

# Monthly Review



TWELFTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF SAN FRANCISCO

January 1957

Review of Business Conditions . . . . .	2
Financing of Farmers' Current Expenses By Twelfth District Commercial Banks	4



# REVIEW OF BUSINESS CONDITIONS

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As 1956 closed, most economic indicators reached new record levels, although the rate of growth of business activity during the year was not as great as it had been in 1955. Industrial production continued its upward trend in December, but at a slow pace. Production of capital equipment moved to new highs, and automobile output expanded. The manufacture of nondurables increased after a dip in November, but some slowness was evident in the output of household durables. New construction continued to rise slowly, paced by nonresidential building. Employment, after seasonal adjustment, remained at a peak level. Retail sales were generally strong and were maintained at the record level reached in November. Wholesale prices continued to rise with quotations for industrial goods providing the impetus. The demand for credit remained strong and average yields on securities rose significantly from November to December. Moreover, security markets were affected by expectations of large capital flotations early in 1957.

The pattern in this District did not depart significantly from that in the nation. Except for a slightly stronger employment picture and a more moderate increase in bank loans, District developments in December appeared quite similar to those in the nation as a whole. The competition for funds in this District was evident in the reaction of banks to the permissible increase in interest rates on time and savings deposits. District institutions holding more than 90 percent of member bank time deposits raised their rates. Over 75 percent of the time deposits in Twelfth District member banks will draw 3 percent, and at least 17 percent will earn 2.5 percent. A substantial number of nonmember banks also reported increases in rates paid on time and savings deposits.

## ***Employment in District continues strong***

Total nonagricultural employment in the Twelfth District declined by only half of the expected seasonal amount between October and November. On a seasonally adjusted basis, therefore, employment continued its almost unbroken

rise of the past two years. Underlying the November rise was expansion in the service, public utility and transportation, and manufacturing industries. Each of these groups had substantial increases between October and November after seasonal adjustment. Moderate weakness was apparent in contract construction and government employment, which dropped slightly more than seasonally. Employment in other nonagricultural lines increased by a fair margin after adjustment for seasonal factors. Total nonagricultural employment made a good showing in November, but the rise after seasonal adjustment was not quite so strong as in some other months in 1956. In comparison with November 1955, the number of people at work in District nonfarm jobs was about 5 percent higher. Nationally, however, the gain was little more than 2 percent.

Insured unemployment also increased during November after seasonal adjustment. With unemployment at low levels, a small increase in the number of idle workers tends to have a marked effect on this series. November developments included earlier-than-usual termination of canning activities because of early harvests and a sharp drop in the lumber industry, which reflected market conditions and, to some extent, adverse weather. The upswing in insured unemployment was reversed in December. After allowing for seasonal effects, which tended to reduce unemployment just before the holidays, the number of workers drawing insurance payments fell back toward the October level. On the basis of this decline in insured unemployment and some preliminary employment figures, it appears December employment again increased on a seasonally adjusted basis.

## ***Christmas sales pattern at department stores varies***

Based on weekly reports by District department stores, Christmas sales were rather slow until the week preceding the holiday. In the first seven weeks of the season, the dollar volume recorded by reporting stores ran 2 percent below the comparable period in 1955. In the week preceding Christmas, sales turned sharply upward



and raised the cumulative eight-week total slightly above the year-ago level. Sales climbed strongly again during Christmas week so that the seasonal total was 2 percent higher than in 1955. Since prices were higher for most items in late 1956 than in the prior year, it appears that the dollar gain in sales may not have resulted in any increase in physical volume.

#### ***Forest products and residential construction show weakness***

Lumber activity continued to slip in December because of seasonal forces and general weakness in the market. Prices for Douglas fir lumber, the principal forest product in both physical and dollar volume in this District, reportedly reached a two and one-half year low in December. Douglas fir plywood has also been under considerable pressure and the price fell to \$67 per thousand square feet for quarter-inch sheets. In mid-December, however, one of the major producers announced a price of \$72, and several others have followed.

Construction activity continued generally strong with the exception of housing. Requests for VA appraisals for housing loans in this District fell almost 60 percent from November to December, and the cumulative total for 1956 was 50 percent below the previous year. Applications for FHA mortgages on new homes increased slightly in December, but the total for the year was off almost one-third from 1955. Sufficient time has not yet elapsed to indicate what effect the change in rates on FHA insured mortgages from 4.5 to 5 percent will have on loan volume.

