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Monthly Review

OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

Bumper crops aid economic recovery

Prospective record crop production is the brightest spot in the current district economic scene. This, together with some further improvement in nonagricultural employment, construction, hours worked per week and weekly earnings in manufacturing, and strength in bank loan volume has injected an optimistic tinge to the district's economic situation and outlook. Even the lumber industry in western Montana, one of the hardest hit areas, is reported to be making a strong recovery from the recession lows.

An exception to this optimistic view is the continuing depressed economic situation in the iron ore mining areas of northern Minnesota, Wisconsin and in Upper Michigan. In these areas unemployment continues severe and little, if any, immediate improvement is in sight. Iron ore stocks are relatively heavy in all positions and shipments during the second half are not expected to improve much from the first half-year levels.

The district's agricultural economy has experienced a boom rather than a recession during the past 12 months, thanks to higher livestock prices, a near record crop in 1957 and prospects for record crop production in 1958. Based on August 1 official estimates, the total district wheat crop this year will be a near record 292 million bushels in spite of sharp reductions in acreage under the price support program. The quality of the wheat crop is especially high this year. A record production of barley and soybeans is forecast with other

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grain crops near their all time highs. Due to excellent small-grain yields of high quality in all states of the district and current fine prospects for corn and soybeans, it appears a record tonnage will be produced. This, together with prospects for livestock production close to last year's record and relatively favorable livestock prices should boost total district farm income close to the record established in 1948.

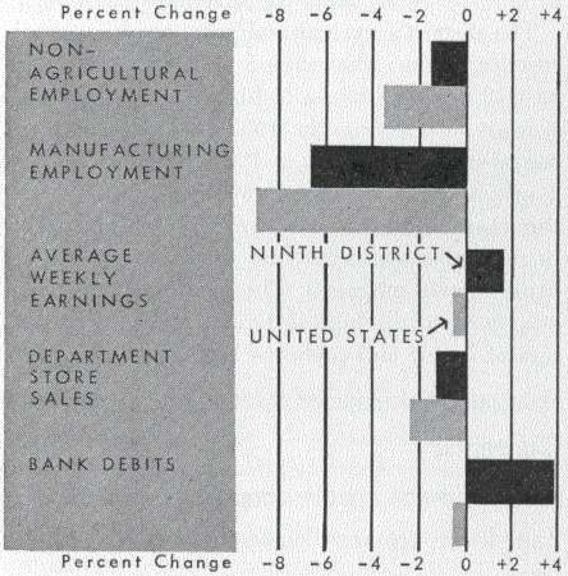
If current farm prospects are fulfilled, their stimulating effects will be felt throughout the district in bank deposits, retail sales, and in general business activity during the remainder of 1958 and into early 1959.

At the national level it appears probable that the recession reached its low point in April and that some recovery has occurred since then. Employment has expanded and unemployment as a percent of the labor force has been reduced slightly. The Federal Reserve production index in July, seasonally adjusted, rose to 133 (1947-49=100) compared with 126 at the low last April. Construction activity is experiencing an unusually strong summer bulge. Housing starts have increased for four consecutive months. And personal income appears to be running at new high levels.

Noteworthy is the fact that although instalment credit and manufacturing inventories have continued to retreat in recent weeks, they have done so at a lessened pace. The recent improvement in business activity has occurred somewhat sooner than many anticipated.

Economic indicators for first 7 months of 1958, Ninth district and U.S.

(percent change from a year ago)



The following selected topics describe particular aspects of the district's current economic scene:

DISTRICT BANK LOANS UP

Commercial and industrial loans at all weekly reporting banks in the nation declined in every statement week of July by more than in the comparable weeks last year. At the end of the month, such loans totaled $2,309 million less than a year earlier while at the beginning they had totaled only $2,035 million under a year earlier.

In contrast to the national picture, Ninth district weekly reporting banks, in every statement week of July and in the first statement week of August, reported that commercial and industrial loans increased by more, or declined by less, than in the comparable weeks last year. On July 2 such loans were $31 million under a year earlier while on August 6 they were $17 million under a year earlier.

Loans at district weekly reporting banks during the first seven months of 1958 have increased while loans at weekly reporting banks elsewhere declined; this is true not only of business loans but of total loans as well. The table indicates that in the comparable months of last year, loans at district reporting banks were also strong relative to reporting bank loans in the nation as a whole.

