Banking Developments in 1953

Although many economic indicators are now pointing to a possible downturn in business activity, banking developments in the District give little evidence of such a trend, at least at first glance. Loans, deposits, and interest rates all set new records in 1953, and the money supply, the rate of deposit turnover, and the volume of investments continued the upward movements started several years ago. Despite the banking achievements last year, however, there are some signs of a slowing up of the postwar expansion.

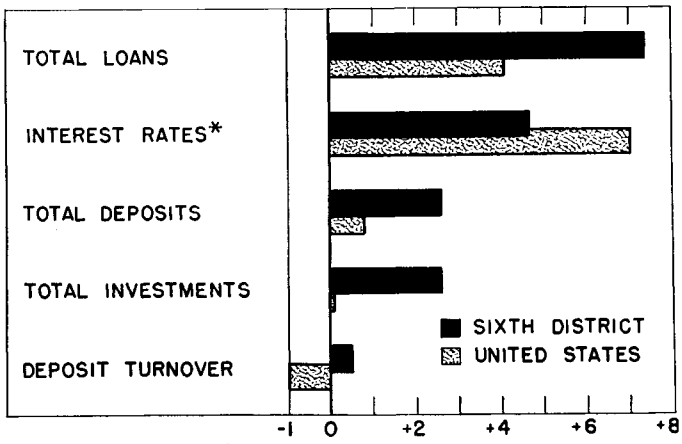
Deposits Grew

In a pattern similar to that of previous postwar years, total deposits of District member banks continued to expand and reached a new peak toward the end of the year. After a rather sharp seasonal decline of about 5 percent between December 1952 and June 1953, deposits expanded at the rate of 87 million dollars a month and by the end of the year reached a new peak of 7.3 billion.

Although the increase in deposits from June to December is significant because it exceeded the national rate, its real significance is that it represents a lesser rate of growth than that of previous years. During the last two quarters of the postwar years, the deposit increase has averaged about 10 percent; in 1953, however, the gain amounted to only 7.5 percent, the smallest since 1949. The relatively small increase in deposits last year reflects, to some extent, important developments in the District.

Some of the regional influences that retarded the seasonal expansion are temporary; others may be permanent. The decline in farm prices and the poor crops in certain areas resulted in lower farm cash receipts last year, particularly in the timber and peanut areas of the District. In other areas, deposits declined because of the completion or near-completion of Government projects. Construction of the Atomic Energy Commission's Savannah River project brought large Government expenditures into the Augusta, Georgia, area, for example, with a resulting increase in deposits; since the completion of the project and the end of that particular boom, deposits have fallen to a more normal level.

SELECTED ITEMS AT MEMBER BANKS
Percent Change, December 1953 from December 1952



*Business Loans at Selected Banks

Much of the increase in deposits that took place in 1953 was in business and personal accounts, although time deposits also contributed to the rise. Government deposits and interbank deposits—those balances that banks have with other banks—were below the December 1952 levels.

Between December 1952 and December 1953, about 40 percent of the member banks in Georgia reported declines in deposits. Furthermore, for this same period Georgia was the only District state in which total member bank deposits declined. Much of the decline took place in the first quarter as the result of a greater-than-usual decrease in interbank and Government deposits. During the remainder of the year, deposits of these Georgia banks increased at a rate equal to that in other states. For the year, banks in Florida experienced the largest increase, followed by Mississippi, Tennessee, Louisiana, and Alabama.

Credit Expanded

Changes in District member bank loans during 1953 were similar to those in deposits. In the first quarter, loans declined slightly from the December 1952 level, recovered about midyear, continued upward during the last two quarters, and reached a new peak in December. During the first six months of 1953, member bank loans increased about one percent. The over-all annual increase of about 7 percent raised the volume of loans held by District banks to the highest level in history. All six states shared in the District increase; Florida had the largest gain, followed by Louisiana, Mississippi, Georgia, Tennessee, and Alabama.

Despite the new high, however, the annual increase in loans at District banks seems to be tapering off. The 7-percent increase in 1953, although greater than that for the United States, was well below the 12-percent increase in 1952. A slight decline in the demand for loans and a policy of credit restriction apparently contributed to the downturn during the first two months of the year. By midyear, the easing of credit conditions, coupled with an increase in demand for funds, which was partly seasonal, touched off an expansion, particularly in business loans. This expansion, although large, was much less than that for the same period in 1952.

At banks in leading cities, loans to brokers and dealers who use funds to buy securities for the accounts of their customers and loans for the purchase of automobiles, appliances, and other consumer goods rose more during the first two quarters than other types of loans. During the last six months, however, the rate of increase in consumer loans was below that of 1952, and there was a decline in real-estate loans from their June level. Business firms, at least those that hold large inventories, remained heavy borrowers, as loans to manufacturing and mining firms and to trade and commodity dealers increased about the same rate last year as they did in 1952.

