BY JOHN A. GORMAN

Debt Rise in 1960

Pace Slackened As Business Turned Down

NET PUBLIC and private borrowing totaled $36½ billion last year, and carried the amount of such debt outstanding as 1961 opened to a record $883 billion.

The debt increase was only three-fifths as great as that registered during 1959. The new fund needs of business and consumers declined with the topping out of economic activity, while those of Government fell as profits tax collections reflected the year-earlier rise of profits.

The slowdown of debt formation centered in the short-term area, where the total borrowed amounted to $6 billion, $23 billion below the 1959 pace. Long-term borrowing, at $30½ billion, was off only moderately.

Following the earlier tightening and increased competition for the available funds, demands for financing decreased from the early months of 1960 through early 1961, while supplies were maintained or increased. The opening months of last year were characterized by rising business activity and heavy calls for additional business inventory credit. These tapered in the course of the winter, however, and market demand for funds was also affected in this period by a notable improvement in the Federal budgetary position. A shift in business and financial expectations which was underlined by a stock market decline also contributed to a reduction in the urgency of demand for loan funds.

As the year passed, the topping out of business activity brought further decreases in credit needs generally, though a relative stringency of residential mortgage funds continued during most of 1960 and was no doubt a factor in the decline of housing construction which persisted throughout the year.

Developments on the supply side made for ease in the fund markets. The flow of financial saving continued high during the past year, and credit availability has been improved as the anticyclical monetary policy shifted toward adding substantially to the lending capacity of the banks.

Under these supply-demand conditions, a moderate downward tendency of interest rates succeeded the 1958–59 rise. Starting early in 1960, this continued into 1961. It affected all of the short- and long-term rates shown in the text table below. Yields on the marketable securities represented have fallen to levels near or below those of March 1959, while the reported institutional lending rates have been reduced relatively less.

At present fund demand is still limited in relation to the augmented supply, but the capital markets have firmed a little recently as takings of all three major long-term borrower groups—corporations, municipalities and homebuyers—showed signs of moving up from their low points.

Short-Term Requirements

THE STRINGENCY of fund supplies and the high cost of borrowing early last year around the time of the cyclical peak may have tended to restrain the use of credit in the markets for national production. As outlined below, however, credit conditions had already begun to improve in the early spring of 1960, while most of the product markets concerned were still strong, so that the downturns in those markets were associated with other factors as well.

Since the peak in output, the demand for short-term funds has reflected a sharp decline in use of such funds by business and, more recently, by consumers. Federal Government requirements have risen less than the budgetary position on income and product account would suggest, owing to the heavy inflow of taxes on last year's peak incomes, and have so far been covered by longer term issues.

Recent changes in short-term private debt are indicated on an annual basis in table 1. For business enterprises, the 1959–60 movements shown were largely dominated by the turnaround in borrowing associated with the swings in general economic activity during these years. The cyclical decline in consumer borrowing did not develop until recently and the usual countercyclical rise in Government requirements has thus far been quite limited, so that the 1960 totals for these borrower groups reflect not the near-term shifts but rather the generally high level of economic activity which prevailed over the year as a whole.

The responses of private short-term borrowing to recent cyclical changes

Selected Interest Rates

(Percent per annum)

	Annual average				March				
	1957	1958	1959	1960	1957	1958	1960	1960	1961
Short-term									
Treasury bills, 3 months	3.27	1.84	3.48	2.93	3.14	1.25	2.85	2.44	2.42
Finance company paper	3.55	2.12	3.82	3.54	3.38	1.88	3.22	4.18	2.76
Bank rate on business loans	4.62	4.34	5.00	5.20	4.38	4.49	4.51	5.24	4.97
Long-term									
U.S. Treasury bonds	3.47	3.43	4.07	4.01	3.28	3.36	3.92	4.09	3.78
Corporate Aaa	3.89	3.79	4.38	4.41	3.09	3.63	4.13	4.49	4.22
Conventional mortgages	na.	5.70	5.98	6.24	na.	5.75	5.80	6.30	6.09

na-Not available

Sources: U.S. Treasury Department, Board of Governors of the Federal Reserve System, Moodys Investors Service, and Federal Housing Administration.

which are apparent from table 1 followed closely the patterns recorded in the contractions from the business peaks of 1948, 1953, and 1957.

