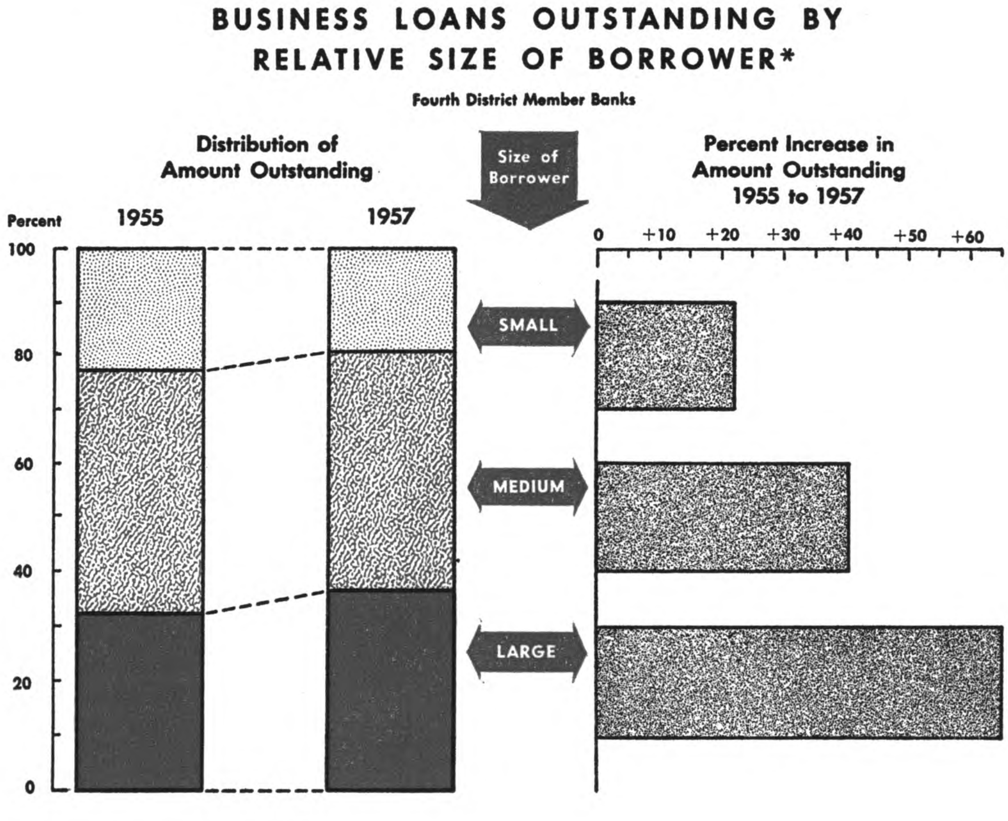
MONTHLY

Business Review

FEDERAL RESERVE BANK of CLEVELAND

June, 1958

IN THIS ISSUE



*Based on 1955 and 1957 Business Loan Surveys.

Results of the 1957 Business Loan Survey

General Summary, Fourth District

Analysis of the results of a special survey of loans on the books of member banks, as of October 16, 1957, yields a large body of new information about the characteristics of commercial bank lending. By comparing the data so obtained with similar information stemming from a special survey conducted in October 1955, it becomes possible to trace the changes occurring during a period characterized by business expansion, inflationary problems, and Federal Reserve policies of monetary restraint. This is the first of a series of articles reporting the results of the Survey.

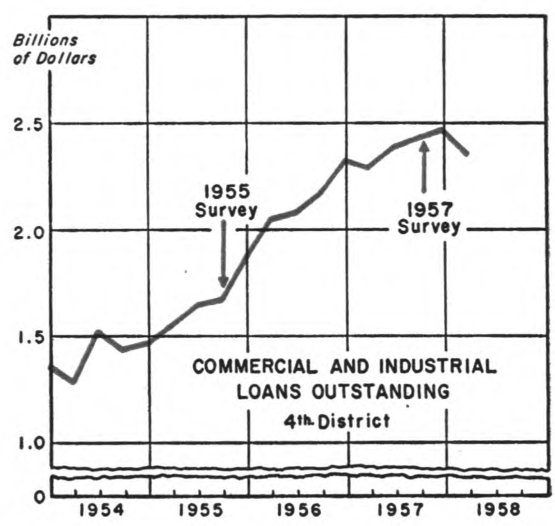
Part of the background of the 1957 Survey was the widespread interest in the problems of small business as well as the request on the part of Congress that the Federal Reserve System look into the question of whether monetary restraint had a greater impact on small business concerns than on larger business.[1] The Business Loan Survey contributed to the broader analysis of small business financing.

Special efforts were made to assure maximum comparability of the 1957 data with that of the 1955 Survey. Except for a few items, identical information was requested from respondents. The surveys were conducted at similar dates in both years to minimize possible distortions arising from seasonal factors. An identical sample of banks, adjusted for mergers and other changes in banking structure, was asked to report. For the final results of the 1957 Survey, estimates of loans at 601 member banks in the Fourth District have been prepared, based on the data reported by the sample of 166 banks, holding about 93 percent of total commercial and industrial loans at all Fourth District member banks.

