Impact of Changing Economic and Credit Conditions on District Banks

Rapidly changing economic activity during the last 17 months has provided the Federal Reserve System with a unique opportunity to display its flexibility. System policy shifted in a counter-recession direction in late October and early November of 1957, when vigorous actions were taken to foster ease in credit markets and encourage economic revival. The turnabout in economic activity commenced last spring. Since then, the economy has rebounded sharply, and most of the significant statistical indicators are now in an uptrend.

Once it became evident that recovery was vigorous and widespread, the Federal Reserve began to reverse the policy of credit ease which it had pursued since the fall of 1957. After mid-1958, System open market operations supplied only a part of the reserves needed to meet rising credit demands and to offset the reserve drain of a continued gold outflow. As a result, member banks were obliged to draw down their excess reserves and to increase their borrowings from the Federal Reserve Banks. Such borrowing was made more costly when Reserve Bank discount rates were raised last summer from 1¾ percent to 2 percent and in mid-fall when they were raised to 2½ percent. In March of this year, the discount rate was again increased to 3 percent.

Interest Rates Rise

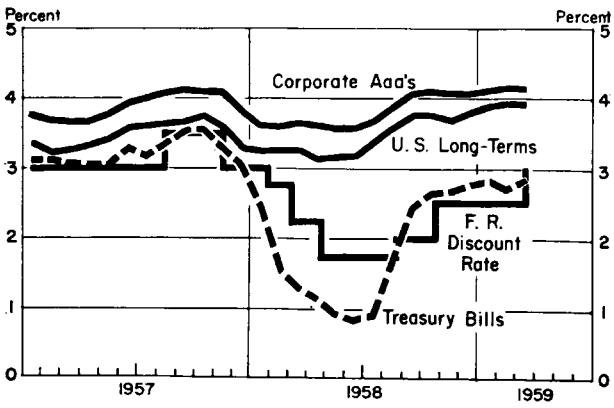
Borrowing costs associated with other types of debt instruments also rose rapidly with recovery. The Treasury bill rate, which had fallen to .83 percent in June 1958 rose sharply to 2.44 in September, and thereafter increased more moderately, averaging 2.86 for the first two weeks in March 1959. Long-term interest rates also rose sharply as evidence of revival in economic activity cumulated and fears of renewed inflationary pressures mounted.

Yields on long-term United States Governments increased from 3.19 to 3.75 percent from June to September 1958. Rates then declined through November, but have since resumed their upward movement. In early March 1959, the rate on long-term Governments was 3.90, which was 71 basis points above the mid-1958 rate.

Market rates for corporate bonds and for state and local government issues followed the same general pattern as yields on long-term United States Government securities from June to November 1958. Since late last fall, however, yields on corporate bonds have increased less rapidly than those of United States Governments, and rates on state and local government bonds have edged downward.

The rise in interest rates from the recession low reflects in part the increased demand for credit associated with the upturn in economic activity and with System actions aimed at limiting the rate at which the supply of loanable funds expanded. The abrupt turnabout in rates apparently also reflects a sharp change in investor expectations. In short, the upward movement in interest rates signaled the change in the economic climate, and banks throughout the nation set out to adapt their activities to a new environment. But what of District banks? How have they adjusted to changing economic and credit conditions?

Interest Rates
United States, 1957-59



Variations in interest rates reflect changes in the economic and credit climate.

Lending-Investment Patterns

District member banks responded to the System's policy of credit ease, inaugurated in the fall of 1957, by sharply expanding bank credit as their reserves increased. Bank credit rose $924 million from December 1957 through February 1959. Bank lending-investment patterns, however, shifted during this period, and for that reason, it is useful to consider bank credit developments in two separate phases: from January through June 1958 and from July 1958 through February 1959.

During the first half of 1958, bank credit rose by a record $417 million, with most of the increase accounted for by bank purchases of securities, particularly United States Governments. Banks in leading cities increased their security holdings during this period more than banks outside leading cities. The greater relative shift to investments by banks in leading cities reflected a weaker loan demand than that in smaller cities and towns.

