Even so, the decline in the final quarter of last year was marked. Unemployment increased again in December and latest reports for January 1958 put the number unemployed at close to 190,000, which is 12 per cent of the area's labor force.

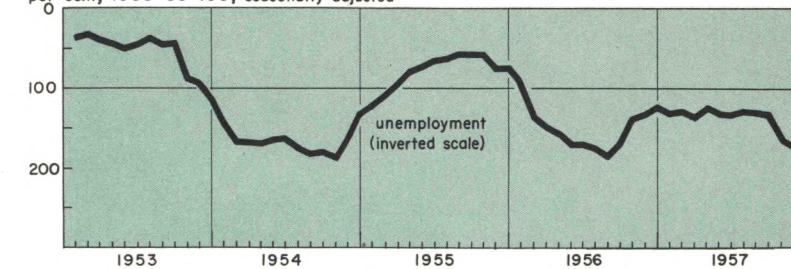
The series charted show significant contrasts in their responsiveness to broad cyclical swings. In the 1953-54 downturn,

Detroit area

per cent of trend, seasonally adjusted



per cent, 1953-55=100, seasonally adjusted



for example, Chicago's unemployment more than quadrupled, while employment dropped less than 5 per cent. Over the same period, debits and department store sales in Chicago showed net declines of about 10 per cent.

In the Detroit area, the corresponding measures of employment and spending generally showed a more marked responsiveness to the 1953-54 downswing in business activity. But here, too, the size of the fluctuations varied greatly among the various indicators. By mid-1954, unemployment had increased sharply percentagewise from the very low

levels of first-half 1953. The more stable employment series, on the other hand, declined roughly 10 per cent over this same period. Both department store sales and bank debits fluctuated more widely and at times during 1954 reached levels 15 to 20 per cent below their year-earlier levels.

The series charted for the Chicago and Detroit areas typify the characteristically "erratic" behavior of local area indicators. Because of this, it is not an easy matter to distinguish temporary from more sustained movements in the early stages of such periods.

State-local spending in the year ahead

A growing volume of spending by the nation's 102 thousand state and local governments is expected by most business observers to provide a sturdy prop to the nation's economy in the months ahead. Conviction that the strong, sustained postwar growth in outlays for schools, highways, social welfare programs and community services has not yet run its course is one reason for holding this belief.

Another reason, and one more germane to the near-term outlook, is that in the course of each of the last two business setbacks — those of 1948-49 and 1953-54 — expenditures of the state and local units continued to climb, moving counter to developments in the private economy as a whole. On its face, therefore, the record seems to suggest that public spending at the state-local level will

exert an influence on the plus side during the current period of weakness.

A decade of rapid growth

Ten years ago, the state and local governments were in the first stage of an effort to make good the neglect and accelerated obsolescence sustained by their plant and services during the war. Complicating and magnifying the task in the ensuing years was a substantial rise in unit operating and capital costs and a vast concurrent growth of the economy, which piled up a host of new demands. The resulting step-up in spending has raised the share of total national output going to the state and local governments from about 5 per cent in 1946-47 to 8½ per cent now.

Total outlays by the state and local units for goods and services currently are running

at a yearly rate close to 37 billion dollars, divided about evenly between payroll expense and the cost of purchases from business. Roughly two-thirds of total buying from business, in turn, takes the form of new construction expenditures — for such undertakings as new schools, highways, sewer and water facilities, airports, public housing projects and office buildings. The annual bill for state-local construction lately has amounted to about one-third of total private construc-