District country member banks have been adding to loans more rapidly than was true last year. An increase of $16 million in July compared with a decrease of $1 million in July last year. Through July this year country member bank loans grew by $70 million in contrast to a gain of only $46 million in the same period last year.

In contrast to previous months this year when deposits of both city and country member banks in the district rose by more or fell by less than in the comparable months of last year, in July both classes of banks reported that deposits failed to match the year earlier gain. City bank deposits fell $73 million while a year earlier they rose $57 million; at the country banks deposits rose by $26 million or $31 million less than the year earlier increase.

DISTRICT BUILDING PERMITS

The value of building permits issued in the Ninth district during the first six months of 1958 registered a 3 percent rise over those of the same period a year ago. However, the *number* of permits issued in this period was down 4 percent. Excluding permits for repairs and alterations, the number of permits was down 1 percent while the average permit valuation was up 2 percent, or roughly the increase in building costs.

Of special interest is the increase in permits issued for residential building. On a six months basis the number of residential permits was up 8 percent while valuation was up 20 percent. The average value of this type of permit in the first six months of 1958 was $15,146 compared with $13,671 in the same period a year ago—an increase of almost 11 percent. This probably reflects a trend toward larger homes and more built-in appliances as well as higher land prices. In June, the latest month for which figures are available, the number and valuation of residential building permits issued in the district were up 19 percent and 35 percent, respectively. In contrast, both the number and valuation of permits issued for nonresidential building was down in June as well as in the first half of the year from 1957.

Although district home building figures for July are not available, the national figures show that private housing starts during the month were at an adjusted annual rate of 1,160,000, highest in two and one-half years. This compares with the June annual rate of 1,090,000.

BUMPER WHEAT CROP HARVESTED

Total district wheat production at 292 million bushels is estimated as the third largest on record in spite of the acreage control program which has sharply reduced planted wheat acreage in recent years. Increased yields per acre in 1958 resulting from favorable growing conditions are chiefly responsible for the bumper crop of wheat and other small grains. The average yield for winter wheat in South Dakota this year is estimated at 32 bushels per acre; this compares with 15.2 bushels per acre in the 1947-56 ten-year average. In Montana the increase was from 21 to 26 bushels per acre.

District winter wheat production at 78 million bushels is about 36 percent larger than last year. Spring wheat, other than durum, registered a 21 percent increase in production over 1957, as a result of increase in yields per acre.

Production of durum wheat in district states was estimated at approximately 19 million bushels in 1958 compared with about 40 million bushels in 1957. This drastic reduction is the result of two factors; one, the relatively poor growing conditions in the important producing area of North Dakota and second, a sharply reduced planted acreage this year.

WHEAT PRODUCTION IN NINTH DISTRICT

Crop	1957	1958	% Change 1957 to 1958
	(thousands of bushels)		
Winter wheat	57,430	77,942	+36%
Spring wheat	160,666	194,758	+21%
Durum wheat	39,680	18,753	—53%
Total	257,776	291,453	+13%

Development credit corporations

Since 1955 development credit corporations have been authorized by four Ninth district states. Only one, that in Wisconsin, has begun operations so far, but sufficient interest exists to outline in the following article some of the major features of these new financial institutions. One reason why development credit corporations have been formed is to furnish capital funds for new business ventures—ventures which often entail greater risks than many lenders or investors are willing or able to assume. These new financing efforts imply, of course, that a positive contribution to the public interest would result from a greater flow of funds into new and expanding businesses than would otherwise flow from traditional sources. Both federal and private institutions have been brought into play.

Federal government action

The Small Business Administration of the federal government seeks among its other activities, to make loans to many small businesses which are unable to obtain adequate funds from other sources. These loans are made to ". . . finance plant construction, conversion, or expansion, or the purchase of equipment, facilities, machinery, supplies, or material; to supply working capital; or as may be necessary to insure a well-balanced national economy."*

*Small Business Administration, What It Is, What It Does, Government Printing Office, Washington, 1955, page 6.

Private action

Private institutions have also been established expressly to provide funds needed for economic development when those funds cannot be obtained from the traditional financial institutions. Fourteen states and the territory of Hawaii have authorized private development credit corporations and sixteen other states including the newest state, Alaska, have considered such authorization. Minnesota, Michigan, South Dakota and Wisconsin in the Ninth district have authorized development credit corporations while the 1957 Montana legislature considered authorizing one. With the exception of the First Federal Reserve district comprising New England, no other Federal Reserve district has more authorized development credit corporations than the Ninth district.