Economic Changes Between the Survey Dates

When the 1955 Survey was conducted, business in the Fourth District had been experiencing an upswing in activity for over a year. Gains in 1955 had been sparked by

UPWARD TREND IN BUSINESS LOANS BETWEEN SURVEY DATES



(1) See *Financing Small Business*, Report by the Federal Reserve System to the Select Committees on Small Business and the Committees on Banking and Currency of the United States Congress, April 11, 1958.

Table 1: LOANS, SECURITIES, AND DEPOSITS BY SIZE OF BANK, 1955 AND 1957*

Fourth District Member Banks

(dollars in millions)

Size of Bank (Total Deposits in millions of dollars)	Commercial and Industrial Loans			Total Loans			Total Securities			Total Deposits		
	1955	1957	% Change	1955	1957	% Change	1955	1957	% Change	1955	1957	% Change
Under $2.....	$ 6	5	—16.7%	$ 66	$ 58	—12.1%	$ 79	$ 63	—20.3%	$ 163	$ 135	—17.2%
$2-10.........	89	99	+11.2	678	771	+13.7	867	833	— 3.9	1,715	1,773	+ 3.4
$10-20........	78	88	+12.8	500	520	+ 4.0	625	531	—15.0	1,243	1,160	— 6.7
$20-50........	64	86	+34.4	365	545	+49.3	486	520	+ 7.0	939	1,175	+25.1
$50-100.......	126	167	+32.5	504	538	+ 6.7	620	544	—12.3	1,243	1,200	— 3.5
$100-250......	245	396	+61.6	593	933	+57.3	645	725	+12.4	1,442	1,902	+31.9
$250-500......	288	379	+31.6	684	804	+17.5	834	782	— 6.2	1,807	1,899	+ 5.1
$500-1,000.....	217	283	+30.4	510	610	+19.6	469	432	— 7.9	1,167	1,224	+ 4.9
$1,000 and Over...	552	922	+67.0	1,319	1,791	+35.8	1,381	1,023	—25.9	2,894	2,952	+ 2.0
All Bank Sizes	$1,665	$2,425	+45.6%	$5,219	$6,570	+25.9%	$6,006	$5,453	— 9.2%	$12,613	$13,420	+ 6.4%

* Based on October reports of condition data.

consumer buying of houses, autos, and other durable goods. Partly as a consequence of monetary ease in 1954 and early 1955, funds for expansion of mortgage and consumer credit were available in large volume and at attractive terms. The impact of the recovery upon Fourth District business was especially marked, as heavy industry and hard goods manufacturing comprise the lion's share of the District's productive capacity.

Business concerns at the time of the 1955 Survey were responding to the growth in consumer demand by increasing inventories and expenditures for plant and equipment. Growing consumer and business demands were partly reflected in rising prices, and monetary policy was gradually tightened to restrain inflationary pressures. Between the two survey dates, the principal impetus for expansion of demand shifted from the consumer sector to the business sector. Residential construction and automobile sales receded from the peak levels of 1955, while the slack was taken up by business expenditures for expansion projects. In addition, business concerns continued to add to inventories, tax liabilities on profits increased, and liquidity declined. As a result, business demands for funds rose rapidly.

In response to the increase in financing requirements, business firms supplemented their growing internal sources of funds by borrowing large amounts in the capital markets and from banks. Commercial and industrial loans at all Fourth District member banks rose $760 million, or 46 percent in the two years between the Surveys.[2] The District was in the forefront of loan expansion, as may be seen from the fact that business loans in the entire country increased 32 percent during the same period.

Other demands for bank credit also rose markedly, but the Federal Reserve System's anti-inflationary policies restrained the expansion of bank credit. Total deposits at member banks of the District increased only $807 million, with about 47 percent of the increase taking the form of additions to time deposits. (See Table 1.) In order to meet the extraordinary demand for business loans, Fourth District member banks liquidated $553 million in securities. The bulk of the reduction in security holdings occurred at the largest banks.

(2) Business loans reported in the Surveys include all loans for business purposes, regardless of their classification on the regular reports of condition of member banks.

By the time of the 1957 Survey, the business investment boom was culminating, and business demand for bank credit had begun to slacken. After several years of loan expansion under conditions of monetary restraint, bank liquidity at Fourth District banks was considerably reduced. (Since that time, events have moved toward a substantial restoration of liquidity.)

Loans by Size of Business

In both 1955 and 1957, most business loans at Fourth District member banks were to relatively small businesses, but most of the dollar volume was to larger businesses, as shown in Table 2. Between the survey dates, the dollar volume of outstanding loans rose for all borrower-size groups; however, the rise was somewhat smaller for firms with

