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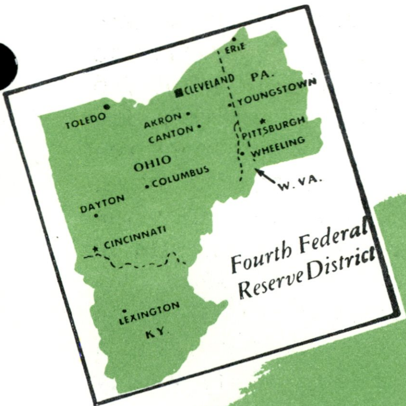

Business Trends

Prepared in the Research Department of the
FEDERAL RESERVE BANK OF CLEVELAND
Serving the Fourth Federal Reserve District

BANK CREDIT DEVELOPMENTS IN 1962

The nation's banks did a large volume of business last year. The volume of credit extended by commercial banks climbed by a record amount in 1962--nearly $19 billion--which brought the total of bank credit outstanding by year end to $229 billion. The 1962 advance was about $3 billion more than the previous record increase that had taken place in 1961. In percentage terms, the expansion in total bank credit in 1962 amounted to virtually the same rate of growth as that which had occurred in 1958 and 1961--earlier years of all-time high relative gains. Unlike those two years, however, the bulk of the increase in bank credit in 1962 was registered in loan portfolios ($14.1 billion), with the gain in bank loans, in dollar terms, being the largest on record.

At the same time that bank loan portfolios were being expanded considerably, investment holdings of commercial banks were being enlarged on balance by nearly $5 billion. The handling of bank investment portfolios, however, revealed mixed patterns. For example, commercial bank investments in other than Federal government securities (including mainly issues of state and local governments) were expanded by more than $5 billion in 1962--an all-time high. In contrast, holdings of U. S. government securities were reduced slightly, and the maturity composition of these assets was restructured materially.

The substantial expansion in bank credit in 1962 took place within an economic panorama which included: (1) a moderate expansion in the domestic economy; (2) sizable flows of savings into financial institutions; and (3) the maintenance of monetary ease by the Federal Reserve System. The maintenance of monetary ease during a period when savings flows were sizable made it possible for the total supply of credit (savings plus bank credit) to be made available in amounts adequate to satisfy the demands for credit imposed by an economy which continued to grow, albeit at a moderate pace. One indication of the reasonably close matching of supply-demand credit relationships in 1962 was the fact that, on balance, interest rates were not under any undue upward pressures during the year. (Short-term interest rates rose moderately, while long-term rates declined slightly.)

With this as general background, let us take a look at some of the bank credit developments in the Fourth Federal Reserve District. The figures which we will use first are those reported weekly by 26 large banks located in the major cities of the District. (These banks account for over half of the total banking resources in the Fourth District.)

<u>Earning Assets</u>. As was the case in the national figures, total credit extended by weekly reporting member banks in the Fourth District

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increased by a record amount in 1962. On the last Wednesday of the year, total earning assets of reporting banks stood at $10.1 billion, which represented an increase of nearly 9 percent from the year-earlier figure. That increase compared with gains of 5 percent in 1960 and 6 percent in 1961. The growth in earning assets at reporting banks in the District, however, was not dominated by loan portfolios as much as that in banks in the nation at large. The $.8-billion gain in earning assets in the District in 1962 was distributed roughly as follows: three-fifths in loans and two-fifths in investments.

Within investment portfolios, patterns in the District generally were akin to those nationally, as reporting banks liquidated holdings of U. S. Government securities, but added a much larger volume, a record amount, of "other securities" to investment holdings. In addition to the net takedown of "governments", reporting banks in the District made some important adjustments in the maturity composition of such holdings. The banks tended on average to sell or run off substantial amounts of short-dated government securities, and to acquire longer-term issues. In this way, reporting banks attempted to increase the returns on holdings of government obligations at the expense of giving up some investment liquidity.

One final item on the total earning asset picture of District reporting banks is of interest, namely, that about three-fifths of the credit expansion at these banks in 1962 took place in the fourth quarter of the year. It is true that a considerable part of the fourth-quarter showing was seasonal in nature; but it is also true that a sizable share of the increase in bank credit reflected the quickening pace of business activity in the latter stages of the year, thus supplementing the seasonal increase.

Loan Portfolios. The $518-million expansion in the loan portfolios of reporting banks in the District in 1962 compared with advances of $41 million in 1961 and $122 million in 1960. Within the total loan structure in 1962, available figures highlight the fact that reporting banks moved strongly in the direction of making additional real estate and consumer loans. This is not surprising in that it mirrors the attempt by banks in general to bolster their earnings records in the face of increased operating expenses. The fact that real estate loans rose by $129 million in 1962, whereas they had advanced only by $33 million and $16 million in 1961 and 1960, respectively, indicates the relative success of District reporting banks last year in making such loans. In consumer lending, it was essentially the same situation, with a $148-million gain in 1962 contrasting to a $49-million rise in 1961 and to a $91-million increase in 1960. In the case of both real estate and consumer loans in 1962, the gains were spread fairly evenly throughout the year.

Business Loans. Commercial and industrial loans did not expand sharply at reporting banks in 1962, moving up only $89 million. This increase was less in amount, for example, than that which had occurred in 1960, a year marked largely by recession conditions. An important aspect of the business-loan situation at reporting banks in 1962, however, was that all of the net increase in such loans occurred in the fourth quarter of the year, with only a part of the gain accounted for by seasonal factors.

Anatomy of Business Loans. Since the fourth quarter was marked by vigor in business loan activity in the District, it may be instructive to consider some of the highlights in slightly more detail. The information that follows is obtained from 21 of the 26 weekly reporting member banks in the Fourth District. The figures from these banks, taken together, show that larger increases than usual were posted in loans made to: (1) manufacturers of food, liquor, and tobacco products; (2) trade firms; and (3) a miscellaneous grouping of business borrowers, which includes mainly services. A significant point emerging from this is that the large loan increases occurred in those categories of business borrowers which tend to rely relatively less on term loans, i.e., loans carrying an original maturity of more than one year. As a result, at year end, term loans as a percent of total business loans outstanding at the 21 reporting banks was at the lowest end-of-quarter level of the year. This development indicates that reporting banks increased, to a limited extent, the liquidity of their loan portfolios, thereby improving their ability to service short-term loan demands.

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