Historical precedents

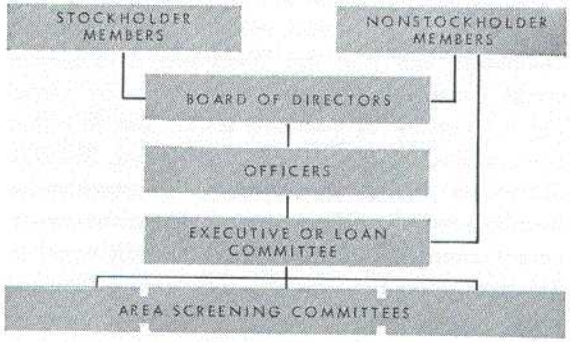
Maine established the first development credit corporation in 1949. Since that time other New England states and some southern and midwestern states have taken similar action. Earlier a number of community industrial foundations had been formed in New England to help solve the community problems stemming from the movement of textile mills southward toward cheaper labor and raw material, and a warmer, more humid climate. Such a relocation of industry left many pockets of chronic labor surplus and much idle industrial capacity. Community *industrial foundations* responded by actively promoting the redevelopment of particular New England localities. Firms were informed of the advantages of New England plant sites. Steps were taken to make plants more desirable—some were remodeled and some new plants were built. To complement such efforts as well as the ordinary course of economic development, statewide *development credit corporations* sought to make additional credit available. Development credit corporations concentrate on *financing* development while industrial foundations are oriented more toward carrying out local industrial *promotion.* Similar institutions to the industrial foundations but with somewhat broader objectives are the *state development authorities* which are government rather than private organizations.

In contrast to the New England situation, Southern states were relatively underdeveloped economically. Lower labor and resource costs often made industrial activity more profitable in the South. Promise of profits tended to attract new firms. Many Southern states and communities tried to accelerate and favorably direct this economic development by setting up various development institutions including statewide private development credit corporations.

Structure of district development credit corporations

Development credit corporations in the Ninth district were modeled after corporations in the New England states. The function of the corporation is to provide additional credit or capital for industrial growth that cannot be obtained from traditional sources. This is accomplished by permitting financial institutions to pool a small, typically predesignated, part of their resources in order to make development loans and investments. Purposes for which loans can be made by Ninth district development credit corporations are typified by this list taken from the by-laws of the Wisconsin corporation. Loans can be made for the following purposes: (1) new construction, (2) expansion and modernization of existing plant, (3) new industrial firms, (4) product diversification, and (5) working capital.

Generalized organization of development credit corporations



Each development credit corporation has to be specially authorized by its own state legislature in order to permit banks and other regulated financial institutions to participate. The first step after authorization is to get approval to incorporate and approval of by-laws by the state government. Sponsors have taken this step in Minnesota, South Dakota and Wisconsin but not as yet in Michigan. Established corporations then undertake to sell stock to get the capital required to begin operations. This critical step has been completed only by the Wisconsin corporation. Experience indicates that successful campaigns to sell stock depend on widespread public support of the objectives of a development credit corporation. Capital stock can be sold to banks but it cannot be listed by them as a legal investment. Sales must therefore be principally made to individuals and firms interested in their state's development. Control of the corporations ultimately rests in the hands of the stockholder members, and to varying degrees, with banks and other financial institutions.

Banks and other financial institutions can become nonstockholder members of a development credit corporation by pledging to lend funds to the corporation. In Wisconsin, banks can become nonstockholder members if they pledge a line of credit to the development corporation equal to 1 percent of their capital and surplus. Insurance companies can join the Wisconsin development credit corporation as nonstockholders by pledging 0.3 percent of admitted assets. But in either case, a line of credit may not exceed $50,000. Minnesota banks may become nonstockholder members of the Minnesota development credit corporation by pledging a line of credit equal to 2½ percent of their capital and surplus. Savings banks may become nonstockholder members by pledging a line of credit of 2½ percent of half their total surplus. South Dakota nonstockholder members are being solicited for a commitment of 2½ percent of their capital and surplus.