Table 2: BUSINESS LOANS OUTSTANDING, BY SIZE OF BORROWER, 1955 AND 1957

Fourth District Member Banks

Size of Borrower (Total Assets in thousands of dollars)	OCTOBER 5, 1955				OCTOBER 16, 1957				PERCENT CHANGE 1955 to 1957	
	Number of Loans	Amount Outstanding (in thousands of dollars)	Percentage Distribution: Number of Loans	Percentage Distribution: Amount Outstanding	Number of Loans	Amount Outstanding (in thousands of dollars)	Percentage Distribution: Number of Loans	Percentage Distribution: Amount Outstanding	Number of Loans	Amount Outstanding
Under $50	36,324	$ 113,361	42.7%	5.9%	37,121	$ 128,618	42.2%	4.7%	+ 2.2%	+13.5%
$50-$250	30,128	316,537	35.4	16.5	34,001	418,303	38.6	15.2	+12.9	+32.1
$250-$1,000	7,997	276,417	9.4	14.4	10,318	425,898	11.7	15.4	+29.0	+54.1
$1,000-$5,000	2,306	310,729	2.7	16.2	3,021	451,557	3.4	16.4	+31.0	+45.3
$5,000-$25,000	557	240,307	0.7	12.5	606	355,141	0.7	12.9	+ 8.8	+47.8
$25,000-$100,000	364	191,294	0.4	10.0	308	261,312	0.4	9.5	—15.4	+36.6
Over $100,000	826	421,756	1.0	21.9	511	660,259	0.6	24.0	—38.1	+56.5
Size Unknown	6,534	50,252	7.7	2.6	2,146	53,127	2.4	1.9	—67.2	+ 5.7
All Business Sizes	85,036	$1,920,653	100.0%	100.0%	88,032	$2,754,215	100.0%	100.0%	+ 3.5%	+43.4%

Table 3: NUMBER AND AMOUNT OF BUSINESS LOANS OUTSTANDING, BY TYPE OF BUSINESS, 1955 AND 1957

Fourth District Member Banks

Business of Borrower	OCTOBER 5, 1955				OCTOBER 16, 1957				PERCENT CHANGE 1955 to 1957	
	Number of Loans	Amount Outstanding (in thousands of dollars)	Percentage Distribution: Number of Loans	Percentage Distribution: Amount Outstanding	Number of Loans	Amount Outstanding (in thousands of dollars)	Percentage Distribution: Number of Loans	Percentage Distribution: Amount Outstanding	Number of Loans	Amount Outstanding
Manufacturing and Mining—TOTAL	**14,916**	**$ 656,294**	**17.5%**	**34.2%**	**13,091**	**$1,003,139**	**14.9%**	**36.4%**	**— 12.2**	**+ 52.8**
Food, Liquor and Tobacco	2,930	84,521	3.4	4.4	1,919	104,023	2.2	3.8	— 34.5	+ 23.1
Textiles, Apparel and Leather	522	20,605	0.6	1.1	331	25,003	0.4	0.9	— 36.6	+ 21.3
Metals and Metal Products	5,091	307,983	6.0	16.0	4,644	462,705	5.3	16.8	— 8.8	+ 50.2
Petroleum, Coal, Chemicals and Rubber Products	2,136	125,207	2.5	6.5	1,895	182,503	2.1	6.6	— 11.3	+ 45.8
Other Manufacturing and Mining	4,237	117,978	5.0	6.2	4,302	228,905	4.9	8.3	+ 1.5	+ 94.0
Trade—TOTAL	**36,044**	**402,092**	**42.4**	**20.9**	**36,469**	**534,843**	**41.4**	**19.4**	**+ 1.2**	**+ 33.0**
Wholesale	5,845	122,164	6.9	6.3	5,594	152,168	6.4	5.5	— 4.3	+ 24.6
Commodity Dealers	493	13,603	0.6	0.7	459	31,740	0.5	1.2	— 6.9	+133.3
Retail	29,706	266,325	34.9	13.9	30,416	350,935	34.5	12.7	+ 2.4	+ 31.8
Other—TOTAL	**34,076**	**862,267**	**40.1**	**44.9**	**38,472**	**1,216,233**	**43.7**	**44.2**	**+ 12.9**	**+ 41.1**
Sales Finance Companies	670	228,484	0.8	11.9	656	235,121	0.7	8.5	— 2.1	+ 2.9
Public Utilities	3,803	226,617	4.5	11.8	4,465	337,442	5.1	12.3	+ 17.4	+ 48.9
Construction	7,412	97,750	8.7	5.1	7,475	140,235	8.5	5.1	+ 0.8	+ 43.5
Real Estate	4,431	139,893	5.2	7.3	5,263	208,546	6.0	7.6	+ 18.8	+ 49.1
Service Firms	12,716	105,938	15.0	5.5	13,340	141,818	15.1	5.1	+ 4.9	+ 33.9
Other Nonfinancial Firms	5,044	63,585	5.9	3.3	7,273	153,071	8.3	5.6	+ 44.2	+140.7
TOTAL—All Types	**85,036**	**$1,920,653**	**100.0%**	**100.0%**	**88,032**	**$2,754,215**	**100.0%**	**100.0%**	**+ 3.5**	**+ 43.4**

assets of less than $250,000. As a result, their relative share of dollar loan volume declined from 22 percent in 1955 to 20 percent in 1957.

Among the firms showing the greatest expansion in dollar loan volume, that is, those with assets of over $250,000, the largest gain was registered by firms having assets of over $100 million. Their share of total loan volume increased from 22 percent in 1955 to 24 percent in 1957.

A uniform classification of business size for all industries, based only on dollar amount of assets, makes no allowance for the marked differences from industry to industry in size of the typical enterprise. For example, a business of a given asset size might be considered relatively small in the metal fabricating industry but relatively large in the retail and service trades. Accordingly, on the cover chart, borrowers are classified as large, medium, or small in relation to the size pattern of businesses characteristic of that industry.(3) As the cover chart illustrates, there was a much greater over-all loan growth for large businesses than for other size groups. Bank borrowings of large, medium, and small businesses rose by 65, 41, and 22 percent, respectively.