#### ***Weather conditions reversed***

Unusual weather conditions often have adverse effects upon certain areas of the District, but the situation so far this winter has been a complete reversal from a year ago. In December 1955 and January 1956 large areas of the District suffered from heavy rains and flood waters, while other sections experienced drought conditions. In contrast, in late 1956 and early January of this year, some of the areas suffering from too much moisture the previous winter were being plagued by a lack of moisture. As a result, drought conditions were more widespread and prevailed in sections of Arizona, Utah, Nevada,

and California. The continuation of subnormal precipitation in rangeland areas such as those in Arizona has forced cattlemen to rely more heavily on expensive supplemental feeding this winter. In some parts of the Pacific Northwest, power shortages have occurred; and interruptible power users have found it necessary to adjust their power purchase programs. However, present water supply forecasts for the Columbia Basin, based on reservoir levels and snow packs, indicate that runoff will be near normal during the spring and summer of 1957. In the southern parts of the District, on the other hand, water levels are below normal. If precipitation continues to be unusually low both in the valleys and the mountains in these sections, it might be necessary to ration water supplies in farming areas later in the year.

#### ***District bank loans rise in December***

Total loans of weekly reporting member banks in the District increased \$138 million during the four weeks ending December 26, 1956. This was a slightly smaller gain than was reported in the same period of the previous year. Commercial and industrial loans accounted for all but a small part of the increase. Real estate loans rose by only \$3 million in the four-week period and "other loans," which include consumer lending, rose \$18 million. Small declines were reported for loans to agriculture and loans for purchasing and carrying securities by persons or firms other than brokers or dealers in securities. The broker and dealer group increased their borrowing by the same amount that "others" reduced their use of credit to finance securities. Commercial and industrial loans followed almost the same pattern as in 1955. On the other hand, real estate loans rose substantially more in December 1955, by \$37 million, and security and other loans declined during the earlier period.

The change in District bank credit in December was more moderate as compared with the nation than in most of the earlier months of 1956. During December, the loan increase in the District was roughly 10 percent of the national rise. For all 1956 the loan increase in the District accounted for more than 20 percent of the national rise and in several months exceeded 30 percent.



In the first half of January, a larger than usual post-holiday downturn in loans occurred. Total loans of District weekly reporting member banks fell by \$88 million during the first week of January as all categories except agricultural loans showed decreases. Commercial and industrial loans and "other" loans together accounted for

\$72 million of this decline. During the second week of the month, total loans fell by \$31 million as small increases in real estate, agricultural, and "other" loans partially offset a \$33 million drop in industrial and commercial loans and minor declines in agricultural loans and securities loans.

## Financing of Farmers' Current Expenses by Twelfth District Commercial Banks

COMMERCIAL banks are the most important institutional lenders to farmers for current expense purposes. The results of the Federal Reserve System survey of bank lending to farmers in mid-1956 indicate that loans of this type are also the most important type of agricultural loan held by commercial banks. They accounted for 43 percent of the dollar volume of outstanding farm loans held by Twelfth District commercial banks in mid-1956. Current expense loans are important not only in terms of dollar volume but also in terms of the number of borrowers. Over a third of the farm borrowers from District banks had at least one outstanding current expense loan. The growing importance of production expenses to agriculture is indicated by the preliminary results of a study recently completed by the Department of Agriculture, which indicate that production expenses take more of the farmer's dollar than before the war. In line with this conclusion is the growth of District bank lending to farmers for current expense purposes, which more than doubled between mid-1947 and mid-1956.

Since current expense loans are generally considered to have relatively shorter maturities than other types of agricultural loans, they offer to commercial banks certain advantages. By having a relatively high proportion of their agricultural loan portfolios in the form of short-term loans, banks can, should it be necessary, make adjustments in their loan portfolios fairly quickly.