Each of these corporations places the responsibility for management in an elected board of directors. Stockholder members will elect the board of the South Dakota corporation. Nonstockholder members will elect a majority of the board of the Minnesota corporation and stockholders will elect the remaining directors. Directors of the Wisconsin corporation will be elected by both stockholder and nonstockholder members in each group area of the Wisconsin Bankers Association. In each group area two directors will be elected by nonstockholder members and one by stockholders.

The board in turn will delegate most of the day-to-day work to officers and an executive committee or loan committee which will establish the terms and make the final decision on most loan applications. Nonstockholder members will elect five of a seven man loan committee in the Minnesota corporation which may approve or reject a loan. The South Dakota corporation will be similarly organized. The board of the South Dakota corporation will elect a five man loan committee of nonstockholder members. This loan committee as well as the board must approve all loans made. The Wisconsin corporation has an executive committee composed of members of the board of directors to act in a parallel manner.

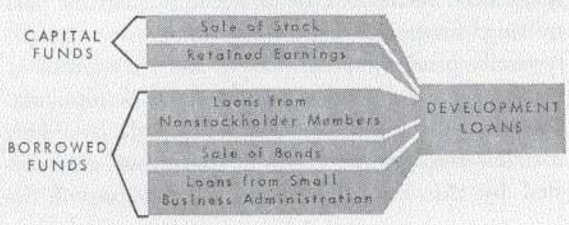
Each of the three corporations intend to delegate authority one step further by setting up area screening committees throughout their own state. These committees, made up of local bankers, will process loan applications for their areas and either accept or reject loans. If the screening committee accepts a loan tentatively, the over-all loan or executive committee will consider the loan. Large loans typically will require the approval not only of the loan or executive committee but also of the board itself. At any stage, traditional financial institutions will be permitted to step in and make a loan being processed by the corporation.

Members of the board of directors and most of the officers will perform these functions without compensation. The principal expense of the corporation will be interest on borrowed funds, office space, promotion, and salaries of a few permanent employees and possibly one or more full time executive officer. The rate charged by the corporations for their development loans must be high enough to offset these expenses as well as to offset the risk of bad loans. The bad loan experience of the corporations might easily be worse than that of banks, since the corporations are limited to making 'unbankable' loans. The corporations must, therefore, retain a large fraction of their earnings on loans to be able to offset possible losses.

Sources and uses of funds

The corporations make loans for development purposes with funds obtained from a number of sources. Capital stock sold to stockholders provides not only a cushion against unforeseen con-

Sources of funds for development credit corporations



The Small Business Investment Act of 1958

Of significance to development credit is the recent passage of the Small Business Investment Act of 1958. Under the Act the Small Business Administration (SBA) is authorized to lend as much as $250 million to small business investment companies which in turn would make long term loans or purchase convertible debentures of small businesses. Small business investment companies will be chartered under state law in states where investment companies can be chartered. In other states the SBA is authorized through June 1961 to charter the investment companies. State investment and development companies through June 1961 may be converted into small business investment companies.

Funds to operate small business investment companies could originate from a variety of sources. The companies, in the first place, would be required to have at least $300,000 in paid-in capital and surplus. Private investors including national banks will be permitted to purchase stock in the companies. State chartered banks can also purchase stock if not prohibited from doing so by state law. Stock purchases by any bank, however, cannot exceed 1 percent of its capital and surplus. Up to $150,000 of the capital of a small business investment company may be obtained by selling subordinated debentures to the SBA. The investment companies, according to the Act, would be permitted to borrow from private sources under conditions set by the SBA. Each company might also obtain direct loans from the SBA up to 50 percent of its total capital.

In addition to the above provisions, the Small Business Investment Act would permit the SBA to lend money to state development companies up to the total amount which each of them has borrowed from other sources. Development Credit Corporations will apparently be permitted to borrow funds from the SBA but the Act does not specifically mention them. Furthermore, in the case of identifiable loans to ultimate small-business borrowers, the SBA is authorized to lend up to $250,000 per loan to each development corporation. Secured loans for plant construction or improvement can be made to local as well as state development companies.

The Small Business Investment Act also would repeal Section 13b of the Federal Reserve Act under which Federal Reserve Banks may make working capital loans to businesses. Approximately $27.5 million in appropriated Section 13b funds are to be returned to the Treasury by Federal Reserve banks. The Treasury is authorized by the Small Business Investment Act to create a special fund with the released money to make grants for research and counseling in the field of small business.