Business credit

The course of inventory credit was broadly parallel to that of manufacturers' and distributors' stocks. It expanded at a progressively slackening rate through the summer quarter and featured some liquidation in the late fall and winter.

Much of the inventory move centered in metal manufacturing. The growth of bank debt reported for these companies tapered through the third quarter. A marked contraction followed, and by midwinter the outstanding balances were back near the levels of a year earlier, as the aggregate value of inventory holdings fell below comparable 1960 figures.

As in the case of metal manufacturing, an upswing in inventories extending into mid-1960 and a contraction last winter dominated the short-term credit requirements of distributors. The course of bank lending to wholesale and retail trade last year followed a like pattern: after a large buildup through the summer, such debt showed no net change for the balance of the year, and an unusually heavy liquidation featured the opening months of 1961.

The inventory developments and associated borrowing just reviewed have been the most notable changes since late 1959 in the sources and uses of corporate working capital funds. The record of fund uses was also marked by a tapering in the growth of receivables as business sales topped out. In relation to the volume of business done, however, trade credit has been rising ever since 1960 opened.

For all nonfinancial corporations taken together, inventories and receivables were up $11 billion in 1960. Short-term borrowing provided approximately one half of the funds required—a somewhat lower percentage than is indicated for the most recent quarters. Much of the remainder came out of current savings, though the liquidation of Treasury bills also played a part.

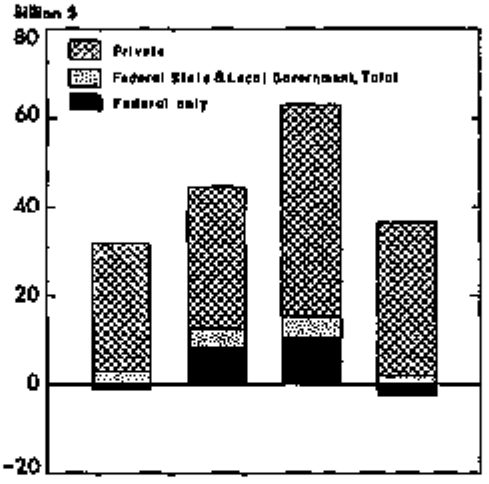
This pattern of sources and uses was similar to that in other periods when economic activity rounded a cyclical peak and moved down. As in 1948, 1953, and 1957, inventory investment and customer financing tended to slow down, and the drop in these short-term uses was reflected in a lessened growth of bank debt and payables financing.

Consumer credit

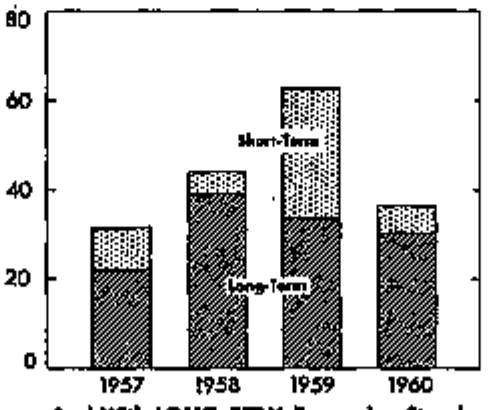
Consumer borrowing moved irregularly higher during most of 1960, but fell back toward yearend and in the first quarter of this year reached a seasonally adjusted rate not much above that registered at the opening of 1959. As in the case of business financing, there has apparently been some tendency towards a more intensive use of credit to move automobiles and other big-ticket consumer durables.

RISE IN NEW DEBT SLACKENED IN 1960

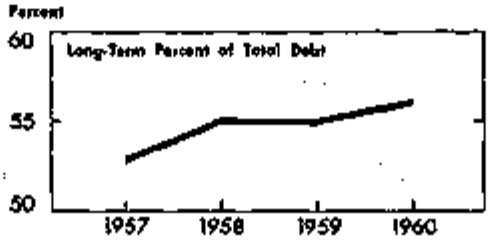
As Business Reached Midyear Peak and Turned Down . . .



SHORT-TERM Needs Were Much Lower. . .



