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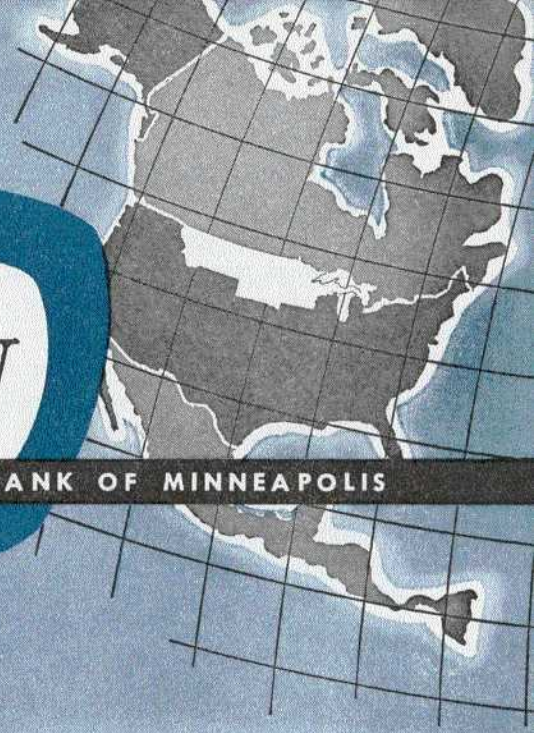


Monthly Review
OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

Employment lags recovery

At the year's end most of the district's economic indicators continue to register recovery from the low point of the recession last spring. In fact, with the exception of nonagricultural employment, the important business indexes are currently above those of a year ago. Farm income, for example, is substantially higher and is estimated at a new all-time high in 1958. Department store sales and bank debits were also near or above peak levels at the year's end. Construction work of all kinds had been particularly heavy until the advent of cold weather after Thanksgiving. The current high level of construction contract awards points optimistically toward a high level of building activity next spring.

In spite of the current favorable trends in district sales, banking, and production (with the exception of iron ore mining), the employment situation has improved only moderately. Total nonagricultural employment is expected to remain below year-ago figures at least until sometime in early 1959.

Insured unemployment in November (latest figures available) was still some 28 percent above November of 1957. Hours worked per week in manufacturing were up only slightly. The production and employment figures suggest that productivity per man hour is currently at a relatively high rate.

There is growing evidence that production has increased on almost all industrial fronts. Busi-

Interest rates on business loans
Analysis of Federal Reserve business loan survey data . . . . . see page 5

nessmen, to date however, have shown little inclination to rebuild inventories. In fact, inventory liquidation has been the rule until the past few weeks, when leveling out has occurred. New capital spending in the first quarter of 1959 is expected to be only slightly higher than in the past three quarters. Furthermore, the federal government administration apparently will make a determined effort to balance the budget in fiscal 1960. If reasonable restraint continues to be exercised by businessmen and government, it will tend to avoid a violent and short-lived boom—a boom in which costs and prices would rise and instability result. This, according to recent experience, would lay the groundwork for recession.

Fortunately, despite all the talk about inflation, the recovery to date has been accomplished with little or no significant price increase. The index of wholesale prices of all commodities at mid-December was slightly less than at mid-year. Consumer prices, too, have evidenced unusual stability in the past nine months. It must be recognized, however, that recent price stability has been achieved largely because of lower prices of farm products. Wholesale prices, excluding farm commodities, have risen on a wide front since June, possibly by two index points. It is important, also, to note that prices of services and construction costs are also tending to rise.

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

DISTRICT RETAIL SALES

During the autumn season, district department store sales were frequently described as 'disappointing' although sales did exceed 1957.

October department store sales, when averaged to eliminate differences in number of trading days, exceeded for the first time since last March the corresponding month in 1957. In both October and November sales were up 3 percent.

The percentage change in sales from a year ago does not always reveal a dominant sales trend in successive months. In this district, the seasonally adjusted index of department store sales rose to a peak in August 1958 of 137 percent of the 1947-49 base period. In September, the adjusted index declined to 126 percent and again in October to 123 percent. In November sales improved and the adjusted index rose to 129 percent—equal to the July figure but still significantly below that of August. The declining trend in department store sales from last summer undoubtedly is the basis for viewing fall sales as disappointing.

A broader measure of retail sales indicates that district sales during 1958 have lagged more in terms of the 1957 volume than those in the nation as a whole. Volume of retail sales in this district as measured by special Bureau of Census tabulations (which exclude sales of largest retail chains) covering food, soft goods and hard goods (including building materials, farm equipment, automobiles and automobile accessories) declined almost steadily from a year earlier in the first half of this year. In the third quarter, sales averaged 6 percent below a year ago. In October there was some improvement when sales equaled the 1957 volume.