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tingencies, but a source of loanable funds as well. Earnings of the corporations provide another important source of funds. Only part of the earnings will be paid out in dividends; the remainder will be added to earned surplus—that is, added to the capital of the corporations. The most important sources of funds for development credit corporations are the borrowings from nonstockholder members. Nonstockholder members will be paid at or near the prime rate for funds loaned to the development credit corporations.

Available funds from nonstockholder members in Minnesota, for example, would total about $7.5 million if all banks joined the corporation and if at least $750,000 in capital stock were sold. The inclusion of insurance companies, savings and loan associations and other financial institutions would appreciably increase this maximum. Loanable funds might also be obtained, if necessary, by borrowing in capital markets through sales of bonds or other securities. Funds would be used to make development loans and to acquire property either to facilitate making loans or, in the case of the Minnesota corporation, to further the purposes of the corporation. These sources and uses of funds are shown in the accompanying chart.

The development credit corporations will not be large institutions. But probably they need not be large to be effective. Hopefully, funds will be used intensively. Loans made to initiate development will be shifted to traditional financial institutions when consequent new firms or enlarged firms become acceptable credit risks thus releasing funds to make additional loans. A great volume of development loans is not necessary to accomplish a great deal of economic development. The number of loans made, as well as the volume of loans outstanding, is important to the success of development credit institutions. Loans of a development credit corporation may act as a catalyst to accelerate the flow of funds into promising new industry. If the conditions necessary for sound economic development are *not* present, the availability of development credit may be ineffective in stimulating industrial growth. But if conditions for development exist, the increased availability of risk capital may permit development to occur at a faster pace.

Bank loans to small business

In the latter half of 1957 the Federal Reserve System undertook a comprehensive study of loans to business, with special emphasis on financial problems of the smaller enterprise.

The study consisted of three parts. The first was an examination of the literature and an identification of the gaps in the available information. The second part consisted of a number of surveys designed to inquire into the practices of lenders and investors in financing small business. The surveys covered commercial banks, commercial finance companies, large business firms, life insurance companies and investor sources of outside equity capital. The third part involved a nationwide survey of the financial practices and structures of small business itself. The first and second parts of this study have been completed and the results are now available. The findings have been presented to Congress.[1] Part III will not be available until 1959.

[1]**Financing Small Business**, Report to the Committees on Banking and Currency and the Select Committees on Small Business, United States Congress, by the Federal Reserve System, Parts I and II, April 11, 1958.

What is small business?

Although small business is a familiar entity in our economy, no single precise definition can be developed. In the surveys made by the Federal Reserve System total assets were used as the criterion to classify business firms by size. But even this presents some difficulties because a 'small' firm in one industry may be a 'big' one in another. For purposes of this study, firms in all industries were classified by total assets into seven intervals ranging from under $50,000 to $100 million and over. Then, for example, any business firm engaged in retail trade was defined as small if it had assets of less than $50,000. At the other extreme, in such industries as mining, metal products, metal products manufacture, or chemicals, any firm with assets of less than $5 million was defined as small.

Small businesses employ a substantial proportion of the total labor force. As an indication, firms with less than 100 employees accounted for about 40 percent of all nonagricultural employment in 1951. Small firms are relatively more important in retail and wholesale trade, construction and the services than in manufacturing. Furthermore the number of small business concerns in the U.S. has been growing almost steadily, totaling nearly 4.3 million in 1956. As many as 380,000 new firms a year had been started up to that time, the overwhelming majority of them small businesses. By mid-1957, there were about 400,000 more independent small firms than in 1948.

In general, small business has tended to grow proportionately with the economy as a whole. As the economy has grown, larger and larger firms and a number of giant business corporations have emerged, especially in the 'basic' industries. At the same time, enough small firms have sprung up in other industries so there has been no marked over-all trend toward big business.