While it is clear from these findings that bank lending to small firms has risen less markedly than loans to larger companies, it would be unjustified to infer from the above facts that financing needs of small business were not adequately met. First, while commercial banks occupy an important position in the financing of small business, they are only one of several possible sources of funds to such firms. Commercial finance companies, factors, and trade credit have shown considerable growth in recent years; the last mentioned source, trade credit, at present actually exceeds in dollar volume commercial bank credit to small businesses. Thus the adequacy of financing available to small business during the recent period of restrictive monetary policy cannot be judged solely by analyzing bank data alone. Secondly, the changes in loan volume to firms of varying sizes between 1955 and 1957 apparently were closely related to the relative demands for bank credit. Therefore, what industries demanded credit, and the uses to which it was put may help to explain the relative needs of large and small businesses.

Loans by Business of Borrower

A significant feature of the 1955-1957 boom period was the relatively high rate of growth in business borrowing by metals and metal products firms, petroleum-coal-chemical-rubber concerns, and public utilities. Rapid loan growth in these industries was due in part to the fact that they experienced some of the greatest increases in output between 1955 and 1957. With the exception of the public utilities they also experienced some of the largest increases in prices. The impact on working capital would be to increase the amounts required, and correspondingly, increased demands for bank loans. It is also significant that these industry groups were among those expanding capacity the most rapidly during the period.

Much of the increase in loans to large businesses was in the above three industry groups. This reflected not only a substantial growth rate for large borrowers, but also the fact that in these industries, large business dominates output. Therefore, while loan growth to smaller concerns in these industries was substantial, it was eclipsed by the greater demands of the larger firms.

Loans by Size of Bank

A distribution of business loans by type of borrower for various size groups of banks appears in Table 4. The type of business lending varied greatly with the size of the bank. At banks with total deposits of $100 million and over, a predominant share of the dollar increase in loan volume was made to manufacturing and mining concerns. As the size of bank decreased, the relative importance of manufacturing and mining loans decreased also. At the other extreme, banks with deposits of $10 million or under

(3) See appendix at end of article for classification of borrowers, by industry, and relative size.

had extended approximately one half of their outstanding loan volume to trade concerns. As the size of bank increased, the relative importance of retail loans in the banks' portfolios decreased. In the medium-sized bank group ($10-$100 million deposits) a relatively larger portion of loans was made to real estate and construction firms than at either the larger or the smaller banks. This middle group of banks was also an important supplier of credit for trade firms.

The tendency for the size of the lending bank to be closely related to the asset size of the borrower is clearly demonstrated in the case of sales finance companies. Such firms, whose average loan size is the highest of any type of borrowers, accounted for 10 percent of the total dollar volume of business loans at the largest banks, but for only 3 percent at the smaller banks. The same observation is almost equally valid for public utility firms.

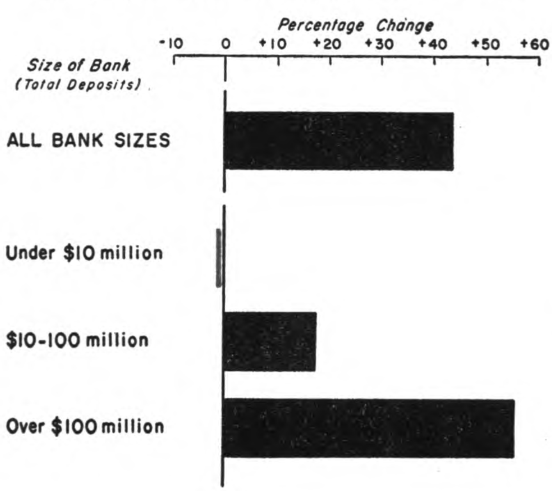
Changes in the volume of business loans between the survey dates varied greatly with the size of the bank, as shown in the accompanying chart. The amount of loans actually decreased slightly at banks with deposits of under $10 million. However, mergers and deposit growth had their chief impact on this size group, thereby reducing the number of banks in this category. On the other hand, the rapid increase of loans at large banks reflects mainly the relatively rapid growth of financing needs of large businesses associated with expansion of output and productive capacity.