ASSETS OF SIXTH DISTRICT MEMBER BANKS
Percent Distribution, End of December

Item	1951	1952	1953
Cash	1.8	1.9	2.1
Reserves with Federal Reserve	12.3	11.6	11.6
Deposits with Other Banks	7.7	8.1	8.2
Cash Items in Process of Collection	4.5	5.7	4.5
Loans	28.7	29.6	30.8
Investments	43.5	41.8	41.5
Other Assets	1.5	1.3	1.3
Total	100.0	100.0	100.0

The major part of the loan expansion for the year occurred at country banks — those outside reserve cities. Country banks also experienced the largest gain in investments. A large increase in deposits and a reduction in reserve requirements in July apparently made the expansion in loans and investments at these banks possible.

Reserve city banks were able to increase their loans and investments by the reduction in reserve requirements and to a lesser extent by the rise in deposits.

Turnover of Deposits Increased

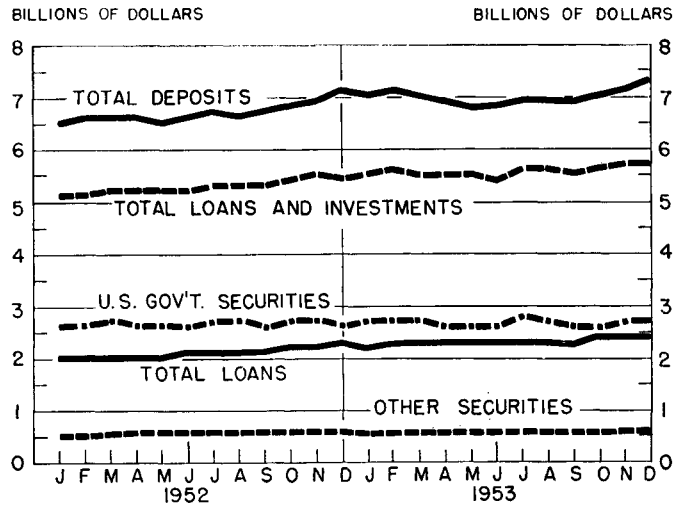
Not only did the volume of bank deposits increase in 1953 but there was also a greater use of these deposits. Bank debits, which represent withdrawals from deposit accounts, increased about 8 percent, the same rate as in 1952. With the exception of Mississippi, all six states reported an increase. Banks in Tennessee cities had the largest gain, followed by Florida, Georgia, Louisiana, and Alabama. For the first eleven months in 1952 each dollar of demand deposits was used about 18.4 times. For the same period in 1953, each deposit dollar was used 19.1 times. In both years the increase in turnover was greatest during the last two quarters.

Interest Rates Reached a New Postwar High

During the first half of the year, interest rates on Government securities and on new business loans in selected District cities continued the upward trend which had started in 1951. By mid-year, however, they reached a peak and started downward. Unlike changes in other postwar years, the increase in the first half was sharp as was the decline in the second half.

The increase in interest rates during the first part of the year can be attributed to a large and growing demand for credit, both by business and governments, which tended to outstrip the substantial volume of funds available for lending and investing. During the last six months of 1953, market conditions were reversed, and the demand for long-term funds declined somewhat. Corporations were not borrowing as much as they did in June and July, and the debt limitation restricted Treasury borrowing primarily to refunding operations.

DEPOSITS, LOANS, AND INVESTMENTS
Sixth District Member Banks



The Federal Reserve System announced a reduction in reserve requirements in late June and increased reserves through the purchase of Treasury bills. The result was that rates on all types of Government securities broke about midyear, and by September 30 the average rate on business loans charged by selected banks in Atlanta and New Orleans declined slightly from the June level. During the last quarter of 1953, this rate declined even further. In the United States, the rate on new business loans made by selected banks increased slightly during the last two quarters.

1954 Uncertain

District banks had another boom year as measured by the expansion in loans and deposits. The new highs of 1953 followed a period of record years in which commercial banks not only expanded along with the economy but at the same time contributed greatly to the expansion.

Past trends are helpful in appraising the possible future expansion and contributions of banks to the District economy. During a period of prosperity District bank deposits typically expand faster than those for all banks and during a downturn, District deposits usually decrease more rapidly than do those for the nation as a whole. The better-than-average increases in all phases of District banking in 1953 could be reversed if current predictions of a downturn are correct. This possibility, however, is only one of the many uncertainties of 1954.

CHARLES S. OVERMILLER