Why, then, the concern over the plight of small business? For one reason, the number of small business failures is relatively high. According to the Dun and Bradstreet series on business discontinuances involving loss to creditors (failures), during recent years over 90 percent of the businesses which failed had liabilities of less than \$100,000 and about 65 percent of them had liabilities of less than \$25,000.[2]

Qualifications of Federal Reserve study

Conclusions drawn from the survey data with respect to the 'adequacy' of small business financing must of necessity be provisional. First, even though the survey reflected all business loans for a single day in 1955 and again in 1957, the data collected on those days may not be fully representative of the business loan experience at other times in 1955 and 1957. Second, some deviation from the 'true' facts might be expected because not all banks were included in the surveys. Furthermore, not all banks surveyed reported all of their business loans. For example, banks with assets of less than \$10 million recorded all business loans, but banks with assets between \$10 million and \$20 million sampled only one in eight business loans. Only 30 percent of the *member* banks in the district were included in the surveys. While these banks, on survey dates, held over 80 percent of the business loans outstanding at district member banks, nonmember banks were not surveyed. Hence, such conclusions as may be reached, with appropriate statistical reservations, apply only to member bank financing of business.

Member bank business loan survey

A significant part of the broad inquiry into small business financing was a survey of business loans outstanding at Federal Reserve member banks as of October 16, 1957. This survey was comparable to a previous one conducted as of October 5, 1955. Between these dates the Federal Reserve pursued a policy of monetary restraint which, coupled with increases in the demand for loans, forced some bankers to ration credit among their customers.

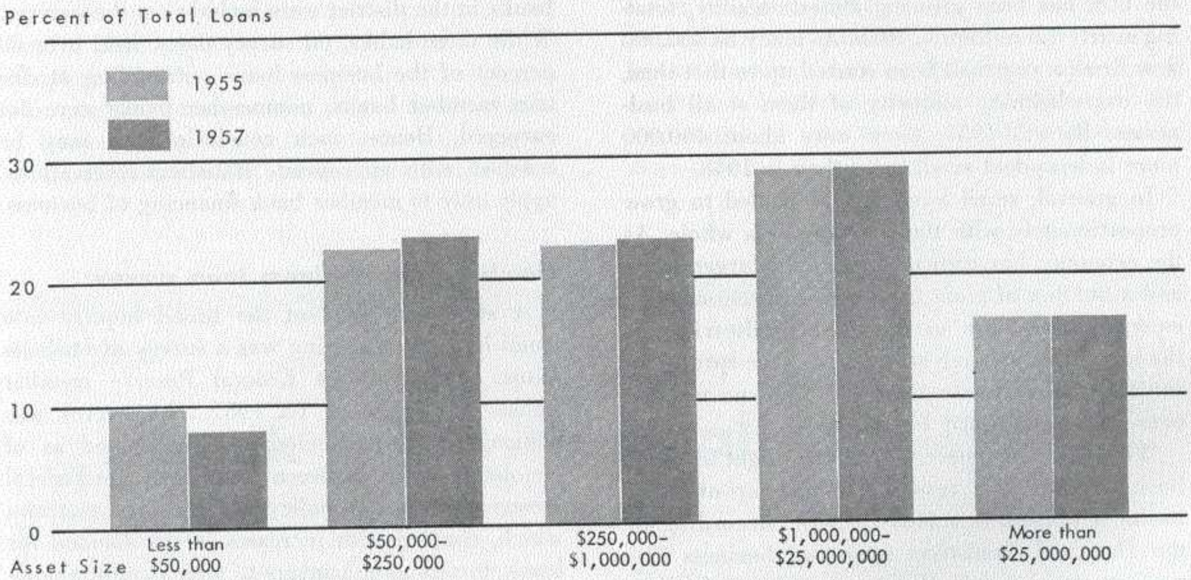
Volume of loans outstanding

At Ninth district member banks, 43,298 loans in 1955 and 44,404 loans in 1957 were outstanding to all business firms. Of this number in 1955, 52 percent were outstanding to firms with assets of less than \$50,000 and 89 percent were outstanding to firms with assets of less than \$250,000. In 1957 these percentages were slightly lower, 46 percent and 86 percent, respectively. In terms of the adopted definition of 'small business' which applies different asset standards to different industries, well over one-half of the commercial and industrial loans were outstanding to firms which were within the category of small business.

As the number of business loans rose during the two year period, so did the dollar amount of credit outstanding. In 1955 the dollar amount of such loans outstanding at district member banks aggregated \$605 million and in 1957, \$730 million, a 21 percent increase. Yet, the demand for credit

[2] Richard Sanzo, "What's Behind the Rise in Business Failures?", Dun's Review and Modern Industry, December 1957, p. 46.