In the nation, sales of these retail outlets declined much less; in the third quarter they were down 3 percent and in October were equal to the year-ago volume. According to the preliminary U. S. Department of Commerce estimate, seasonally adjusted retail sales advanced 1.5 percent further in November and for the first time in the recovery period exceeded the record level reached in the summer of 1957.

District retailers, with the exception of those in the mining regions, anticipated a good Christmas shopping season. With district department store sales in November up 3 percent from a year ago and sales during the first three weeks of December in Minneapolis, St. Paul, Duluth and Superior up 1 percent, district sales during the 1958 Christmas shopping season very likely exceeded the 1957 volume. However, it will not be known until the final figures are tabulated for December whether or not the volume exceeded the record set in 1956.

FARM AND BUSINESS LOANS

Farm loans of Ninth district member banks increased less, according to a comparison of the October 11, 1957 and September 24, 1958 call reports, than the increase reported by all member banks in the nation as a whole. However, both in the district and the entire nation farm loan growth, in relative terms, was much greater than total loan growth during the year in question. But as the result of somewhat slower district growth, farm loans of district member banks dropped from 8 percent to 7 percent of the comparable national total between the call dates.

As of December 10, 1958 district city banks accounted for 2.6 percent of the total amount of farm loans made by this class of bank in the nation as a whole. This figure has declined with few exceptions from a mid-1957 level of 4.1 percent. (Farm loan figures for district city banks have limited significance since less than 10 percent of district member bank agricultural credit is extended by the city banks.)

More than compensating for the somewhat slower relative growth of farm loans at district member banks than at banks in the entire nation has been a growth in other kinds of loans. In particular, commercial and industrial loans of district member banks advanced from the call report date in October 1957 to the call report date in September 1958. In contrast, these loans were falling at member banks in the nation as a whole during the comparable period.

During this period commercial and industrial loans of city banks in the district also advanced while such loans in the nation as a whole declined. (Loans of city banks account for nearly 70 percent of the commercial and industrial loan total for the district.) City banks in the district made 1.7 percent of the total amount of commercial and industrial loans of all city banks in the nation in September 1958 in contrast to only 1.5 percent a year earlier. In recent weeks, however, the commercial and industrial loan growth of district city banks reversed while the national total advanced.

UPWARD CONSTRUCTION TREND

The growing volume of construction is one of the main contributors to economic recovery in this district. Larger expenditures for public works have boosted the volume of nonresidential construction. Publicly financed construction has more than offset the decline in private outlays made for commercial and industrial building. Residential builders are also enjoying a surge in activity this year—the first since 1955.

The lag in re-employment in construction, on the other hand, emphasizes the fact that the volume of construction put in place even during the fall months had not risen much above that of a year ago. The amount of contracts awarded and the valuation of building permits issued in district cities were down in the first quarter of 1958 compared with a year earlier and up a few percent in the second quarter. The increase reflected largely a rise in construction costs. Although district construction activity has risen sharply, employment during the first seven months of this year was roughly 5 percent below the number employed in the corresponding months of last year. In 1957, however, construction employment rose to a peak in August and then tapered off. This year, employment in this field rose sharply in July and the higher level was maintained through October and the first part of November. As a result, construction employment in these months exceeded the number employed last year for the first time.

Contracts awarded tend to lead actual construction by several months. Judging by the amount of awards made in recent months, the volume of construction in this district may be expected to continue in its upward trend. From the first of the year, the amount of contracts awarded for all types of construction in this district has expanded materially. The awards for the first four months of this year were 4 percent below the year earlier total. However, the amount of awards made from May through October, on a cumulative basis, was 32 percent above the comparable months in 1957.

In addition to the rise in contract awards, many

architects in the Twin Cities who serve a large territory in the Upper Midwest have a large backlog of proposed construction projects. Currently, the managers of the Minneapolis and St. Paul Builders Exchanges who are constantly in touch with the volume of work architects have on their drawing boards anticipate receiving a large number of completed plans during the coming months to be filed for bids from contractors.

Following the national trend, the increase in the amount of contracts awarded in the nonresidential field thus far in 1958 is traced largely to publicly financed projects. Many contracts have been awarded in the district for the construction of highways, schools, churches, hospitals and state and municipal buildings. The Federal Aid Highway Act of 1958 has speeded up the road building program. For instance, in this district the amount of awards made in the third quarter for utilities and public works, of which highways are an important part, was nearly three times the amount awarded in the same period in 1957. The Highway Act provided for a special authorization of $600 million, of which $400 million is available only for contracts awarded on work commenced prior to December 1, 1958 with construction scheduled for completion not later than December 1, 1959.