Because of the greater diversification in the operations of branch banking systems, both geo-

graphically and financially, it might be expected that these systems would be in a better position than small unit banks to offer longer repayment periods on farm loans. The data on farm loans in the Twelfth District, where branch banking is relatively much more important than elsewhere, appear to support this expectation. The maturity of loans, as indicated by the relative distribution of the outstanding loan volume, did tend to be for longer periods in the Twelfth District than in the country as a whole regardless of purpose of loan. Moreover, demand notes are used less frequently in the District than in the nation. It is this type of note which potentially provides the greatest degree of bank control over the loan portfolio since the maturity of the loan is legally at the discretion of the lender. Nevertheless, in some cases there is an informal agreement between the borrower and the lender as to the approximate length of maturity. Six percent of the dollar volume of all outstanding farm loans in the District were demand notes compared with 8 percent nationally.

TABLE 1  
FARM LOANS FOR CURRENT EXPENSE PURPOSES  
INSURED COMMERCIAL BANKS, TWELFTH DISTRICT  
(Outstanding on June 30, 1956)

Major purpose of loan	Amount outstanding (In dollars)	Percent of dollar volume	Number of loans	Average size of loan (In dollars)
Current operating and family living	245,566,801	78	83,364	2,843
Purchase of feeder livestock . . . . .	69,069,135	22	6,733	10,258
Total current expense . . . . .	314,635,936	100	93,097	3,380



As indicated in Table 1, commercial bank loans to farmers for current expense purposes were classified into two categories: loans for current operating and family living purposes and loans for the purpose of purchasing feeder livestock.

### Maturity of Loans

Current expense loans are generally considered to have short maturities. The figures in Table 2 based on the original maturity of the

TABLE 2  
MATURITY PERIOD  
OF FARM LOANS FOR CURRENT EXPENSE PURPOSES  
INSURED COMMERCIAL BANKS, TWELFTH DISTRICT  
(Outstanding on June 30, 1956)

Maturity <sup>1</sup> period	Number of loans	Amount outstanding (Thousands of dollars)	Average size of loan (In dollars)
Demand .....	6,150	32,674	5,313
1 month .....	1,088	3,077	2,828
3 months .....	14,872	29,385	1,976
6 months .....	35,948	83,405	2,320
9 months .....	19,999	63,318	3,316
1 year .....	11,798	85,006	7,205
15 months .....	435	1,875	4,310
18 months .....	628	2,212	3,522
2 years .....	644	6,503	10,098
3 years .....	314	1,470	4,682
4-5 years .....	589	1,816	3,083
6-10 years .....	608	3,667	6,031
Over 10 years .....	23	229	9,937
Total .....	93,097	314,636	3,380

<sup>1</sup> Loans are classified under the nearest maturity listed—for example, 5-month and 7-month loans are included with 6-month loans.  
Note: Details may not add to totals because of rounding.

outstanding current expense loans held by District banks bear out this generalization. Over 96 percent of such loans had maturities of one year or less. The most usual maturity period was six months, with over a third of the current expense loans written to mature in this period of time compared with about 20 percent for all loans made by District commercial banks to farmers. Six months was also the most common maturity period for each of the components of the current expense loans category—current living and production expense loans and feeder livestock purchase loans. In addition, however, maturities of one year and demand notes were of relatively greater importance in the case of loans for purchase of feeder livestock than for current living and production expenses.

Despite the concentration of loans in the maturity period of one year or less, there was a

wide dispersion of due dates, ranging from demand notes to loans with maturities of ten years or more. Among the factors that one might expect to be associated with these varying time periods are: net worth of borrower; type of farm operated by the borrower; security used; and origin of the note, that is, whether the note was acquired by the bank from a merchant or dealer or made directly to the borrower by the bank.

### Net worth of borrower

The net worth of the borrower appeared to have little effect on the maturity period of outstanding loans, that is, there was little difference in the relative importance of the distribution of maturities within net worth categories.<sup>1</sup> Only in the case of demand notes did a sizable difference appear. Loans of this type were relatively more common to borrowers in the net worth groups above \$25,000. In this net worth class, the time period of the note seemed to be influenced by the type of farming enterprise. Operators of meat animal farms and farms producing "other major" crops,<sup>2</sup> such as fruits, nuts, and vegetables, most frequently held demand notes. Since it is not likely that banks would require demand notes from borrowers with such high net worth, this concentration of demand notes among borrowers with meat animal and other major product farms may indicate borrower preference for this type of loan. There are several reasons why such a preference may exist. For instance, the demand note permits the borrower a maximum degree of flexibility in repayment of the loan, which is of particular interest to producers of items subject to rapid price fluctuations which may, in turn, influence the time of marketing of the product. In feeder cattle operations, for example, there is no fixed period for keeping cattle on feed. The length of the period is governed by the weight and finish desired and the prices obtainable for various weights and grades. If prices appear favorable, the cattle may be marketed sooner than anticipated at the time they were placed on feed.