And With LONG-TERM Borrowing Steady, This Portion of Debt Rose Relatively



U. S. Department of Commerce, Office of Business Economics 61-5-13

The recent drop in consumer credit extensions, like the sharp advance during the preceding cyclical expansion, was dominated by developments in the automobile market. With car sales high through the final quarter of last year, auto credit was extended at a near-record $18 billion annual rate. The subsequent slide in buying brought the annual rate of borrowing down below $15 billion in the opening months of 1961.

Though consumer purchases of big-ticket furniture and household appliances have been declining, new credit extensions have shown little change since mid-1960, and in recent months have been running at the same annual rate—$14 billion—as a year earlier.

Extensions of unsecured personal loans were at a $16 billion rate in the first quarter of this year. This was only slightly less than at the peak of business activity.

Payments on consumer installment debt rose from a $47 billion annual rate at the peak of the cycle to around $48 billion as 1961 opened. The tapering advance and subsequent drop in new borrowing were accordingly reflected in a sharp decline in consumers' net drafts on the pool of installment credit. For 1960 as a whole, such drafts were off nearly $2½ billion or 40 percent from 1959, as repayments rose by $3½ billion while new borrowing was up less than $1½ billion. During the first three months of the current year, total repayments have exceeded borrowings.

The growth of persons' financial debt shown in table 1 centered in borrowings against the cash values of life insurance policies. Security debt showed little change for the year as a whole. A decline during the first half was substantially canceled by an irregular advance that began about midyear and has continued into 1961, accompanying the upswing in stock prices and trading volume.

Besides these shifts in the use of short-term credit, recent changes in personal fund sources and uses have featured a swing from purchase to

liquidation of mortgage Government securities and a tapering in new house purchasing and borrowing.

Government borrowing

The decline of the Government's fiscal position since early 1960, as measured (mainly on an accrual basis) for national income purposes, has been only partly reflected in the course of Federal financial requirements. Operating to reduce the Government's need for loan funds were a curtailment in its own lending operations and, more important, the fact that the flow of incoming tax payments was exceeding the current accrual of tax liabilities. Net Federal debt repayment in the first quarter of 1961 was off only moderately from the year-earlier total, which had been reached at a time of near-peak activity in general business.

The supply of Treasury bills, certificates and longer term marketable issues near maturity fell $5 billion during the year—or considerably more than the Federal debt total—because of the extension of the maturity structure noted below. This contraction helped bring down the bill rate.

This pattern of Federal financing may be contrasted to that displayed during the earlier production downturns of 1953 and 1957, when the short-term Federal debt had increased while the long-term portion declined.

Use of Long-Term Funds

LONG-TERM borrowing of $30½ billion last year—as against $33½ billion in 1959—brought the net total of such debt to $495 billion by yearend. Corporate flotations were up, but takings of States, local governments and homebuyers declined; those of the Federal Government held about even.

The responses of long-term borrowing to cyclical changes were generally similar to those recorded during the downturns of 1948–49, 1953–54, and 1957–58. The different behavior of the Federal component in 1960–61 was the principal exception.

Lengthening in Federal debt

The extension of the maturity structure of marketable Federal debt featured the refinancing of maturing certificates of indebtedness into notes having due dates up to five years away, during the first half of 1960. As the year moved on, the Treasury adopted a new policy of advance refunding of wartime issues into longer term securities, and over $4 billion of the 2½ percent bonds coming due in 1967–69 were so exchanged into 3½ percent bonds due in 1980, 1990, or 1998. Reflecting these operations, the portion of Federal debt due within a year or on demand had fallen by last March to 55½ percent as compared with over 60 percent at the opening of 1960; and the average maturity of the marketable portion rose three months.

For all nonfinancial corporations taken together, fixed capital spending was up by $3 billion last year. The increase centered in manufacturing companies, which typically rely much less on long-term credit than on internal sources of capital funds, and long-term corporate borrowing increased by less than $1 billion.

Corporate bond flotations were up $1 billion over 1959. The biggest single factor in the advance was a change in the fund sources of finance companies. Apparently in response to a shift in the structure of interest rates, these concerns met their needs mainly through public security issues rather than bank borrowing last year. The remaining stepup in bond issues was in the communications group, where the rise in flotations about equaled that in capital spending.