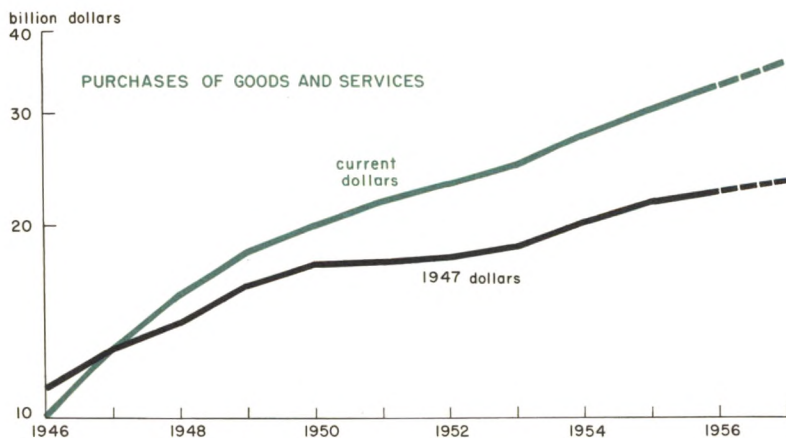
tion outlays for new houses, factories and other commercial and industrial facilities.

A backlog of needs?

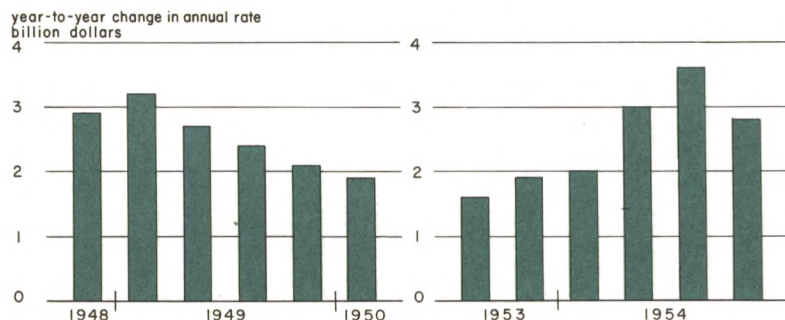
Hardly had the war ended when various attempts were begun to take inventory of the construction needed if state and local facilities were to be brought up to standard. A figure of 100 billion dollars came to be a frequently cited estimate of the probable total cost of the work catalogued.

In the twelve years since 1945, some 75 billion dollars in new state-local construction has been put in place. But, because of the steep rise meantime in unit construction costs, the value of this construction at “backlog prices” probably is no more than 50 billion dollars. At least half of the backlog, therefore, is still to be taken care of. But looking at it this way makes no allowance for the *new* needs that have arisen during the past decade. The sizable volume of postwar construction could be viewed as adding up to an effort which has no more than kept the old backlog from growing. But can this be a reasonable appraisal of postwar construction achievement?

Uninterrupted annual growth marks state-local buying since the war . . .



year-to-year quarterly gains were sustained even in 1948-49 and 1953-54 recession periods



It may be considerably more realistic to regard a 10- or 12-year old backlog as having become largely out-moded by the events that have occurred since it was totted up. Undoubtedly, many of the projects mapped out in the early listings have long since ceased to be needed. The new needs accommodated as they have emerged to some degree have been the old ones in a new guise: a new suburban water supply system that substitutes for a contemplated enlargement of the core city's system, a modern school house out in suburbia where it stands as a substitute for the addition that had been planned for an old mid-town structure. To some extent, the process of keeping more or less abreast of currently arising needs and demands for public facilities is the way a backlog is disposed of.

Viewed in this light, the vast postwar resettlement of our population in suburbia and the west has been the major force dictating the timing, the location and the nature of new community facilities. If the pace of resettlement abates, another prime mover will need to emerge if the rate of growth in state-local investment is to be maintained.

State-local construction outlay apparently has grown somewhat more rapidly postwar than analogous private spending; i.e., investment in new construction and producers' durable equipment (see chart). But it had contracted far more during the war period, and in the earliest postwar years its recovery was markedly slower than the recovery of private investment. The depressed level of state-local outlay relative to private capital spending, both during and immediately following the war, gives some support to the inference that the public sector's stock of fixed assets still remains to be augmented, despite the headway made in the last half-dozen years.

