Firms use credit to finance production, working capital, investment in physical capital, and research and development. All these activities are important for the functioning of the economy. In fact, as argued in recent research, there is a strong connection between the development of credit markets and that of the economy.1

On June 5, the Board of Governors of the Federal Reserve System published the Financial Accounts of the United States for the first quarter of 2014. This article uses data from that publication to analyze the use of credit by nonfinancial businesses since the financial crisis of 2008. The main finding is that the evolution of outstanding liabilities has been very different for corporate and noncorporate businesses, with a remarkable stagnation in credit to noncorporate businesses.

Figure 1 displays the value of outstanding liabilities of corporate and noncorporate businesses. Since their previous peak (during the financial crisis), liabilities of corporate businesses increased about 20 percent, while liabilities of noncorporate businesses increased only 4 percent. These patterns may be important to understand the differences in the type of liabilities available for these two groups of firms.

The main components of liabilities for both corporate and noncorporate businesses are credit instruments (e.g., commercial paper, corporate bonds, depository institution loans and mortgages). They represent about 60 percent and 70 percent of the liabilities of corporations and noncorporations, respectively. The rest are trade payables, which are liabilities owed to suppliers for purchases or services rendered; tax payables, which are taxes that a company owes as of the balance sheet date; and others.

Corporations are distinguished from noncorporations in two critical ways: (i) the financial sources to which they have access (corporations can issue shares in the stock market and can borrow and lend by issuing bonds, while noncorporations can’t do either) and (ii) the ownership and control structure (a corporation is owned by shareholders but is typically run by a separate group of managers, while noncorporations are typically owned by one or two individuals who also perform as managers).1 The first element is important to understand the differences in the type of liabilities available for these two groups of firms.

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For Nonfinancial Noncorporate Business

- Mortgages: 27%
- Depository institution loans: 45%
- Other loans and advances: 4%
- Corporate bonds: 2%

For Nonfinancial Corporate Business

- Corporate bonds: 68%
- Mortgages: 6%
- Depository institution loans: 11%
- Commercial paper: 7%
- Other loans and advances: 1%


FIGURE 3
Components of Credit Market Liabilities, by Instruments, 2013

Juan M. Sánchez is an economist at the Federal Reserve Bank of St. Louis. For more on his work, see http://research.stlouisfed.org/econ/sanchez. Lijun Zhu, a technical research associate at the Bank, provided research assistance.