In recent months a number of large refunding issues have been reported. This is in keeping with experience in past business downturns, when falling interest rates have permitted corporations to make marked reductions in borrowing costs incurred during the preceding upswings.

State and local borrowing

The volume of State and local bond issues moved down in 1960, despite a modest rise in the construction and land purchases which provide the major occasions for such financing, and liquid asset accumulation by these governments slowed.

The fall in long-term borrowing costs during the early stages of the current recession was less sharp than during the similar stages of the 1953–54 and 1957–58 output recessions, when bond flotations had expanded sharply. The decline in yields continued well into 1961, but has been checked recently as borrowing spurted.

Residential financing

By the opening of 1960, homebuilding and associated mortgage financing had receded about one-tenth from the record rates of the spring quarter of 1959. Both construction and borrowing stabilized around this lower level through the autumn of last year. Construction dropped further in the fourth quarter and fell again in the early months of this year. Mortgage recordings held up better, apparently reflecting a pickup in used house sales.

With the overall slowdown from 1959 to 1960, the net increase in mortgage debt last year amounted to only $10½ billion, in contrast to the $13¾ billion rise of 1959.

The restricted availability of mortgage financing played a key part in the 1960 decline in housing construction. The easing in mortggae fund availability since the beginning of the current year has facilitated the sale of used houses, and has had some influence on the rise in housing starts in recent months. (See page 3.)

Position of Lenders

THE PRINCIPAL factors on the supply side of the fund markets were an expansion in commercial bank lending capacity and an increase in the flow of savings channeled through financial institutions generally. There were declines in several other forms of financial saving; in most cases, however, these were directly associated with comparable declines in the savers' financial requirements.

These changes in fund supplies,

which are discussed further below, and the demand shifts already considered combined to produce the recent changes in interest rates shown in the accompanying text table.

Bank deposits rise

The easing of bank reserve positions involved the use of all the major weapons of monetary policy. Discount rates were lowered in June, August, and September. Reserve requirements were reduced in September and December; and beginning late in November all the banks' vault cash was counted as legal reserves in meeting the requirements. Open market operations from April on more than offset the gold outflow in its effect on reserves. Over the four quarters ending last March, commercial bank fund sources reflected these actions by a rise of over $8 billion in time deposits and an increase of $2 billion in demand deposits, while member bank borrowings were reduced $½ billion. Also contributing to the expansion in bank fund sources were retained earnings totaling $1 billion and new stock issues of nearly $½ billion.

The larger part of the additional funds so obtained was absorbed temporarily by the purchase of short-term Treasury issues, although there was some increase in holdings of securities and in business and other loans.

The behavior of commercial bank fund sources and uses has paralleled fairly closely the experience of earlier output contractions, except that business loans have held up better in 1960-61.

Savings flow to other intermediaries up

The flow of personal savings to nonbank financial intermediaries has been rising moderately since the business downturn and, demand being off somewhat as noted earlier, bond and mortgage yields moved gradually downward through the first quarter of 1961.

With economic activity higher for 1960 as a whole than for 1959, the total inflow to life insurance and pension carriers was up almost $1 billion last year. The carriers increased their purchasing of mortgages and corporate stocks while continuing to acquire corporate bonds.

New deposits in savings and loan associations and savings banks also increased about $1 billion more than in 1959. The new funds went initially to rebuild the institutions' liquidity, reduced by the heavy credit expansion of the year before. In recent months, however, an expanding volume of such funds has again begun to enter the mortgage market. With the general supply situation thus easing, less than half the February reduction in maximum rates permissible for FHA-backed lending has been offset by the subsequent increase in discounts.

These fund-supply patterns have been quite in line with those of other recent downswings. As individuals' concern for security increased with the business downturn, savings deposits rose and, after a lag of some months, mortgage money eased.

Foreign fund supplies

The fall of American short-term interest rates coincided with increases, rather than decreases, in the major foreign money markets through the summer of 1960. The rate disparity tended to reduce the supply of foreign funds to the American market, and to encourage the investment of American short-term funds abroad.

The outflow of gold and short-term dollar assets occasioned by these and other international transactions was stepped up during the year, from a $2½ billion annual rate in the first two quarters to a $4½ billion rate in the third and—reflecting some special payments and considerable speculative activity—to over $5½ billion in the closing quarter of the year. With foreign short-term rates declining in late 1960 and early 1961 and speculation subsiding since midwinter, the outflow has apparently slackened this spring, though the data are not yet complete.