Building after the need

In at least one important respect, public construction programming, even in a time of unimpeded activity, differs from private. Governmental bodies seldom build speculatively. While it is not uncommon for businesses and individuals to invest in new facilities in anticipation of needs that will arise for them, public bodies typically build only after needs have cropped up. Today's building of new plant, often as not, is a belated response to service demands that have already arisen. Because of this retrospective feature, public construction spending against an acknowledged arrearage may be less vulnerable to changes in prospects than private outlays which, to some extent at least, are oriented prospectively. During the past season there have been postponements of industrial and commercial expansion plans projected earlier. Deterioration in business confidence relative to the near-term outlook clearly has had something to do with these changes in intentions. In state-local investment programming, however, the future outlook figures negligibly, and programmed undertakings stand to retain their urgency irrespective of changes in the current business outlook.

The big question

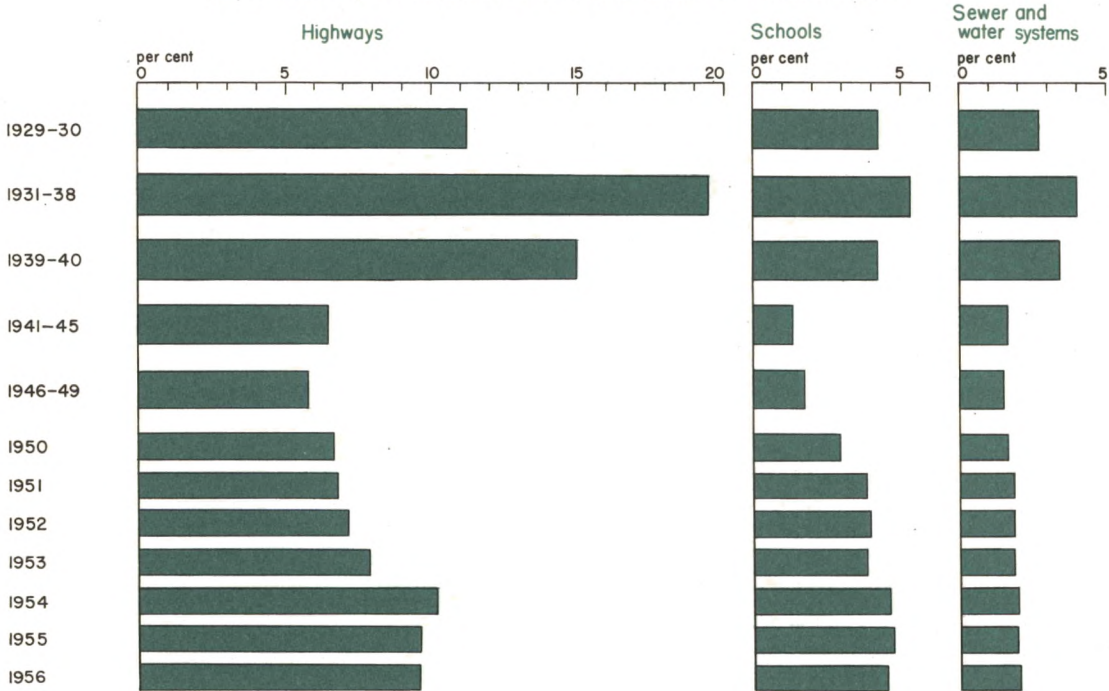
Need, however, is only one of the factors to be taken into account. What about means? Do the governments have the financial ability, now and prospectively, to sustain further enlargement of their expenditure?

The financial ability of the state and local governmental bodies rests upon the magnitude of revenues, proceeds of new borrowing and grants from the Federal Government.

In recent months, there have been occasional reports of slowing in state tax receipts.

State-local government outlays for new roads, schools, sewer and water facilities as percentages of private spending on construction and producers' durables

Public sectors show strong relative growth since war, but incomplete recovery to depression and pre-depression relationships



Note: Percentages based on 1947-49 prices.

Reflecting some weakness in retail trade activity, sales tax collections during the latter half of 1957 frequently posted smaller year-to-year increases than had been foreseen. Similarly, certain of the states having income taxes — particularly those using the current withholding device — began to report that receipts were failing to measure up to estimates.