Table 4: PERCENTAGE DISTRIBUTION OF BUSINESS LOANS OUTSTANDING WITHIN SIZE-OF-BANK GROUP, OCTOBER 16, 1957

Fourth District Member Banks

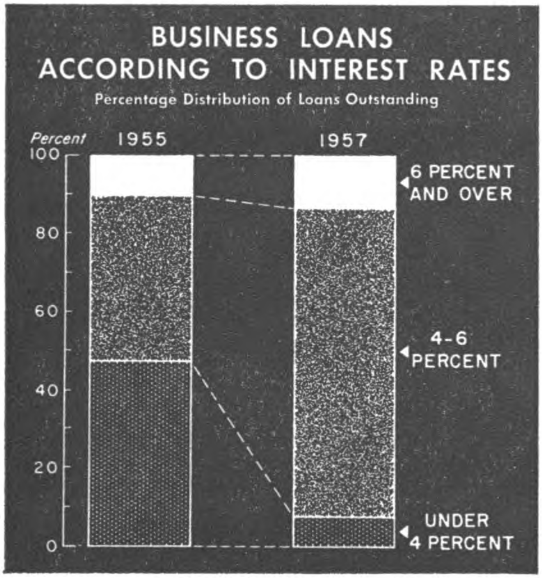
TYPE OF BORROWER	SIZE OF BANK (Total Deposits in Millions of Dollars) All Bank Sizes	Under $10	$10-100	Over $100
	(AMOUNT OUTSTANDING)			
Manufacturing and Mining	36.4%	14.4%	20.7%	41.2%
Trade	19.4	48.5	33.2	14.6
Sales Finance Companies	8.5	3.0	2.7	10.2
Public Utilities	12.3	4.8	4.8	14.4
Construction and Real Estate	12.7	12.1	21.6	10.7
All Other Types	10.7	17.2	17.0	8.9
Total—All Types	100.0%	100.0%	100.0%	100.0%
	(NUMBER)			
Manufacturing and Mining	14.9%	10.3%	14.4%	18.3%
Trade	41.4	50.8	40.2	36.6
Sales Finance Companies	0.7	0.6	0.4	1.3
Public Utilities	5.1	6.0	4.2	5.4
Construction and Real Estate	14.5	11.4	16.0	14.8
All Other Types	23.4	20.9	24.8	23.6
Total—All Types	100.0%	100.0%	100.0%	100.0%

BUSINESS LOANS ACCORDING TO SIZE OF BANK
Change in Loans Outstanding, 1955 to 1957



Interest Rate Trends

The accompanying chart indicates that there was a general upward trend of interest rates between the survey dates. In 1957 about 79 percent of the dollar volume of loans outstanding had interest rates between 4



percent and 6 percent. By comparison, only 42 percent of the loans fell in this range in 1955. Most of the increase in the 4-6 percent interest rate category was due to the shift of loans from the "under 4 percent" category, thereby emphasizing the impact of a restrictive monetary policy on interest rates. Almost the entire increase in the 4-6 percent classification was due to increased rates charged to large borrowers. Therefore, in 1957 only 8 percent of the outstanding loan volume had interest rates under 4 percent, while in 1955 the comparable percentage was 48.

The relative increase in dollar amount of loans in the "over 6 percent" category was modest by comparison with the increase in the "4 to 6 percent" bracket. This would indicate that, in the case of short-term credit at least, 6 percent represents the customary rate ceiling on business loans in many sections of the District.

Loan Maturities

Between 1955 and 1957 short-term loans (maturities under one year) expanded much more than loans with longer maturities, as shown in Table 5. The ratio of short-term to

Table 5: PERCENTAGE DISTRIBUTION OF AMOUNT OF BUSINESS LOANS OUTSTANDING, BY MATURITY AND BY SIZE OF BORROWER, 1955 and 1957

Fourth District Member Banks

SIZE OF BORROWER (in thousands of dollars)	MATURITIES		
	All Maturities	One Year Or Less	Over One Year
OCTOBER 5, 1955			
Under $50	100.0%	56.5%	43.5%
$50-250	100.0	58.0	42.0
$250-1,000	100.0	63.5	36.5
$1,000-5,000	100.0	65.1	34.9
$5,000-25,000	100.0	56.8	43.2
$25,000-100,000	100.0	42.1	57.9
Over $100,000	100.0	49.1	50.9
All Borrowers	100.0%	56.0%	44.0%
OCTOBER 16, 1957			
Under $50	100.0%	47.4%	52.6%
$50-250	100.0	55.5	44.5
$250-1,000	100.0	62.2	37.8
$1,000-5,000	100.0	61.1	38.9
$5,000-25,000	100.0	60.5	39.5
$25,000-100,000	100.0	54.5	45.5
Over $100,000	100.0	66.4	33.6
All Borrowers	100.0%	59.9%	40.1%

total loans at all member banks of the District rose from 56 percent to 60 percent. This movement was in direct contrast to the national trend wherein term loans expanded more rapidly than loans with shorter maturities.

The growth in shorter term maturities did not occur in all size groups in the Fourth District. To the contrary, term loans increased in relative importance for borrowers up to $5 million in assets, with the smallest borrowers showing the largest rise.

The more rapid growth between the survey dates in term loans for small and medium-sized businesses probably reflected the increased outlays for expansion of plant and equipment requiring relatively long-term financing. These borrowers had only limited access to the capital markets. The finding may also indicate that small borrowers made increased use of trade credit to meet short-term requirements and used bank credit for their other needs.

The emphasis on short-term credit by businesses with assets of over $5 million suggests that many satisfied their longer term needs through the capital markets. They may also have increased short-term borrowing from banks to tide them over until conditions for funding this debt became more favorable. In view of their usually high credit standing, larger firms could often do this with assurance that they would be accommodated no matter how long they required the funds.