<sup>1</sup> Net worth in this case was divided into three classes: low net worth (under \$25,000), medium net worth (\$25,000-\$99,999), and high net worth (\$100,000 and over).

<sup>2</sup> Includes those farms where 50 percent or more of the value of products sold is derived from a particular product or group of similar products such as fruit.



FEDERAL RESERVE BANK OF SAN FRANCISCO

*Type of farm*

In general, maturities on current expense loans were geared to the length of the production period for the commodity involved. Loans to borrowers with farms that yield income on a relatively regular basis throughout the year, such as dairying operations, showed less variability in the maturity period than loans to borrowers with enterprises such as cash grain farms, where the bulk of the income is obtained in a relatively short period of time following the harvest and sale of the grain. There was a well-defined grouping about the six-month maturity period for loans to borrowers engaged in the production of meat animals or cash grain. The maturity period of loans to cotton farmers, however, concentrated at two maturities—one peak at nine months and another at two years. Loans to dairy and general farmers had no well-defined peaks for loan maturities; but, for borrowers with general farms, short maturities (one year or less) were more common than for dairy farmers.

**Security**

Fifty thousand, or 56 percent, of the District current expense loans were unsecured. Among the secured loans, chattel mortgages were by far the most common type of security used—accounting for 85 percent of the secured loans as shown in Table 3. Chattel mortgage loans tended to have longer maturities, with relatively more loans in the nine-month and one-year maturity categories, than unsecured and endorsed loans. Over half of the current expense loans secured by farm real estate had a maturity of 18 months or longer, with more than a fourth of the total number falling within the range of six to ten years. These are long maturities for current expense loans and suggest that perhaps some of these loans were misclassified as to purpose. However, since loans were classified according to the major purpose of the loan, a substantial number of them may be multi-purpose and may even include under current expense loans some that were made in part for the purchase of farm real estate.

TABLE 3

MATURITY PERIODS, BY TYPE OF SECURITY, OF FARM LOANS FOR CURRENT EXPENSE PURPOSES INSURED COMMERCIAL BANKS, TWELFTH DISTRICT (Outstanding on June 30, 1956)

Maturity period <sup>2</sup>	Type of security <sup>1</sup>			Farm real estate
	Unsecured	Endorsed or co-maker	Chattel mortgage	
	(Number of loans)			
Demand .....	3,417	102	2,370	48
1 month .....	768	59	261	0
3 months .....	10,387	500	3,512	177
6 months .....	20,914	1,375	11,455	354
9 months .....	9,074	681	9,093	285
1 year .....	5,212	436	5,593	105
15 months .....	168	40	226	0
18 months .....	201	76	350	0
2 years .....	123	25	405	46
3 years .....	32	25	121	136
4-5 years .....	25	0	25	500
6-10 years .....	0	0	0	608
Over 10 years .....	0	0	0	23

<sup>1</sup> Government guaranteed and "other" security not included.  
<sup>2</sup> Loans are classified under the nearest maturity listed—for example, 5-month and 7-month loans are included with 6-month loans.

*Direct and acquired loans*

As is evident in Table 4, most current expense loans held by commercial banks were originally made directly to the borrower and few were acquired from merchants or dealers in farm supplies. Where there were a sufficient number of purchased loans to make maturity period comparisons with those loans made directly by banks, it did not appear that there was a great deal of difference between maturities for direct and purchased loans. For notes secured by endorsement, the distribution of maturity periods for direct and acquired loans was quite similar—more so than for notes secured by chattel. In the latter case, acquired notes tended to be for longer maturity periods, with two points of concentration, the first at one year and another at two years. On the other hand, the maturity periods for direct loans secured by chattel tended to concentrate around one point—six months.