Contrary to the expanding trend in publicly financed construction, the volume of privately financed projects in the district has receded from the 1957 total. Generally, businessmen's decisions to invest in new industrial plants, wholesale and retail outlets and new equipment reflect decisions to maintain their economic position rather than expand output. However, many firms still have excess capacities as a result of the previous capital expansion boom. According to a survey made on plans for capital expenditures by the Federal Reserve Bank of Boston, many manufacturing firms are still operating at less than 80 percent of capacity. Thus the output of industrial products can be further increased merely by a greater utilization of existing capacities.

Since the third quarter of 1957, the rate of outlays made for capital goods in the nation has decreased by one-fifth, considerably more than in the 1953-54 recession. According to the July-August survey made by the U. S. Department of Commerce and the Securities and Exchange Commission, these expenditure declines leveled off in the third quarter of this year and a moderate rise is anticipated for the fourth quarter. The McGraw-Hill survey, taken in early October, finds that nonfarm business as a whole plans an increase of less than 1 percent in fixed capital outlays in 1959. Furthermore, business management expects to maintain expenditures at those same levels in 1960. In manufacturing the decline in capital expenditures in 1958 may continue into 1959. The results of recent surveys made by the Federal Reserve Banks of Boston and Philadelphia indicate that manufacturers in those districts expect to decrease expenditures in 1959.

The resurgence of home building in the nation as well as in this district was first observed last spring. Nationally, the seasonally adjusted annual rate of nonfarm housing starts rose from 915,000 in February to 1,260,000 in October which was the biggest number of starts for any month in three years, and the largest October figure since 1954. In the Ninth district, the number of dwelling units authorized by building permits from March through September of this year was about one-third larger than in the comparable months of last year.

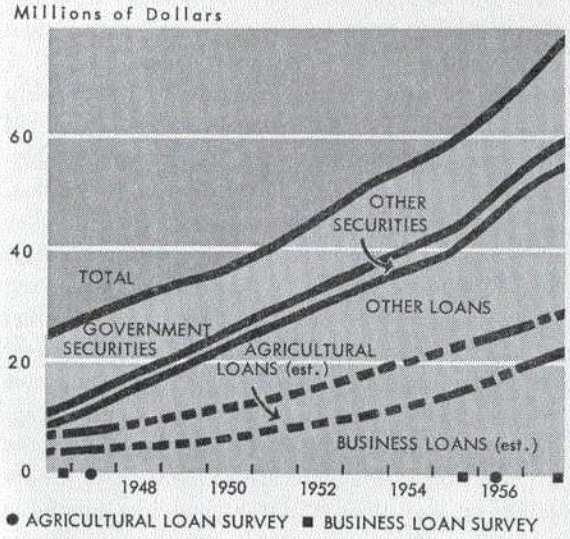
Home builders generally remain optimistic for prospects in the early part of 1959 according to the Minneapolis and St. Paul Home Builders Associations and Twin City mortgage bankers. The sharply increased volume of FHA applications and VA appraisal requests in the larger metropolitan centers of the district provides evidence of a continued large volume of mortgage lending in the remainder of this year and in the early part of 1959.

Interest rates on business loans

The 1957 Business Loan Survey revealed that member banks in the Ninth district, as of October 16, 1957, earned an average of 5.4 percent[1] on their business loans. Two years earlier, on October 5, 1955, a parallel business loan survey indicated that district member banks earned an average of 4.6 percent on their business loans. Much happened in the intervening period to explain the over-all increase in interest rates. General credit conditions tightened under the influence of a rapid advance in the demand and a much slower advance in the supply of funds. These conditions were reflected in a large loan expansion at member banks in the Ninth district, and also in absolute and relative growth in the interest income from loans of Ninth district member banks. The accompanying Chart 1 of loan and investment income demonstrates this fact. Note in particular the estimated income from business loans in 1955 and 1957.

Chart 1—Interest income from loans has increased steadily at district member banks during the postwar period.

Increased earnings on loans have contributed most to the large postwar growth in total interest income of Ninth district member banks. Interest on business loans is estimated to have been an important element of the over-all loan growth.



Looking behind the over-all changes in credit conditions, the 1957 survey data has usefulness in appraising relative changes in the flow of credit and its cost. To be considered in turn in the following discussion are the survey interest rate data classified according to various characteristics of the borrower, the lender, and the loan itself. Special emphasis will be placed on *expense* and *risk* related factors in explaining interest charges on various classes of loans.

