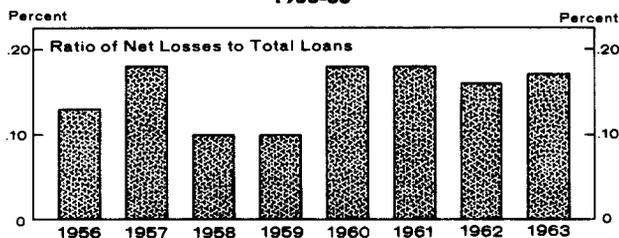


vances that require a larger proportion of a borrower's income to service his indebtedness. Some lenders have entered entirely new fields, such as equipment leasing, in search of ways to invest bank funds and obtain a higher return.

Whether such changes in credit standards are correctly described as deteriorating, lowering, or broadening, they are being carefully watched by all bank supervisors. If loans can be made in line with present-day standards and if losses can be kept within reasonable bounds, many feel that policies based on these standards are sound. The danger in accepting this view is that the quality and collectibility of loans must be examined in the light of the

Ratio of Net Losses on Loans* to Total Loans at All U. S. Member Banks 1956-63



*Excludes transfers to and from bad debt reserves.

Commercial bank losses on lending operations, however, have continued to be less than .2 percent.

existing economic background and, if the country's economy declines, a marginal credit may become overnight a problem loan.

On the other hand, if bank supervisors are too severe in their analyses of credits, they may discourage the making of many worthwhile loans. Back in 1938, as the country was emerging from the 1937 recession, President Roosevelt expressed the hope that Federal bank supervision could be coordinated so as to facilitate the flow of commerce, industry, and agriculture. Conferences were held with representatives of the three Federal supervisory agencies for the purpose of improving their policies and regulations to further the President's objective and yet keep them consistent with sound banking principles, *i.e.*, maintain the quality of loans and investments at a satisfactory level. The supervisors agreed that they would treat loans and securities on a uniform basis and would relieve pressures tending to reduce or prevent extensions of credit to sound borrowers. The 1938 Agreement resulted in a revision of standards for judging credit quality. A change of equal importance was that banks were to be examined on the basis of going concerns rather than on the amount their loans, investments, and other assets would bring in a forced liquidation. These policies have been in effect for more than 25 years with little change. During this time, there have been few criticisms that bank supervisors have discouraged or prevented the extending of sound loans to worthwhile borrowers.

R. M. STEPHENSON

Alabama's Economy Exhibits Strength

When, in April 1963, we described Alabama's economic resurgence from the trough of the 1960 recession, we ended our review on a questioning note. Were the cross-currents then evident signaling the end of the expansionary period or was the economy just catching its breath for a further uphill climb? Now, slightly more than a year later, the question may be answered: Alabama's economy was simply girding for some additional expansion.

During the intervening period, overall production, employment, and income increased substantially in Alabama. While these gains have lifted the state's economy closer to desirable levels of activity, it still falls short of the national average on several counts, notably per capita personal income payments. Nevertheless, certain structural changes that have occurred in Alabama's economy in the past few years probably have provided some additional strength and resiliency. Thus, even if the 41-month long national economic recovery should fade, these changes may dilute the impact that such a slowdown would have in Alabama.

Output Expansion

Taking a cue from the prime economic measures for the state, one cannot say that a galloping boom was developing in Alabama in 1963. The economy, however, was definitely on the upgrade, and the momentum has carried

over into 1964. Most important, Alabamians boosted the output from their mills and factories last year, and this swift pace has not faltered much, if any. Producers of steel, pig iron, and coke increased their production sharply to supply a strong national demand, particularly for railroad cars and various types of pipe. Aluminum producers also turned out more metal for their customers.

Southern pine lumber production, long in the doldrums caused by competition from western lumber producers, perked up slightly, as an increase in residential construction spurred demand for floor joists, studs, rafters, shoring, and other products. Textile mill operators also stepped up their production, as measured by cotton consumed by mills in the state, although the expansion was modest. A spurt in ocean shipping and Alabama port activity has occurred as well. Finally, increased demands for packaging, crating, and shipping materials brought about an upsurge in pulp and paper output. These trends in Alabama's industrial economy have been mirrored by the sharp upturn in the consumption rate of electrical energy for industrial purposes.

On the farm, the 1963 season closed in December with cash farm marketings at a higher level than they were in 1962. Sales of livestock and poultry products increased only one percent in 1963, but crop sales, principally in the fall months, topped the 1962 total 11 percent. A large

cotton crop in 1963, especially in northern Alabama, brought a sizable increase in farmers' incomes and spending and lifted business activity considerably.

Northern Alabama also experienced an economic lift from the construction of the huge Saturn rocket boosters for the nation's space exploration. These efforts are focused at the Marshall Space Center in Huntsville, a city containing about 72,000 people at last count in the 1960 Census of Population, or 4.4 times more than in the 1950 Census.