In the 1953-54 dip, aggregate yields of certain broad classes of state taxes turned down — corporation income taxes, tobacco

taxes and general sales taxes — although *total* tax receipts continued to grow; a result, in part, of a series of boosts in tax rates enacted before onset of the recession. On an annual basis, both personal income after Federal taxes and total consumption spending survived the downturn without faltering, thus giving broad support to the income- and consumption-based state tax systems.

The outlook for state tax income would seem to hinge directly on prospects for maintenance of personal and corporate income

and retail spending. Offsetting tax-rate increases might be sought to counter the effects of a dip in tax receipts. However, few state legislatures meet in 1958; the majority will not convene again until early next year.

The local governments, such as school districts, cities, counties and a wide variety of other units, are mainly dependent upon the property tax. This is a source of income which responds to none but major changes in underlying economic conditions and then only after the lapse of a considerable period of time. Any question concerning the adequacy of state-local tax income, therefore, focuses for the most part upon the states' own revenues.

Borrowing at near-record rate

Easing in the credit market is widely believed to have set the stage for continued large-scale activity in municipal borrowing during coming months. Reflecting the lessened competition from business borrowing in the latter part of 1957, Moody's index of high-grade state and local bond yields fell from 3.45 per cent at the end of September to less than 3 per cent by the turn of the year. Despite the comparatively tight credit conditions that prevailed in most of the year, state-

local borrowing in 1957 came close to matching record 1954, with new offerings of nearly 7 billion dollars.

Sizable volume is confidently predicted for the opening months of 1958, partly reflecting approval by voters in last November's general election of 770 million dollars in new borrowing authority and sizable earlier borrowing authorizations not yet taken up. The combination of favorable conditions in the credit market and underutilization of capacity in the construction industry, apparent during the present season, may prove a temptation to many governmental bodies to push ahead promptly with their capital expenditure proposals.

Federal grants loom larger

Financial aids from the U. S. Treasury have played an increasingly important part in state and local construction in the past few years. Construction grants doubled between 1956 and 1957 and are expected to increase another 50 per cent, to 2.2 billion dollars this year. Payments under the new Federal highway program account for the gain. In 1958, highway aid is expected to total about 1.8 billion dollars, about 80 per cent of the total grants for construction. Since this program lies outside the regular Federal budget, programmed grants for highway purposes will be largely insulated from such pressure for nondefense expenditure reduction as may be kindled anew by sputnik-inspired plans for stepped-up arms spending.

Moreover, a sizable balance has piled up in the Federal highway trust fund. This will help to assure a steady flow of financing as new projects emerge from drawing boards and enter the stage of construction under way. Between August 1956, the inception of the program, and last November, trust fund receipts totaled nearly 2.5 billion dollars;

Monthly department store indexes

Revised monthly indexes of department store sales and stocks, 1947-49=100, are available for the Seventh Federal Reserve District and metropolitan areas. These releases include data from the beginning of each series through December 1957.

Copies may be obtained upon request from the Research Department, Federal Reserve Bank of Chicago, Box 834, Chicago 90, Illinois.

outgo, roughly 1.7 billion. The difference, three-quarters of a billion dollars, is on hand to support the stream of future payments in the event that income fails to measure up to the estimates on which the program rests.

Further growth the upshot

The net of all these considerations is that continued enlargement in the stream of state-local expenditure is quite likely, at least for the remainder of 1958. Momentum is a prime characteristic of this segment of total spending. Both current and capital outlays typically are projected well in advance, some-

times a quarter or more before the beginning of a fiscal period covering two years.

Revenues, too, are slow in responding to changes in the pace of business activity. Moreover, the sizable liquid balances maintained by the governments are available to cushion weakness on the income side and afford a backstop against unforeseen surges in spending. These more or less uncommitted balances totaled perhaps 23 billion dollars in late 1957. This should be more than adequate to cushion any contraction in tax receipts that would accompany a moderate decline in business activity.