Size of borrower

First consider the assets size of the borrower. According to the 1957 Business Loan Survey, small borrowers paid higher interest rates than did large borrowers at district member banks. Borrowers with assets valued at less than $50,000 paid an estimated 6.6 percent average interest on their loans from Ninth district banks. In sharp contrast business borrowers with assets valued at over $100,000,000 paid an estimated 4.2 percent on their loans from district member banks. And every intervening size class of borrower reflected the tendency for borrowing costs to fall as the size of the borrower rose.

Two main factors explain this inverse relationship between the size of a borrower and the costs

[1]Average interest rates were calculated in the following way: (a) effective rates of interest on individual loans were multiplied by the loan amounts outstanding, (b) these products were totaled according to various classifications of loans included in the survey, (c) estimated average interest rates resulted from dividing these interest outstanding totals by comparable amounts of loans outstanding.

of borrowing. The first factor is expense. The second is risk. A reasonable presumption is that the per loan dollar expenses of lending tend to decline as the size of the loan increases. Credit investigation can cost little more for a large than a small loan. Furthermore, since small borrowers are most often small firms which may lack adequate records, lending to them may entail credit investigation expenses not encountered in lending to larger enterprises. All in all, expenses of making each additional dollar of a loan tend to fall as the size of the loan increases.

Such correspondence between size of loan and expense helps explain some of the differences in interest charges recorded by the 1957 survey. Note the inverse relation between interest rates and loan size on Chart 2.

The average size of loan made by a representative Ninth district member bank fell short of the average for all member banks in the entire nation. This fact explains in part the reason why the average interest rate in the district was higher than the national average according to the 1957 Business Loan Survey.

The higher rate paid by smaller businesses also depends on the fact that average size of loan

Chart 2—Interest rates on business loans tend to be less as loan size increases.

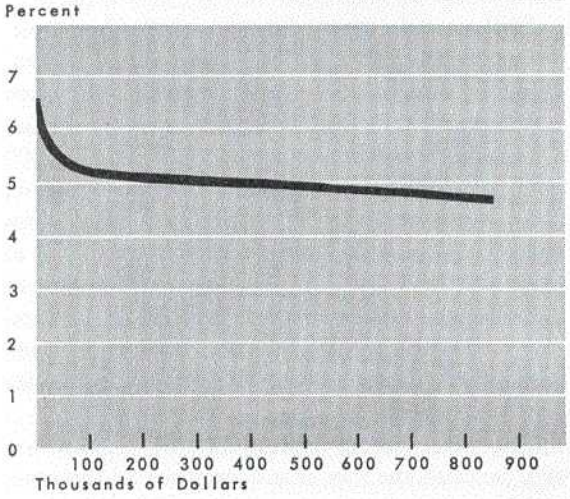
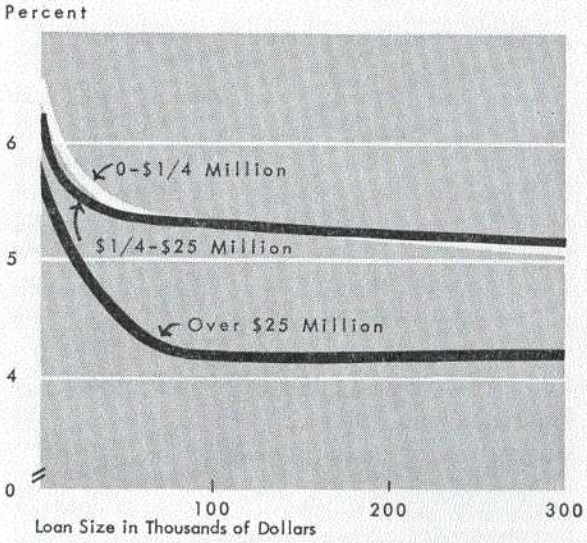


Chart 3—Larger borrowers tend to obtain funds at less cost than smaller borrowers on loans of comparable size.



made to business rises as the size of the borrower rises. But even for loans of comparable size, banks charge higher rates on loans to small rather than large businesses, as is apparent from Chart 3. A number of facts might explain the relationship shown on the chart. Management experience of the larger (often older) firms can make them better credit risks than smaller (often newer) firms. And from the point of view of the lender, smaller firms may also have less desirable financial ratios than larger firms. This is shown in the following table. Professional credit rating agencies often consider smaller businesses less desirable credit risks than larger businesses. Considering the ratios of current assets to current liabilities, working capital to total assets, net worth to debt, and profits to net worth, manufacturing firms with assets valued at less than $250,000 had less favorable ratios than the average of all manufacturing firms in the second quarters of 1955 and 1957. And with a single exception, the ratios of the smallest class fell short of the ratios of the next larger size group. Such reasons as these help explain why smaller borrowers pay an extra risk premium.