APPENDIX

Classification of Borrowers, by Industry and Relative Size

Industry	Size (assets, in thousands of dollars)		
	Small	Medium	Large
Manufacturing and mining:			
Food, liquor, and tobacco	Under 1,000	1,000–100,000	100,000 or more
Textiles, apparel, and leather	Under 1,000	1,000–25,000	25,000 or more
Metals and metal products	Under 5,000	5,000–100,000	100,000 or more
Petroleum, coal, chemicals, and rubber	Under 5,000	5,000–100,000	100,000 or more
All other	Under 250	250–25,000	25,000 or more
Trade:			
Retail trade	Under 50	50–1,000	1,000 or more
Wholesale trade	Under 250	250–5,000	5,000 or more
Commodity dealers	Under 250	250–5,000	5,000 or more
Other:			
Sales finance companies	Under 5,000	5,000–100,000	100,000 or more
Transportation, communication, and other public utilities	Under 50	50–100,000	100,000 or more
Construction	Under 50	50–1,000	1,000 or more
Real estate	Under 250	250–1,000	1,000 or more
Service firms	Under 50	50–1,000	1,000 or more
All other nonfinancial business	Under 50	50–1,000	1,000 or more

Leveling Tendencies in Wholesale Prices

One of the salient features of the 1955-1957 business boom was a widely spread and fairly steady increase in wholesale prices. By the middle of 1957, before the current business recession began, average prices of all the commodities included in the Wholesale Price Index were more than 7 percent above the position in June 1955, when the latest major rise in wholesale[1] prices got under way. That interval of slightly more than two years was characterized by high levels of industrial activity, large additions to productive capacity, and an increase in wholesale prices averaging 3½ percent per year.

The succeeding period of declining industrial activity and investment in new capacity has been accompanied by a leveling tendency in wholesale prices. Between August 1957 and April 1958, average wholesale prices, as measured by the Wholesale Price Index of the U. S. Bureau of Labor Statistics, rose a little less than one percent. (See Chart A.) Exclusive of the prices of farm products and foods, there was a fractional decline.

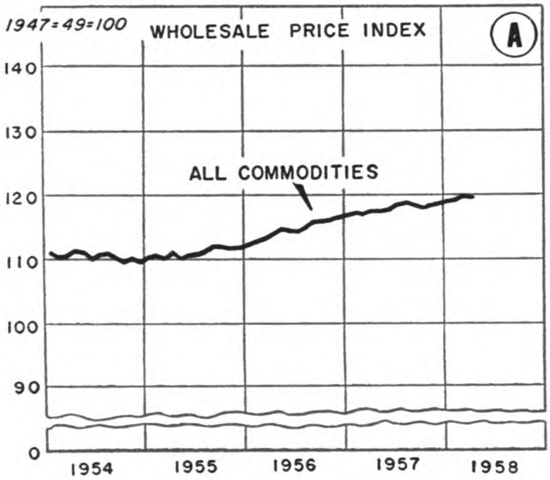
Developments in the Wholesale Price Index are often described in terms of a breakdown by industry groupings. The remainder of this article, however, will use an alternative division of the Index into groups of commodities at different levels of production in the economy, cutting across industry divisions. These are the "sector" indexes, which are coming into increasingly wide use in analyses of price trends. Chart B shows changes in prices of the major groups of commodities according to this classification.

(1) The term "wholesale" here refers to prices of goods sold in large quantities, not to prices paid or received by wholesalers.

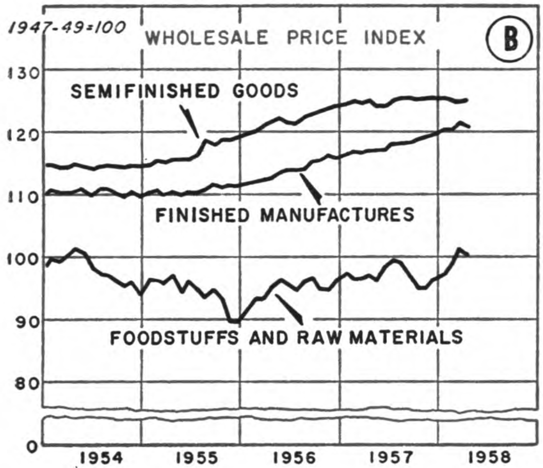
Finished and Semifinished Commodities

Chart B indicates that finished and semifinished goods, in which nonfood commodities predominate, were responsible for the upturn in wholesale prices in 1955 and largely sustained their continued rise in the next two years. Advances in the prices of the commodities in these groups had lost most of their momentum by mid-1957, and the gain in average wholesale prices since then has been caused mainly by higher prices of foods, which are included in the chart in the line for "foodstuffs and raw materials". Prices of finished manufactures apparently edged down in April, the first such dip in more than two years, while prices of semifinished goods have shown little net change since last summer.

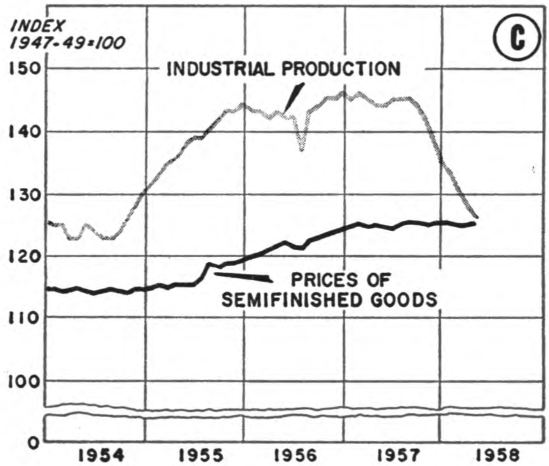
In April, average wholesale prices were 8 percent above the June 1955 position, but the rate of gain has slowed considerably since August 1957.



Prices of finished manufactures, as well as of foodstuffs and raw materials, eased in April, but in that month prices of foodstuffs were the highest in nearly four years.



Prices of semifinished goods followed industrial activity upward in 1955 and 1956; they have shown little change as industrial activity has slackened.