Rates on bank loans to business level off, then decline

Interest rates on short-term loans to business turned sharply upward about mid-1955 and followed an irregular, rising trend until recent months. The advance in rates reflected the heavy demand for credit in the boom years since 1954 and the concurrent restraint on credit expansion. But with the termination of the business boom and the subsequent decline, credit demands have eased, and the advancing prices borrowers had been paying for the use of money came to a halt, then declined.

Evidence of this fact was highlighted by the recently announced reduction in the rate on "prime" business loans at commercial banks. A cross section of rates charged on business loans is provided by a tabulation made of a sample of Midwest banks during

the first half of December. These showed an average interest rate of 4.86 per cent, almost identical with the 4.85 per cent average for loans made three months earlier.

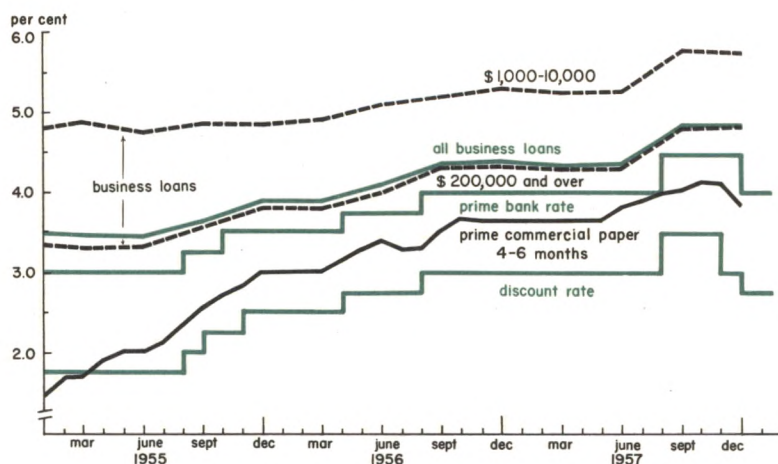
The major factor in the leveling off of rates on business loans has been the easier demand for credit. Typically, the volume of loans outstanding at commercial banks rises seasonally from midyear to year-end as crops are harvested and stocks of manufactured goods are built up for the Christmas sales rush. In 1957, however, outstanding business loans declined during the fall and early winter. Commercial and industrial loans outstanding at leading Seventh District banks on January 8, 1958, for example, were some 200 million dollars below the mid-1957 level; whereas in the corresponding period a

year earlier, outstandings rose over 100 million.

The reduced loan demand, dramatized by this contraseasonal fall in outstandings, had a pervasive, if modest, effect on interest rates between September and December. In some loan size classes and in some industries, rates declined moderately; in other loan categories, average rates either were unchanged or showed slight increases.

In the 1 to 10 thousand dollar size class, loans made in September carried an average rate of 5.75 per cent. Similar loans made in December showed the slightly lower average rate—5.73 per cent. Small loans in the metals and metal products, sales finance, public utilities and “other” nonclassified manufacturing sectors, as well as in retail trade, also showed small declines in average interest rates. On the other hand, rates on larger loans—those over 200

Interest rates on bank loans to business advanced with the rise in other rates, but the increase for small loans was less than for large loans



thousand dollars—and loans to the food, textile, petroleum and wholesale trade sectors were fractionally higher.

Interest rates on all sizes of business loans at Midwest banks have followed patterns very similar to those shown by the “prime” rate and the Federal Reserve’s “discount rate.” However, the rise in average rate for small business loans during the past three years has been less than for the large loans. Rates on loans of 1 to 10 thousand dollars increased from 4.80 to 5.73 per cent, a gain of 19 per cent. Rates on loans of 200,000 dollars and more, on the other hand, increased from 3.34 to 4.78 per cent, a gain of 43 per cent. The recently announced reduction in the “prime” rate has set the stage for somewhat lower rates on all sizes of business loans. However, the rates on the smallest loans may continue to show relatively smaller changes than for the large loans, as was true during the recent extended period of rising rates.

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