Employment and Income Increase

The general expansion occurring in Alabama's economy is reflected by an upward trend in employment and personal income. Nonfarm employment had pushed up to a higher plateau in late 1963 as manufacturing employment increased; farm employment, however, continued its downtrend. Since the farm work force now makes up only a small portion of the employment total, the effect of the decline was slight. The state's unemployment rate was reduced by the end of 1963, and in early 1964 it dropped even further to the lowest point reached in several years.

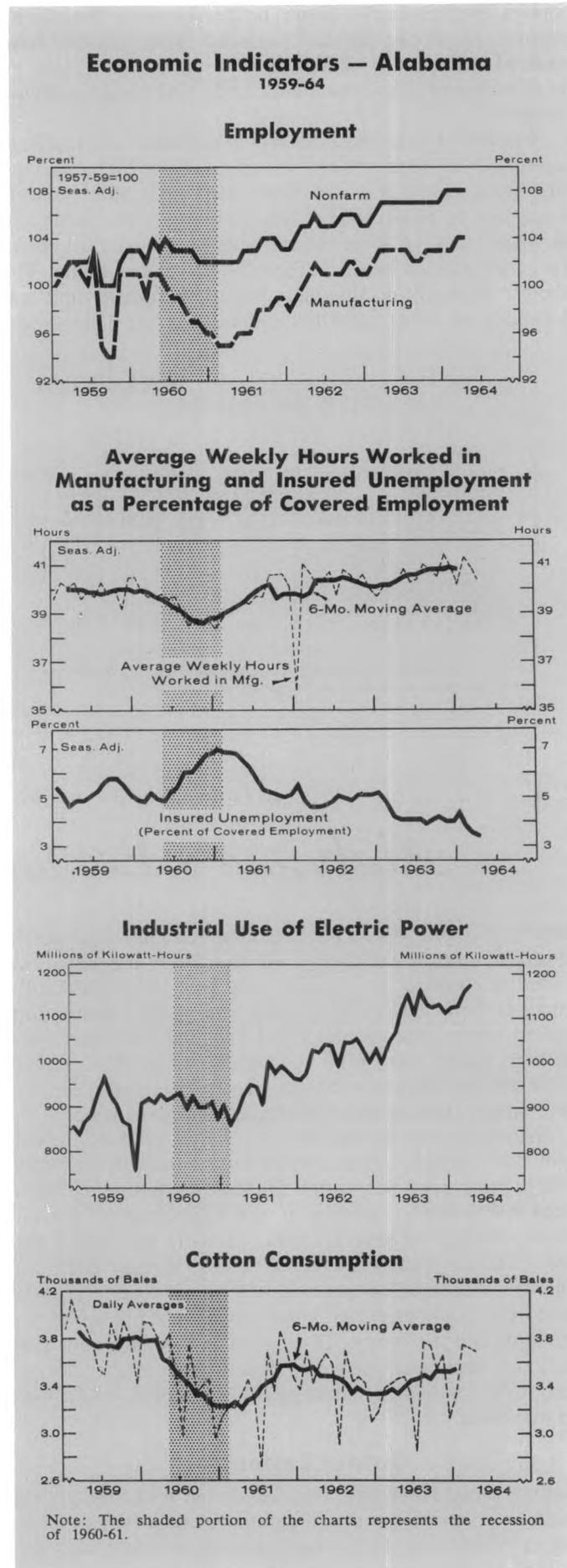
Although the state's unemployment trend has been favorable, not every community is experiencing high-level employment. While Mobile and Birmingham were classified by the U. S. Department of Labor as areas with only a moderate unemployment rate—3.0 to 5.9 percent in May 1963, the latest available designation—there were 15 labor market areas, mainly in northern Alabama, that had rates of 6 percent or more and were designated as areas with persistent and substantial unemployment.

The upward trends in output and employment have persisted throughout recent months and have boosted the incomes of the state's residents. Total personal income, which had risen steadily during 1962 and then more rapidly in early 1963, held at the advanced 1963 level early this year. According to estimates of this Bank for April 1964, the total personal income received by Alabamians was about \$6.0 billion at an annual rate, slightly greater than the \$5.7 billion a year earlier and well above the 1961 recession low of \$4.8 billion. Manufacturing payrolls have risen markedly since January 1964 as average hours worked increased, and the payroll total now stands well above the level prevailing in early 1963.

Alabama's recent overall gains in output, employment, and income have cheered the state's tax collectors. Judging from the upsurge in sales tax collections in late 1963, tax revenues have jumped upward to totals much larger than those in earlier periods. Even though the gain results partly from a recent change in Alabama's tax laws and levies, heightened economic activity undoubtedly is generating some new tax revenue.