FINANCIAL RATIOS OF MANUFACTURING FIRMS*

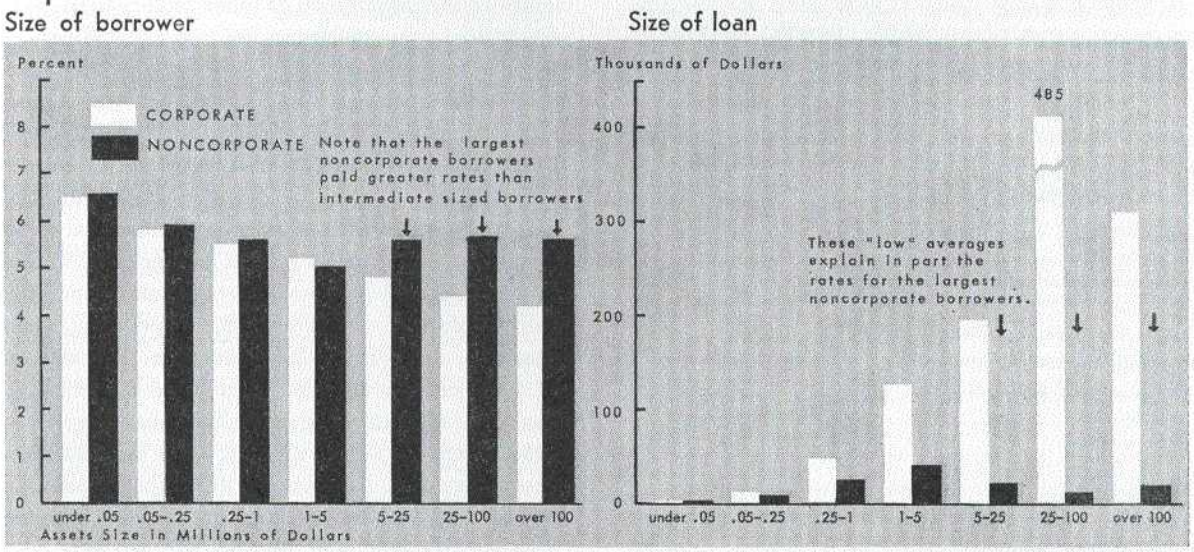
	Assets of firm in millions of dollars		
	Less than $.250	$.250-.999	All firms
Current assets to current liabilities			
1955	1.87	2.28	2.60
1957	1.86	2.07	2.43
Working capital to total assets			
1955	.296	.361	.345
1957	.299	.341	.322
Net worth to debt			
1955	1.22	1.77	2.00
1957	1.14	1.37	1.85
Profits to net worth			
1955	5.3	9.4	13.0
1957	11.1	10.0	11.6

*Average financial ratios for the two smallest size groups of firms and for all firms in manufacturing in the second quarter of 1955 and the second quarter of 1957. The ratios were computed from the **Quarterly Report for Manufacturing Corporations,** Securities and Exchange Commission and Federal Trade Commission.

Corporate status of the borrower

Another characteristic of the borrower which may reflect differences in risk is corporate status. The fact that lenders have recourse to the assets of noncorporate owners of businesses reduces risk, other factors remaining unchanged, in lending to a proprietorship or a partnership rather than a corporation. Nevertheless, the 1957 Business Loan Survey indicates that noncorporate borrowers tended to pay higher interest rates than corporate borrowers. This fact is not surprising when the aggregate of all corporate and noncorporate borrowers is considered since many more large than small concerns are incorporated. But corporate borrowers paid a smaller average interest rate than did noncorporate borrowers in six of the seven assets size categories of business included in the survey. This fact, on the surface, contradicts the stated explanation that risk is reduced by lending to borrowers with unlimited liability. But the apparent paradox arises since corporations borrow more on the average than other firms in each

Chart 4—Corporate borrowers paid lower average interest rates than did like sized noncorporate borrowers.



Note that for corporations, interest rates fell without exception as the size of the borrower increased.

Corporations paid less for bank funds because they borrowed in larger amounts on the average than did other firms of comparable size.

of the seven asset size categories included in the survey, and thus the larger size of loans may more than offset any risk differences between corporate and noncorporate borrowers. Chart 4 presents evidence bearing on this point.