Distribution of the dollar amount of business loans at district member banks by asset size of borrowers



grew still faster than the supply, so credit became increasingly tight.

Whereas most of the loans outstanding were to small business, much of the dollar amount was to large business. In 1955, only 10 percent of the amount of credit was outstanding to firms with assets of less than $50,000 and 32 percent to firms with assets of less than $250,000. In 1957 these percentages were slightly lower, 8 percent and 31 percent, respectively.

During the two year period, the amount of credit outstanding in the Ninth district rose for all borrower-size groups except the smallest firms with assets less than $50,000 and the largest firms with assets of $100 million and over. The amount of credit outstanding to the smallest firms declined by 3 percent and to the largest firms, by 6 percent.

In this district, the loan growth was greatest among firms with assets ranging from $25 million to $100 million. Within each industry group as well, the growth was generally greater for large than for small firms. Most of the industries shared in the large amount of credit outstanding, although there was a greater-than-average increase to firms in the retail and wholesale trade, and to sales finance companies.

Interest rates

The cost of lending is greater per dollar on small loans than on large ones. Risk of loss is often greater too. Therefore the average rate of interest on smaller loans tends to be higher. Average interest rates on loans made at district member banks after June 30, 1957 and outstanding on October 16 of that year, ranged from 4.2 percent on loans to the largest borrowers to 6.6 percent on loans to the smallest. On loans made after June 30, 1955 and outstanding on October 16 of that year, the corresponding rates were 3.1 percent and 6.3 percent, respectively. Between 1955 and 1957, the average rate of interest on all loans rose from 4.6 percent to 5.4 percent.

During this period, average rates on both short-term and long-term loans rose more for large than for small borrowers. As a result, the spread in the average rate of interest paid by the largest borrowers (assets over $100 million) and smallest borrowers (assets under $50,000) was narrowed from 2.9 percent in 1955 to 2.4 percent in 1957. On loans with maturities of less than one year, which make up the largest volume of loans, the spread declined from 2.7 percent to 1.9 percent.

Changes by size of borrower

The decline between October 1955 and October 1957 in the volume of loans outstanding to business firms with assets under $50,000 was due, in part, to the rise in the general price level. In classifying firms by size, no allowance was made for the growth in assets of most businesses due to the rise in prices. As a result of asset growth, some borrowers classified in 1955 in the smallest asset group which was under $50,000 undoubtedly were classified in larger size groups in 1957.

If the asset levels used for classifying businesses in the 1957 survey were raised by 6 percent (the amount of increase in wholesale prices between 1955 and 1957) the dollar amount of loans outstanding to the smallest asset group instead of showing a decline, undoubtedly would show an increase.

In a period of increasing credit and monetary restraint, the demand for and supply of bank credit is not necessarily equated by an increase in the rate of interest. The rate is strongly influenced by convention and by maximums established by law. Consequently, beyond a certain increase in interest rates, monetary restraint results in rationing of loans largely on the basis of credit-worthiness. The credit-worthiness of many small firms on the basis of the collateral they could offer, apparently was lower than the credit-worthiness of large firms. According to the results of the surveys, between 1955 and 1957 bankers rationed the number and dollar volume of loans more strictly to the smallest borrowers than they did to the largest borowers.