The advance in average wholesale prices which began in midsummer 1955 followed two and one half years of virtual stability in the Wholesale Price Index. As chart B indicates, most of the initial upward pressure on the index came from prices of semifinished goods. This group consists of commodities which flow between manufacturing industries before they reach the final consumer in the form of finished goods. Some examples are textile materials, lumber, plastic materials and cutting tools.

Prices of these goods might be expected to be influenced rather markedly by the level of industrial activity. Chart C compares changes in the prices of semifinished goods with changes in manufacturing and mining activity as measured by the Federal Reserve Board Index of Industrial Production (seasonally adjusted). Prices of semimanufactures rose as industrial production increased in 1955 and 1956, but the drop in industrial activity in 1957 was accompanied by a leveling in prices of these finished materials.(2)

(2) The coincident dips in industrial output and in prices of semifinished goods in July 1956 were due to quite different factors. Industrial production registered a sharp drop in that month because of the nationwide steel strike, while the price index eased largely because of the slump in copper prices.

The rise in prices of semifinished goods in July of 1955 and 1957, as well as in August 1956, appears to have been caused largely by the increases in steel prices which were put into effect in those months. In 1955 and 1956 steel prices were advanced by more than 6 percent, and in 1957 by 4 percent.

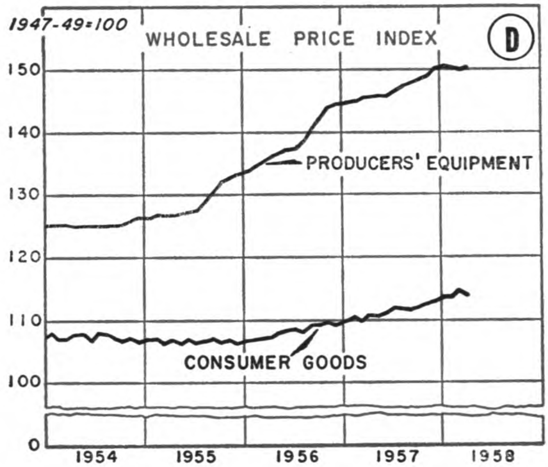
Producers' Equipment

Chart D shows how prices of producers' equipment and consumer finished goods (which together comprise the finished manufactures group) have diverged since 1954. Prices of finished goods sold to producers have increased 20 percent from their average level in 1954, while average prices of consumer goods have risen only 5½ percent.

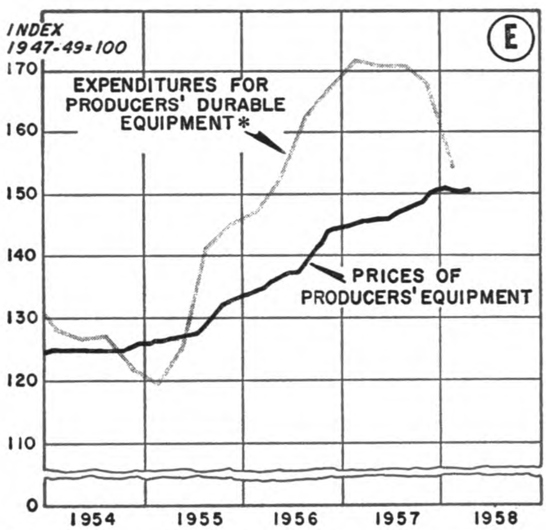
The slight decline in prices of consumer finished goods at the wholesale level during 1954 and 1955 was due to lower food prices, while prices of nonfood commodities bought by consumers were advancing slowly. Conversely, the increase in prices of consumer finished goods subsequent to 1955 resulted in large part from higher prices for food, as well as from a speeding-up of the advance in prices of nonfood commodities.

Prices of producers' equipment started to

Prices of producers' equipment leveled off in February at a position one-fifth higher than in 1954; prices of consumer goods have advanced much less since 1954.



Equipment prices led the rise in equipment outlays after the recession of 1954; in 1957 and early 1958 they continued to advance for some time after expenditures dropped.



*Quarterly, from Gross National Product series.

rise late in 1954, shortly after business activity began to pick up from the 1953-1954 recession. From then until January of this year they rose almost without interruption, showing the largest increase in 1956. The acceleration in the rate of increase in the second half of each year was apparently due to price increases following the annual increases in steel prices.

A comparison of changes in prices of producers' equipment with the amount of expenditure for producers' durable goods during the period 1954-1958, which is shown in chart E, indicates the demand situation in which manufacturers of producers' goods operated during this period. Outlays for producers' goods at their peak in the first quarter of 1957 were almost half again as large as they were in the first quarter of 1955. By the first quarter of this year they had dropped by 10 percent from that high point. Prices of producers' goods, on the other hand, did not stop rising until January of this year, according to the index.

Especially in the case of the prices of producers' goods, the index figure does not, and probably cannot, fully register the reductions in actual prices paid, below the list prices which are reported to the Bureau of Labor Statistics. There is, therefore, probably some degree of overstatement of current prices by the index figure; it seems doubtful, however, that it would alter the conclusion that any reduction in prices of producers' equipment has been slight in comparison to the drop in expenditures on such equipment. Over the whole postwar period since 1947, the index of prices of producers' equipment has declined in only one year, 1949, when it slipped about one percent.