Business of borrower

According to the 1957 Business Loan Survey, interest rates of Ninth district member banks varied a great deal among the different business categories. The rates reflected expense and risk factors such as size of loan and size of business which each showed much variation from industry to industry.

Sales finance companies, as reported in the 1957 Business Loan Survey, borrowed an average of over $160,000 per loan. This represented the top average for any line of business included in the survey. The $54,000 average of commodity dealers ranked second. Closely following came the $51,000 average of firms in the petroleum, coal, chemicals, and rubber lines.

INTEREST RATE AND LOAN SIZE RANKS BY BUSINESS OF BORROWER, NINTH DISTRICT MEMBER BANKS, OCTOBER 16, 1957

Type of Business	Interest rate rank from highest to lowest	Loan size rank from lowest to highest
Construction	1	4
Service firms	2	1
'All other' nonfinancial	3	2
Retailers	4	3
'All other' manufacturing	5	5
Textiles, apparel, leather mfg.	6	11
Metals, metal products mfg.	7	10
Wholesalers	8	9
Real estate	9	6
Food, liquor, tobacco mfg.	10	7
Public utilities	11	8
Commodity dealers	12	13
Sales finance companies	13	14
Petroleum, coal, chemicals, rubber mfg.	14	12

Source: 1957 Business Loan Survey.

The business by business classification of the data provides another illustration of the importance of average size of loan in explaining average interest charges. These three classes of industry which borrowed in the largest amounts paid smaller average interest rates for their bank funds than did firms in any other line of business. But the importance of risk as well as expense may be revealed by the fact that average interest rates are not in one-to-one correspondence with average loan size. Risk, of course, includes not only possible losses due to non-payment at maturity (credit risk), but losses due to changes in the profitability of alternative uses of funds (market risk). Firms in the petroleum, coal, chemicals, and rubber industries, for example, paid less on the average for their credit from district member banks than did firms in any other industry category included in the survey, even though both sales finance companies and commodity dealers borrowed greater amounts on the average from district member banks.

A close view of business borrowers with the smallest average loan size reveals further evidence of the importance of other factors than average loan size in explaining interest rate differences from industry to industry. The average size loan to service firms by district member banks was estimated at $6,500 according to the 1957 Business Loan Survey. All other nonfinancial businesses followed with an average loan size of $7,300. Such businesses as insurance agents, agricultural services, forestry and fishery firms are included in this category. Retail borrowers from district member banks obtained an average $9,800 per loan. Construction concerns with an average loan size of $12,900 were ranked fourth from the smallest loan size. This same ranking prevailed according to the 1955 survey of district member bank loans to business. These four businesses without exception paid higher interest rates than did other business groups. However, the highest average rate was paid not by service firms which borrowed in the smallest amounts, but by construction firms.

DISTRIBUTION OF LOANS BY SIZE OF BORROWER AND MATURITY OF LOAN FOR THE FOOD AND UTILITY GROUPS

Characteristics of Borrower Assets size in millions of dollars	Percent of the total loaned to food industries	Percent of the total loaned to public utilities
Under .05*	5.4%	6.7%
.05 - .25	15.5	12.5
.25 - 1	20.8	15.7
1 - 5	11.7	10.2
5 - 25	10.8	6.1
25 - 100	12.6	19.7
Over 100	23.2	29.2
Maturity of loans in years		
Under 1	72.7	30.7
1 - 5	13.4	26.4
Over 5	13.9	42.9

*Includes a small amount of loans to borrowers of unknown size. Source: 1955 and 1957 Business Loan Surveys.

To illustrate the relative importance of expense and both market and credit risk in explaining interest charges, look at food, liquor and tobacco firms in comparison with public utilities. Both borrowed an average of $27,000 per loan from district member banks according to the 1957 Business Loan Survey. Food firms paid an average of 5.08 percent interest on their bank loans. Utilities paid 5.04 percent. The closeness of the rates prompts a conclusion that interest rates depend to a major degree on average loan size. But first consider some other factors as well as average loan size.

Reference to the table above shows that the size distributions of the two businesses differed to a very limited extent. The amount of loans borrowed by limited liability corporations was also comparable for the two industries. But the 1957 Business Loan Survey revealed a wide difference in the maturity structure of the bank debt of food firms and public utilities. Since banks sacrificed a measure of liquidity to extend loans on longer terms, the presumption can be made that they would demand a risk premium to compensate for the additional market risk involved. Since the rates differed so little, perhaps the presumption is incorrect in this case.