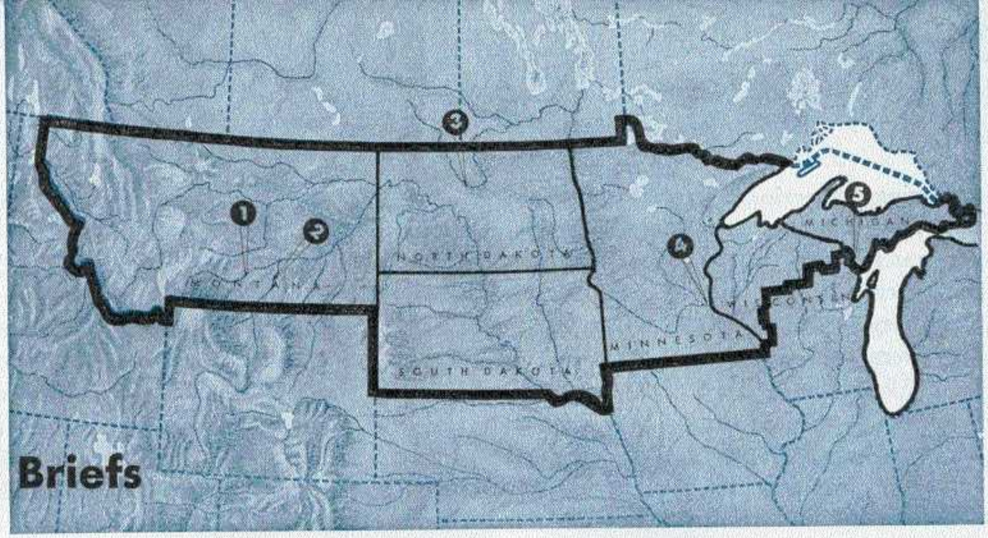
The average rate of interest between 1955 and 1957 rose relatively less for small borrowers than for large ones. The lesser increase in rates to small borrowers may have been due to an elimination of the more risky loans to small firms or due to the fact that bankers raised their standards of credit-worthiness. This is substantiated by the increased demand for credit experienced by commercial and sales finance companies. Moreover, large business firms also had an unusual demand for trade credit from their small business customers.

The credit-worthy small borrower who remained a bank customer may have experienced a larger increase in interest rates in these two years than is reflected in the average rates. By 1957 bankers may have taken off their ledgers many loans with the greatest risks which in 1955 were carried at the highest rates. Consequently, although the rate for the more credit-worthy small borrower may have been higher than previously, the average might not climb noticeably.

Summary

The broad inquiry into small business financing indicates that in general a large volume of short-term credit in a variety of forms is available to small business firms. The importance of small business to commercial banking is clearly reflected in the number of loans outstanding to such firms at Federal Reserve member banks. The fact that a lesser proportion of loans was made to small business in 1957 than in 1955 is in part attributable to the increase in asset valuation between the two dates and in part is a result of a more careful selection of risk-worthy firms. Furthermore, much bank credit to large firms represents the indirect financing of small business via trade credit extended by the larger firms. Subsequent articles will consider particular aspects of the member bank business loan survey in greater detail.

Economic Briefs



1. New unit at Billings refinery

A new alkylation unit is being installed at the Carter Oil Company's Billings, Montana, refinery. The new unit, scheduled for completion early next year, has a 2,300 barrel capacity. It is part of the company's refining and marketing expansion program. Also included in the expansion program is the establishment of 134 new service stations this year.

2. Yellowtail dam land purchase set

Passage of legislation providing payment of $2.5 million to the Crow Indians for a 5,678-acre site in Montana and Wyoming has cleared the way for construction of the $100 million Yellowtail dam in Montana. The multipurpose project, 35 miles southeast of Hardin, Montana, on the Big Horn river, has been held up by a dispute over the value of the Indian land needed for the reservoir. Two years ago a bill calling for a $5 million payment was vetoed; the new bill is a compromise. It allows the Indians to seek an additional payment by suing in a U. S. district court or in a court of claims.

3. Awards at N. D. base top $40 million

Construction awards in connection with the Minot Air Force bomber-interceptor base now total over $40 million and may reach $60 million this year. A contract was recently awarded for a base theater plus a chapel-education wing at a cost of $468,900. In addition, bidding was opened on the 644-unit housing project which will cost an estimated $10 million. Bids on the construction of SAGE (semi-automatic ground environment) facilities at the base, estimated at $8.4 million, are still under study.

4. Sulphuric acid plant to be built in Minnesota

Construction will start soon on a $2 million sulphuric acid plant at Pine Bend, Minnesota. The new plant will have a production capacity of 240 tons of sulphuric acid a day. This will be the fourth plant to locate in the Pine Bend refining area in the last four years. Some 44 industries in the Twin Cities using sulphuric acid as a basic raw material obtain supplies presently from out-state sources, Iowa being the nearest source of the acid. The plant will employ 22 persons when in full production which is expected in about 10 months.

5. Jasper production slated for Upper Michigan

Facilities for the production of jasper concentrates are under construction at the Groveland mine in Upper Michigan. The plant is designed to process low grade iron ore at the annual rate of one million tons. The mine is owned by the Hanna Coal and Ore Corporation and is located 14 miles northeast of Iron Mountain on the Menominee iron range. The Groveland open pit mine is under development at the same time.