Contrasting Trends in Foodstuffs and Raw Materials

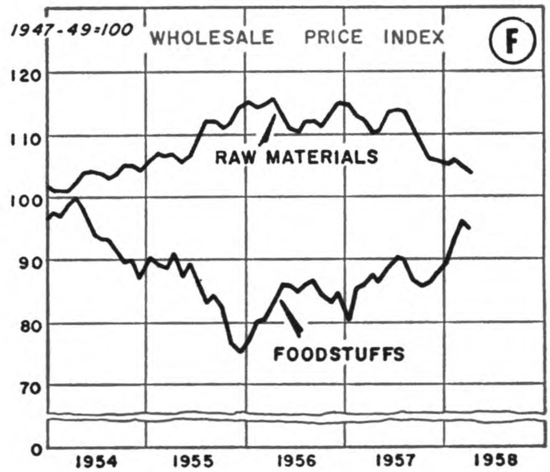
Average prices of foodstuffs and raw materials reached a nine-year low at the end of 1955, and at that time were 27 percent below the postwar peak reached in March 1951.

The two principal groups of prices which are combined in the foodstuffs and raw materials group have moved in opposite directions most of the time from 1954 to 1958. Chart F shows the "scissor" movements in prices of foodstuffs and industrial raw materials during the period. Prices of foodstuffs reached a postwar low in December 1955, climaxing a five-year decline from the record levels reached during the early stages of the war in Korea. Recovery from that level has been substantial, but foodstuffs prices are still below the 1947-49 average.

Prices of industrial raw materials began to rise in early 1954, before business activity revived, and reached a four-year high in early 1956. The trend since then has been primarily downward. The brief flurry in prices of internationally-traded commodities which followed the outbreak of warfare in Egypt in October of that year had spent itself early in 1957, and the upturn in prices of some scrap metals in mid-1957 was equally short-lived.

Only a part of the decline in raw material prices has been due to the business recession. Another important factor has been the completion of the large expansion programs which were initiated to supply the United States stockpiling program. This program was being curtailed sharply just at the time when the increased productive capacity was coming into operation. The strategic stockpile has apparently reached its goals, or will attain them shortly, and the resulting drop in contracting by the stockpile managers, which affects prices far more than actual shipments do, has depressed prices of many commodities to their lowest levels in several years.

Prices of raw materials used in manufacturing have dropped considerably from the 1956 peak; prices of foodstuffs are now at the highest point since 1954.



Many of these raw commodities are produced outside the United States and are traded in world markets; the consequences of a decline in their prices extend far beyond the domestic economy of the United States. The combined effect of falling prices and reduced production has been severe in some primary-producing countries, as well as in those areas of the United States which are heavily dependent on the production of metals.

Around the Fourth District—

Bank debits in the ten largest centers of the Fourth District showed the following year-to-year changes for the three months ended April 1958:

		% change from yr. ago
Columbus	Ohio	+ 6%
Cincinnati	Ohio	− 2%
Akron	Ohio	− 5%
Dayton	Ohio	− 7%
Toledo	Ohio	− 7%
Erie	Pa.	− 9%
Pittsburgh	Pa.	−10%
Canton	Ohio	−11%
Cleveland	Ohio	−11%
Youngstown	Ohio	−13%
FOURTH DISTRICT TOTAL		− 8%

* * * *

Department store sales in the Fourth District for the first four months of this year were 5% below a year ago. (The corresponding figure for the United States is 3% below a year ago.)

* * * *

For the major metropolitan areas of the District, *department store sales* for January through April fell short of a year ago by margins ranging from 2% in Lexington, Kentucky, to 16% in Youngstown, Ohio.

* * * *

Commercial and industrial loans outstanding at the weekly reporting banks of the Fourth District were 7% below a year ago, as of the end of May. At the same time, however, investments were up 14%.

* * * *

In the Cleveland area, the low volume of *railroad freight* has resulted mainly from restricted shipments of coal and iron, reflecting the steel situation. Outbound carloadings in Cleveland during the first five months of the year were 49% below a year ago.

* * * *

Despite the reduced level of business activity and the occurrence of payment dates for Federal income taxes and real estate taxes in April, *savings deposits of individuals* at 50 reporting banks in 12 Fourth District centers continued to grow. The average weekly gain of nearly $4 million raised the total volume of savings to a new all-time high level on April 30. Nearly two-thirds of the total increase occurred at Pittsburgh banks.

(The above items are based on various series of District or local data, which are assembled by this bank and distributed upon request in the form of mimeographed releases.)

NOTES ON FEDERAL RESERVE PUBLICATIONS

The Federal Reserve Bank of Minneapolis has issued a special publication titled "The Missouri Basin Development Program." (Copies may be obtained by writing to that bank.)

* * *

Recent statements on Federal Reserve policy include:

"Should the Federal Reserve Buy Long-Term Securities?" Paper delivered by Winfield W. Riefler at Money and Banking Workshop, Federal Reserve Bank of Minneapolis. Minneapolis, Minnesota, May 3, 1958.

"Credit Developments and Monetary Policy in Recession." Address by Woodlief Thomas before Management Conference of Savings Association League of New York State. Washington, D. C. May 7, 1958.

(Copies of these addresses are available at the Board of Governors of the Federal Reserve System, Washington 25, D. C.)

FOURTH FEDERAL RESERVE DISTRICT