This apparent paradox is explained best by a consideration of dynamic factors. Remember that interest rates to all classes of borrowers advanced between 1955 and 1957. Now during a period of advancing interest rates, long-term borrowings made at an earlier date tend to cut average borrowing costs below current refinancing costs on debt of comparable terms. In the case in question, the average rate charged public utilities on loans made to mature in more than five years advanced a small amount from October 5, 1955 to October 16, 1957. The average rate for loans maturing in over five years rose from 3.73 percent on October 5, 1955 to 3.96 percent on October 16, 1958, a change of .23 basis points. (A basis point change is defined as the difference between two observed values of a rate on a security, the rate being expressed in percent to two decimal places.) On the other hand, the average rate on the like maturity of loans to food manufacturers increased from 4.03 percent in 1955 to 5.47 percent in 1957, a 1.44 basis point change. The fact that such a small change in the rate paid by utilities on long-term bank loans may well reflect the fact that utilities financed a large quantity of their bank loans many years ago. As a result of this fact and the fact that utilities borrowed so much more on long terms than did food firms, the 1957 average rate does not reflect current borrowing costs of utilities but is definitely biased downward. In the absence of such dynamic changes in the over-all level of interest rates, without doubt a somewhat wider difference between rates paid by the food and utility concerns would be found. According to the 1955 survey, for example, food firms paid an average of 3.92 percent interest for loans from district member banks; utilities in contrast paid 4.06 percent. This .14 basis point spread was more compatible with the presumed added market risk of lending on longer terms.

Maturity of loan

All major maturity classes of district member bank loans to business expanded according to 1955 survey to 1957 survey comparisons. Business loans made to mature in less than one year recorded the greatest relative growth. Loans made to mature in over five years showed the least relative growth.

From survey to survey, Ninth district member bank interest rates increased most on the shorter term loans and least on the longer maturities.

Interest rates also advanced most from survey to survey on short-term loans in each size class of loan. But long-term business loans of comparable size carried lower rates of interest than shorter maturity loans. This relationship appears to contradict the proposition that market risk increases with maturity, other conditions unchanged. However, many long-term loans were contracted a long time before the survey was conducted and since rates in general were rising during this period, average rates on long-term bank loans tended to be biased downward. Furthermore, added security on long loans possibly may have more than

offset the added risk. In any case, the business loans initially made to mature in from one to five years carried the highest average interest rates. Loans due in less than one year tended to yield less than the intermediate-term loans of comparable loan size. Long-term loans to business, those maturing in over five years, tended to have lower rates than any other maturity of loan that was of equal amount. These relationships appear in Chart 5.

Chart 5—Interest rates advanced most on short-term loans between the 1955 and 1957 loan surveys.

According to both surveys, intermediate-term loans cost more than short-term but less than long-term loans of comparable size. Rates on long-term loans with the largest loan sizes are not very reliable because of the small dollar amount of such loans both in 1955 and 1957.

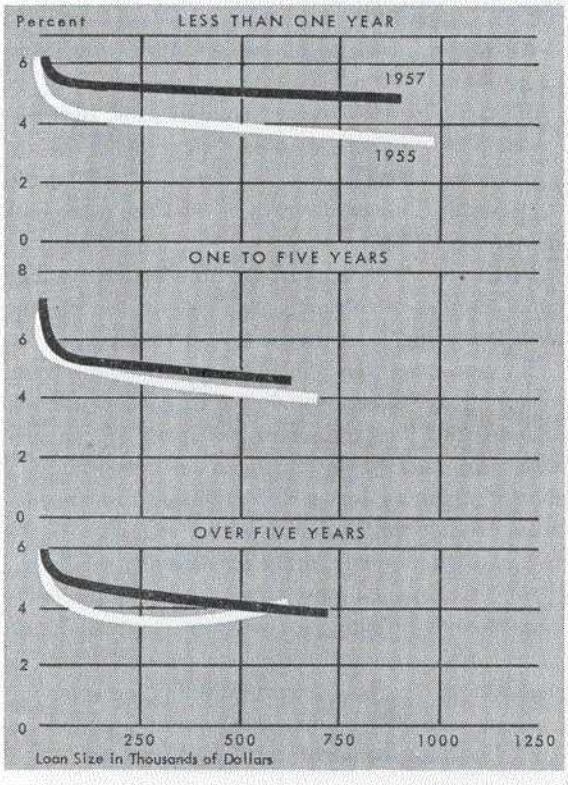
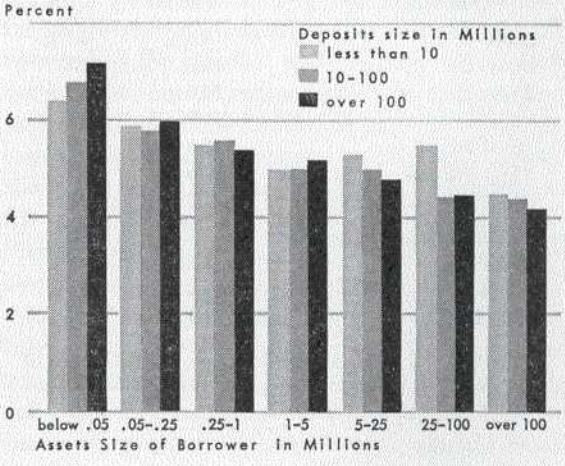