**Size of Current Expense Loans**

There was considerable variation in the size of current expense loans outstanding. Direct loans for current expense purposes averaged considerably larger than purchased loans. This differ-

TABLE 4  
DIRECT AND ACQUIRED FARM LOANS FOR CURRENT EXPENSE PURPOSES  
INSURED COMMERCIAL BANKS, TWELFTH DISTRICT  
(Outstanding on June 30, 1956)

	Total current expense			Current operating			Purchase of feeder livestock		
	Number of loans	Percent of number of loans	Amount outstanding (In dollars)	Number of loans	Percent of number of loans	Amount outstanding (In dollars)	Number of loans	Percent of number of loans	Amount outstanding (In dollars)
Direct loans .....	91,834	98.6	311,699,139	85,250	98.7	242,714,322	6,584	97.8	68,984,817
Acquired loans .....	1,088	1.2	2,796,002	939	1.1	2,711,684	149	2.2	84,318
Not ascertained .....	175	0.2	140,795	175	0.2	140,795	0	0	0
Total .....	93,097	100.0	314,635,936	86,364	100.0	245,566,801	6,733	100.0	69,069,135

ence in size could be attributed mainly to the much larger direct loans made for purchase of feeder livestock since there was little difference between the size of direct and acquired current production loans. Other factors, besides origin of loan, which were associated with the changes in the size of these loans were the net worth of the borrower, the type of farm operated by the borrower, the interest rate charged, and the type of security used.

#### Net worth of borrower

The net worth of the borrower was of considerable importance in influencing the size of loans, both for total current expense loans and each of the two subdivisions of this category (Table 5). Borrowers with a high net worth usually operate large farms and would be likely to require more funds for operating expenses.

#### Type of farm

In addition to the relationship between the net worth of the borrower and the size of loan, the type of farm operated by him also was associated with changes in the size of current expense loans. This stems in part from the differences in the seasonal pattern of income and from the variation in the ratio of fixed to operational costs associated with various types of farming enterprises. There was considerable variation in the size of the average outstanding balance of loans by type of farm among the various net worth groups. In the group of borrowers with net worths of \$25,000 and over, the largest average size of loan was to operators of meat animal farms, while the smallest loans were to poultry farmers. Perhaps large poultry farmers rely to a greater extent on credit sources other than commercial banks, for the average balance

TABLE 5  
BORROWER NET WORTH CLASSES  
OF FARM LOANS FOR CURRENT EXPENSE PURPOSES  
INSURED COMMERCIAL BANKS, TWELFTH DISTRICT  
(Outstanding June 30, 1956)

	Total amount outstanding			Average size of loan		
	Purchase of feeder livestock	Current operating	All current expense	Purchase of feeder livestock	Current operating	All current expense
	(In thousands of dollars)			(In dollars)		
Under \$3,000 .....	216	1,174	1,390	490	580	564
\$3,000-\$9,999 .....	628	9,154	9,782	1,026	945	949
\$10,000-\$24,999 .....	2,570	24,220	26,790	1,981	993	1,043
\$25,000-\$99,999 .....	17,817	83,817	101,633	6,713	2,365	2,668
\$100,000 and over .....	47,839	127,093	174,932	27,669	8,674	10,678
Not ascertained .....	0	109	109	0	624	624
Total .....	69,069	245,567	314,636	10,258	2,843	3,380

Note: Details may not add to totals because of rounding.



FEDERAL RESERVE BANK OF SAN FRANCISCO

on loans to poultry farmers in the net worth group of \$10,000 to \$24,999 was among the largest. Among the small farm borrowers, the group with net worths of \$3,000 or less, the lowest average size loans were made to meat animal farmers. The outstanding balance per loan to cotton farmers averaged largest in the net worth categories under \$25,000. In general, the average outstanding loan balance to dairy farmers was among the smallest in each net worth category.

The largest average size loan outstanding for all net worth groups combined was to borrowers with meat animal farms. These borrowers accounted for the bulk of the dollar volume of loans outstanding for purchase of feeder livestock, 80 percent. Moreover, within each net worth category the feeder livestock loan volume was greatest to operators of meat animal farms. In addition to operators of meat animal farms, borrowers with general farms and dairy farms also borrowed quite heavily for the purpose of purchasing feeder livestock. In terms of number of loans, more were outstanding to farmers with meat animal farms in the \$25,000 to \$99,999 net worth class than in any other net worth category.