Commercial and Financial Activity Hesitant

While increased production, employment, and income from Alabama's important primary industries have imparted considerable strength to the state's economic resurgence, commercial and financial firms have turned in a more spotty performance. Retailers of hardware and farm implements have experienced brisk sales in recent months,



and automobile sales also have been strong, according to the Bureau of Business Research of the University of Alabama. Lesser gains, however, were chalked up by general merchandise and apparel stores. Department store sales, which have been lethargic since 1961, remained on a subdued level in early 1964, as did sales by restaurants and drug stores. Meanwhile, furniture store sales slipped lower and currently show little, if any, buoyancy.

On the financial side, a significant increase occurred in sales of life insurance, and such investment continues unabated. Alabama residents also are still placing a rising volume of funds in savings and loan accounts. Moreover, total bank deposits, which had risen steadily from the 1961 recession low to mid-1963 and then remained stable for a few months, jumped sharply to a peak in early 1964. A rise in time deposits contributed to the upswing. Bank lending increased notably in 1962, and the acceleration has held to the present time; meanwhile, bank investments in securities, which expanded erratically in 1962 and 1963, increased substantially in the first four months of 1964. All told, Alabama's economic recovery, begun in mid-1961, has continued at a firm pace to the present time.

New Investment

A general air of economic optimism currently is pervading the state, judging from available evidence of business plans and intentions. Most important, investments in new plants and plant expansions will be large. According to the Alabama Chamber of Commerce, announcements of 283 plants in 1963 indicated that \$337 million would be invested, the largest total since 1951. Announcements in early 1964 included a \$2-million expansion of an aluminum rolling mill at Decatur and a \$2.5-million construction and modernization program for a pulp and paper mill near Mobile. Numerous smaller investments, such as the \$250,000 expansion of an electrical corporation in Leeds and a \$150,000 plant expansion of a food canning plant in Uniontown, have been announced recently. In some measure, of course, these investments reflect national economic expansion and the local impact of national spending for defense, space exploration, and other public projects.

Some Structural Changes

Significant changes have occurred in Alabama's economic framework that may have strengthened and broadened the state's economic base and facilitated a further economic advance or at least greater resistance to economic stress and adversity. Alabama, of course, probably had further to go in this process than some other states and, consequently, the impact on its economy from a given change may be larger than elsewhere.

While private investment has involved large-scale plant modernizations by steel and textile firms and the widespread application of new technology, public investment in Alabama represents a major effort to improve and expand vital public services. The tax structure was altered by the state Legislature in 1963 to increase tax revenues. This improvement offers a partial accommodation to a state debt that has risen rapidly to finance public needs in recent years. The state's debt was about \$307 million in 1963, compared with about \$73 million ten years

ago. The increase has come as the state Legislature approved bonds for new roads, schools, hospitals, and state buildings. Among the most important of the current investments are those for education, particularly for junior colleges and additional trade schools.

The state's economic structure also is being altered by investments in transportation facilities. The Alabama State Docks on the Gulf Coast have been enlarged and modernized; roads are being overhauled; work on the Federal-state superhighways is being pressed ahead; and, not least, new dams and locks are being built to further the state's river and river basin development.

These structural adjustments may help reduce the chronic unemployment of largely unskilled labor in Alabama's industrialized areas. To assist in solving this problem, both state and local governments have concentrated on providing training programs for potential workers. Area trade schools have been developed, and curricula in vocational high schools have been adopted to teach students the skills required by industrial employers. Meanwhile, in areas experiencing substantial unemployment, the Federal Government's accelerated public works program is providing employment for some persons.

A Substantial Economic Base

If an operating statement of Alabama's economy could be computed today, it probably would reveal a reasonably solid economic base. Given that base, Alabama's economy could advance even further in 1964. The possibility of this outcome would be appreciably enhanced if consumer incomes rise further and if the 1964 reduction in income taxes spurs private investment and spending in the state. In time, the efforts to train and employ more unskilled workers for more highly skilled jobs may be quite fruitful. Then, too, continued growth in the national economy would be most conducive to the fulfillment of Alabama's economic prospects.

ARTHUR H. KANTNER

This is one of a series in which economic developments in each of the Sixth District states are discussed. Developments in Florida's economy were analyzed in the June 1964 REVIEW, and a discussion of Georgia's economy is scheduled for a forthcoming issue.

A REVIEW OF ALABAMA'S ECONOMY 1960-64

This publication is a compilation of articles devoted to Alabama's economy that appeared in this Bank's *Monthly Review* during 1960-64, together with revised monthly figures of major business indicators for Alabama. The articles emphasize various aspects of Alabama's economic scene and often consider longer-run developments. Copies of this booklet, as well as copies of *A Review of Georgia's Economy, 1960-63*; *A Review of Mississippi's Economy, 1960-63*; *A Review of Louisiana's Economy, 1959-63*; *A Review of Tennessee's Economy, 1960-64*; and *A Review of Florida's Economy, 1959-64*, the first five publications in this series, are available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.