Chart 6—District banks, regardless of size, charged similar rates on like sized loans.

Note the higher rate at larger banks for the smallest businesses and the higher rate at smaller banks for larger borrowers.



Size of bank

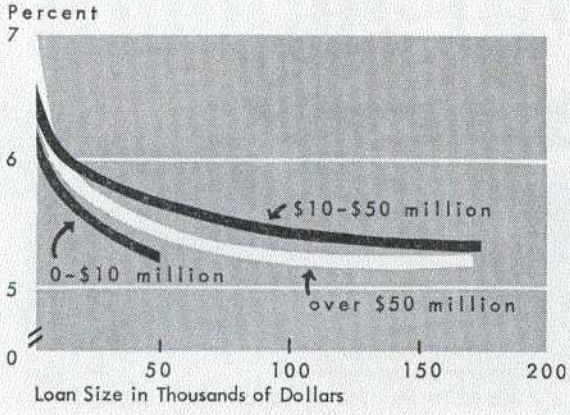
Turn next to the relationship of the deposits size of the bank lender and interest rates. The 1957 Business Loan Survey data bring out the fact that interest charges on loans to businesses of a particular size do not vary much from one Ninth district member bank to another. A business of given size would pay about as much for credit at a large, medium, or small bank. Note this fact on Chart 6.

Even though larger banks increased their rates relatively more than smaller banks did from survey to survey, credit costs for borrowers of given size were still not very different at banks of different size, as shown on Chart 6.

Interest rates at larger banks tended to be lower than rates at smaller banks because the composition of business loan portfolios differs from bank size group to bank size group. But this fact conceals their very similar rate structures with regard to comparable borrowers. The following diagram shows the likeness of rate charges on loans of comparable size by banks in three size groups.

Chart 7—Bank size, interest rates and loan size.

Interest rates on loans of comparable size showed little variation at banks of different deposit size. However, rates tended to be lowest at the small banks and highest at the intermediate sized banks.



Location of bank

At Ninth district member banks, average interest rates on business loans increased 17 percent from October 5, 1955 to October 16, 1957. The comparable increase for all Federal Reserve districts was 7 percent. A survey to survey comparison shows that interest rates on business loans climbed the most in relative terms in the Boston district and the least in the Dallas district.

A related fact may be that many more of the states in the Boston district have no limit on contract interest rates than is true for any other district. The increase in rates on business loans and ceiling rates in the Ninth district were about average with respect to the rest of the nation.

Most state governments outside New England enforce maximum contract interest rates. Maximum contract rates can, of course, be circumvented in most states by instalment lending. Such loans often are subject to special regulations which permit much higher rates than the contract ceiling. Since loans to small borrowers tend to involve more credit risk than some lenders can afford to chance at the ceiling rates, some growth in business instalment lending to smaller businesses may have stemmed from the necessity to circumvent such ceilings if smaller borrowers were to obtain adequate credit.

Business loan growth from survey to survey was greatest in the San Francisco district, which includes states that have continued to experience rapid economic expansion in recent years. In relative amounts, business loans expanded the least in the Dallas district. Relative loan growth in the Minneapolis district ranked seventh of the twelve districts.

The increase in the rates and the volume of business credit at money market centers between the surveys is perhaps the most significant fact about regional changes in the cost and flow of credit to business. Interest rates advanced more in the New York and Chicago districts—which include the most prominent U. S. money market centers—than in any other save the Boston district. And the volume of business credit expanded more in these districts than any other save the San Francisco district.

Summary

Interest rate data collected from Ninth district banks as a part of the 1957 Business Loan Survey revealed that rates in general rose from their levels as recorded by a comparable survey in 1955. Business borrowers often obtained funds on different terms from member banks. Such differences depended to a major degree on loan size. But other factors that helped explain the data included the size, corporate status and business of the borrower; the due date of the loan; and the size and location of the lending bank.

—William G. Dewald

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