The loan volume for current operating and family living purposes in all net worth classes was greatest to borrowers with general farms except in the very large net worth class of \$100,000 and over. In this net worth group, the loan volume was heaviest to borrowers with meat animal farms; but more individual loans were outstanding to cotton farmers. In the lowest net worth group, \$3,000 and under, the largest number of loans was outstanding to operators of "other major product" farms, while in the remaining net worth categories more loans were outstanding to farmers with general farms.

**Interest rates**

Changes in the size of the original amount of current expense loans were associated with changes in interest rates, as is evident in Table 6. This association was apparent for loans for all purposes and not just for current expense loans.

TABLE 6  
INTEREST RATE, BY ORIGINAL SIZE OF NOTE,  
OF FARM LOANS FOR CURRENT EXPENSE PURPOSES  
INSURED COMMERCIAL BANKS, TWELFTH DISTRICT  
(Outstanding on June 30, 1956)

Original size of note	Current production (Most common annual rate in percent)	Purchase of feeder livestock	All current expense	All current expense (Average rate in percent)
Under \$250 . . . . .	8.0	7.0	8.0	7.4
\$250-\$499 . . . . .	8.0	6.0	8.0	7.4
\$500-\$999 . . . . .	6.0	7.0	6.0	6.9
\$1,000-\$1,999 . . . . .	6.0	6.0	6.0	6.5
\$2,000-\$4,999 . . . . .	6.0	6.0	6.0	6.1
\$5,000-\$9,999 . . . . .	6.0	6.0	6.0	6.0
\$10,000-\$24,999 . . . . .	6.0	6.0	6.0	5.8
\$25,000-\$99,999 . . . . .	6.0	6.0	6.0	5.5
\$100,000 and over	6.0	5.1-5.9	5.1-5.9	5.4

Note: Loans were classified by interest rates into categories of the following types: 4 percent; 4.1-4.9 percent; 5 percent; 5.1-5.9 percent; 6 percent; 6.1-6.9 percent; etc.

The pattern of interest rates as among different net worth groups, however, is complex. Interest rates on small loans (under \$500) were lowest to borrowers in the smallest net worth category, while on larger loans interest rates were lowest to borrowers in the highest net worth group (\$100,000 and over).

The explanation for this pattern of interest rates could be that farmers in the low net worth category may have steady off-farm employment which could be used in evaluating the repayment ability of the borrower. Hence, their primary source of income would not be subject to agricultural price fluctuations and production hazards. Of the borrowers in the lowest net worth group with loans for purposes other than the purchase of farm real estate, 27 percent were part-time farmers. As for the borrowers with a high net worth, the effects of income risk on repayment ability may be expected to be comparatively low because the financial capability of these borrowers would tend to reduce their dependence on current income as a means of repayment of current expense loans.

Loans for current operating and family living also tended to carry higher interest rates as the original size of the loan declined, as did loans for the purpose of purchasing feeder livestock. But, for loans of comparable size, those to purchase feeder livestock were more likely to carry



lower interest charges than loans for current expense purposes.

### Variability of Interest Rates

The average interest rate on current expense loans outstanding in the District in mid-1956 was 5.9 percent. It was indicated in the preceding section dealing with the size of current expense loans that the interest rate charged varied with the original size of the note and the net worth of the borrower. Other factors which may also be related to interest rates are: the type of security, the tenure of the operator, and the type of farm operated by the borrower.

Although the type of security is often considered to be associated with the interest rate charged, there was no consistent difference in interest charges by type of security on loans made for current expense purposes, after taking into account the original size of the note. This also was the case for the two components of current expense loans—current operating and family living loans and loans for the purchase of feeder livestock.

Tenure of the operator, however, did appear to be related to interest rates, particularly for notes of over \$500. For notes in the same size group, interest rates were generally lowest on notes to landlords and were somewhat higher to owner-operators and tenant or cropper farmers. Interest rates on loans to corporate farms were higher than those on loans to landlords but were lower than rates on loans to owner-operators and tenant farmers for loans of \$2,000 or more.