The tightening effects of this capital movement on the U.S. money market have been offset by the tapering of domestic demands and the expansionary Federal Reserve policies noted above. This has meant that the disparity between U.S. and foreign money rates has continued substantial despite the easing abroad.

Table 1.—Public and Private Debt, End of Calendar Year, 1956–60 [1]

(Billions of dollars)

	Net					Gross				
	1956	1957	1958	1959	1960	1956	1957	1958	1959	1960
Total public and private debt	707.6	739.4	783.6	849.3	882.9	831.1	869.1	917.7	986.0	1,026.5
Total public debt [2]	268.1	271.1	283.6	288.8	301.0	348.8	354.2	367.6	384.4	387.8
Federal Government and agency [2]	225.4	224.4	233.7	243.2	241.0	300.5	301.7	310.6	322.0	328.5
State and local governments [3]	42.7	46.7	50.0	55.0	60.0	48.0	52.5	57.2	62.4	67.3
Total private debt	439.4	468.3	499.9	547.5	581.9	482.3	514.9	549.9	601.7	638.2
Corporations	231.7	246.7	259.5	281.6	296.0	274.9	293.4	309.5	335.8	352.3
Long-term [4]	100.1	112.2	121.2	128.9	137.5	120.3	134.9	140.0	155.8	165.9
Short-term [4]	131.7	134.5	138.4	152.7	157.5	154.6	158.5	165.5	180.2	186.3
Notes and accounts payable	70.3	72.3	75.3	84.3	87.3	84.4	87.1	90.9	101.1	104.3
Other	61.4	62.0	62.6	68.4	70.2	70.2	71.5	72.0	79.1	82.0
Individuals and unincorporated enterprises	207.7	221.5	240.4	265.9	285.9	207.7	221.5	240.4	265.9	286.9
Farm [5]	19.5	20.3	23.3	24.0	25.4	19.5	20.3	23.3	24.0	25.4
Nonfarm	188.1	201.2	217.0	241.9	261.6	188.1	201.2	217.0	241.9	261.5
1–4 family mortgages	94.1	102.3	111.8	124.4	134.7	94.1	102.3	111.8	124.4	134.7
Other mortgages	27.2	29.4	32.8	38.8	39.2	27.2	29.4	32.8	38.0	39.2
Consumer	42.5	45.3	45.5	52.1	56.0	42.5	45.3	45.5	52.1	56.0
Commercial	13.3	13.2	14.1	15.4	17.3	13.3	13.2	14.1	15.4	17.3
Financial [6]	11.1	11.1	12.8	13.4	14.2	11.1	11.1	12.8	13.4	14.2

[1] Series shown in tables 1 to 3 in annual debt reports appearing in the SURVEY prior to 1960 are summarized above for the recent period. The full set of tables on public and private debt for 1958–60 is available on request. The definitions used are described in the October 1958 SURVEY. Estimates for the period from 1916 through 1957 appear in the July 1960 SURVEY.

[2] Includes categories of debt not subject to the statutory debt limit. Net Federal debt is defined as the gross debt outstanding less Federal Government securities held by Federal agencies and trust funds and Federal agency securities held by the U.S. Treasury and other agencies. It thus equals Federal Government and agency debt held by the public. Details of Federal obligations may be found in the *Treasury Bulletin*.

[3] Data for State and local governments are for June 30 of each year.

[4] Long-term debt is defined as having an original maturity of 1 year or more from date of issue; short-term debt as having an original maturity of less than 1 year.

[5] Comprises debt of farmers and farm cooperatives to institutional lenders and Federal Government lending agencies and farm mortgage debt owed to individuals and others.

[6] Comprises debt owed to banks for purchasing or carrying securities, customers' debt to brokers, and debt owed to life insurance companies by policyholders.

Sources: U.S. Department of Agriculture, Agricultural Research Service; U.S. Department of Treasury; Board of Governors of the Federal Reserve System; Federal Home Loan Bank Board; U.S. Department of Commerce, Bureau of the Census and Office of Business Economics.