Interest rates also varied by type of farm. Specialized farmers tended to pay lower interest rates than general farmers on loans of the same size. Among the specialized types of farms, the interest rates on loans to operators of "other major product" farms were among the lowest in each size group of loans. This may be an indication of the influence of competition on the structure of interest rates as many of such farmers have available to them sources of credit other than institutional lenders, such as processing firms. Loans of \$500 and over to cotton farmers also carried relatively low interest rates.

### Overdue Notes and Unplanned Renewals

Over 8,000 current expense loans outstanding in mid-1956, or about 9 percent of the total number, were either overdue or had been renewed because of unexpected circumstances. The outstanding balance on these loans totaled \$44 million, 14 percent of the total volume of current expense loans (Table 7); and the loan size averaged 60 percent larger than that of all current expense loans. Unplanned renewals were more important in terms of number of loans and dollar volume outstanding than overdue loans, accounting for over three-fourths of their combined outstanding loan volume and almost 80 percent of the loans. Unplanned renewals were used almost as frequently as planned renewals, the former accounting for 46 percent of the total number of renewed notes.

The dollar volume of unplanned renewals was greatest to borrowers with meat animal farms with net worths of \$100,000 and over, followed closely by borrowers with general farms in the same net worth class. Together these two types of borrowers accounted for not quite half the dollar volume of such loans but somewhat less than 10 percent of the number of loans.

Feeder livestock loans accounted for about 40 percent, in dollar terms, of the unplanned renewals of loans made to operators of meat animal farms in mid-1956. Prices for fed cattle in the spring of that year were unfavorable and these unplanned renewals reflected the delay of marketings by some feeders in anticipation of better prices later in the year.

The overdue loan volume was even more concentrated than the loan volume of unplanned renewals. A little over 60 percent of the overdue loan volume consisted of loans to general farmers with a net worth of \$100,000 and over. Moreover, this loan volume was more than three months overdue and included no loans for the purpose of purchasing feeder livestock. Only 5 percent of the loans was made to these borrowers; consequently, the average size of the loans was large.

Unplanned renewals and overdue loans were not confined to borrowers with any particular type of farm, but there was considerable variation



FEDERAL RESERVE BANK OF SAN FRANCISCO

in their relative importance. Judging from the outstanding loan volume, these loans were of greatest importance to borrowers with poultry farms. There were no overdue poultry loans outstanding, but unplanned renewals were very important and accounted for 25 percent of the current expense loan volume to poultry producers. The income position of District poultry farmers was not favorable during the first part of 1956. Commercial broiler prices were the lowest in several years, and egg prices were at a low level. This impaired the ability of poultry producers to repay outstanding current expense loans. Borrowers with general farms were second to operators of poultry farms in the relative importance of overdue and unplanned renewals, which accounted for 23 percent of the outstanding current expense loan volume of these borrowers.

The heaviest bank borrowers for current expense purposes in the District are operators of meat animal farms—over a third of the current expense loan volume held by banks was extended to such operators. The overdue and unplanned renewal loan volume of these farmers came to a

total of \$14.6 million and was exceeded only by borrowers with general farms. About a third of the dollar volume of unplanned renewals to operators of meat animal farms consisted of loans made for the purpose of purchasing feeder livestock. These borrowers accounted for well over 90 percent of the dollar volume of unplanned renewals outstanding that were made for the purpose of purchasing feeder livestock.

**Conclusion**

The importance of District bank credit to farmers in assisting them in meeting their seasonal expense requirements is evidenced by the \$315 million in loan volume outstanding in mid-1956, a time of year when such loans are at or near their seasonal peak. This loan volume amounts to about an eighth of the total current operating expenditures made annually by District farm operators in recent years. Moreover, the relationships presented in this article demonstrate the complexity of considerations in farm lending for current expense purposes and suggest the value of continuous appraisal of farm lending practices by commercial banks.

TABLE 7  
OVERDUE AND UNPLANNED RENEWALS OF CURRENT EXPENSE LOANS—BY TYPE OF FARM  
INSURED COMMERCIAL BANKS, TWELFTH DISTRICT  
(Outstanding on June 30, 1956)

Type of farm	Current expense loan volume outstanding (In dollars)	Overdue loan volume (In dollars)	Unplanned renewal loan volume (In dollars)	Total overdue and unplanned renewals	
				Amount outstanding (In dollars)	Percent of total current expense loans
Meat animal .....	112,095,902	2,458,540	12,229,277	14,687,817	13.1
General .....	73,230,361	7,193,658	9,925,328	17,118,986	23.4
Other major product <sup>1</sup> .....	59,081,942	457,963	5,132,055	5,590,018	9.5
Cash grain .....	39,786,897	494,159	2,597,431	3,091,590	7.8
Dairy .....	16,068,976	103,137	2,595,254	2,698,391	16.8
Cotton .....	11,825,830	57,500	429,208	486,708	4.1
Poultry .....	1,343,760	0	333,912	333,912	24.8
Total <sup>2</sup> .....	313,433,668	10,764,957	33,242,465	44,007,422	14.0

<sup>1</sup> Includes those farms where 50 percent or more of the value of products sold is derived from a particular product or group of similar products such as fruit.  
<sup>2</sup> Does not include loans to those borrowers where type of farm was not ascertained.



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

Year and month	Industrial production (physical volume) <sup>2</sup>							Total nonagricultural employment	Total mfg employment	Carloadings (number) <sup>3</sup>	Dep't store sales (value) <sup>2</sup>	Retail food prices % <sup>4</sup>	Waterborne foreign trade <sup>5, 6</sup>	
	Lumber	Petroleum <sup>3</sup>		Cement	Lead <sup>3</sup>	Copper <sup>3</sup>	Electric power						Exports	Imports
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	111r	106	119	133	70	101	172	120	134	96	113	113	131	260
1955	121r	106	122	145	73	117	192	127	143	104	122	112	164	307
1955														
November	112r	106	123	128	67	128	206	130	148	98	125	112	143	325
December	116r	106	120	130	63	119	198	130	149	98	123	112	164	328
1956														
January	118r	106	130	135	70	134	199	131	149	107	130	112	136	354
February	113r	106	128	145	77	129	204	132	150	99	124	111	126	323
March	112r	105	128	149	77	131	219	132	150	103	128	112	150	395
April	116r	105	122	160	82	140	203	133	150	105	131	113	175	397
May	122r	105	129	173	74	135	211	133r	152	107	122	113	183	519
June	129r	105	125	161	81	135	215	134	153	105	126	114	204	427
July	121r	105	132	160	75	110	212	134	152	102	132	115	215	559
August	118	105	128	171	75	123	212	135	153	101	131	114	207	500
September	113	104	136	168	78	122	209	135	153	107	131	114	212	459
October	109r	104	128	163	81	127r	217	136	154	102r	130	115	....	....
November	113	104	135	....	....	123	....	137	156	100	132	116	....	....

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

Year and month	Condition items of all member banks <sup>1</sup>				Bank rates on short-term business loans <sup>3</sup>	Member bank reserves and related items					Bank debits index 31 cities <sup>3, 15</sup> (1947-49=100) <sup>2</sup>
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>7</sup>	Total time deposit		Factors affecting reserves:					
						Reserve bank credit <sup>8</sup>	Commer- cial <sup>10</sup>	Treas- ury <sup>10</sup>	Money in circula- tion <sup>9</sup>	Reserves <sup>11</sup>	
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
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											
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
November	12,504	6,431	11,867	9,235	....	0	- 143	+ 209	+ 38	2,579	197
December	12,804	6,383	12,078	9,356	4.65	- 17	- 303	+ 451	+ 38	2,654	202

<sup>1</sup> Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, California Redwood 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.  
<sup>2</sup> Daily average. <sup>3</sup> Not adjusted for seasonal variation. <sup>4</sup> Los Angeles, San Francisco, and Seattle indexes combined. <sup>5</sup> 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. <sup>6</sup> Annual figures are as of end of year, monthly figures as of last Wednesday in month. <sup>7</sup> Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. <sup>8</sup> Average rates on loans made in five major cities. <sup>9</sup> Changes from end of previous month or year. <sup>10</sup> 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. <sup>11</sup> End of year and end of month figures. <sup>12</sup> Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942.   
*p*—Preliminary. *r*—Revised.