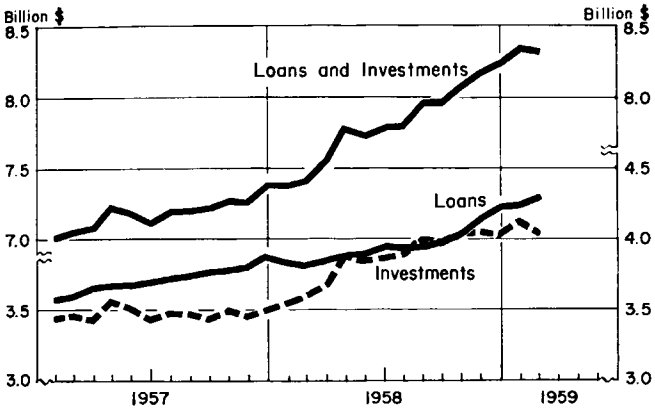
From July 1958 through February 1959, District banks —like banks throughout the nation—again adjusted their operations in the light of expanding business activity and a less-easy credit policy on the part of the System. Banks in leading cities, which in the first half of 1958, added to their security holdings but reduced their loans, now reversed the procedure. The demand for loans secured by real estate rose sharply at these banks after mid-1958 and, in the latter part of the year, the demand for business and consumer loans picked up. Banks outside leading cities continued to lend at a pace slightly above the first half of 1958, but added to their security holdings at a somewhat slower rate.

With loans expanding at a time when the System was making reserves less readily available, District mem-

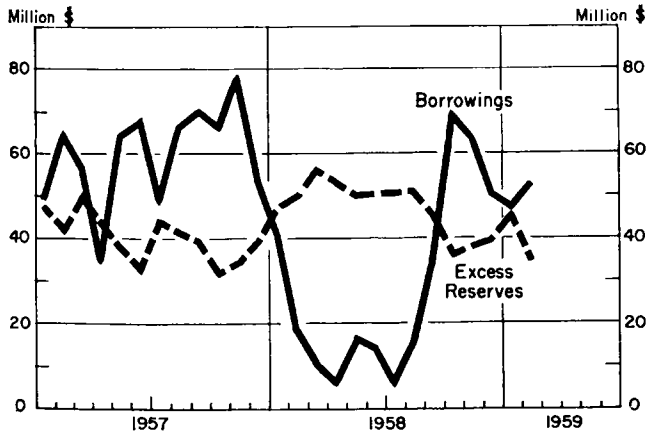
ber banks made only limited additions to their security holdings. For the eight-month period beginning in July 1958, investments accounted for about 30 percent of the increase in bank credit, compared with 90 percent during the first half of 1958.

Looking back over both entire periods from December 1957 to February 1959, we find that total bank credit expanded 12.5 percent, but total deposits rose only 8.5 percent. At banks in leading cities, moreover, growth in bank credit outpaced deposit growth to a much greater degree than at banks outside leading cities. Because bank credit has increased at a faster rate than deposits at both classes of banks, pressure on bank reserves has developed.

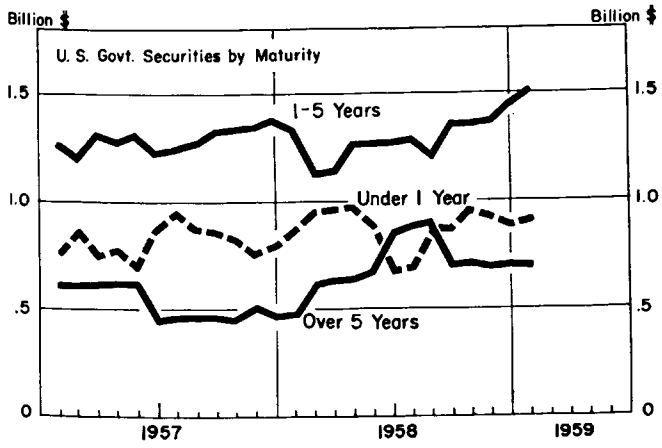
District Member Banks React to Changing Economic and Credit Conditions



Total loans and investments have risen sharply since the fall of 1957. Investments in U.S. Governments accounted for most of the increase through mid-1958, but since then, loans have increased in relative importance.



Since mid-1958, member banks have obtained an increasing volume of reserves to support bank credit expansion by borrowing from the Federal Reserve Bank of Atlanta.



U.S. Government security holdings of member banks represent a source for some further expansion in loans.

District Member Bank Borrowing

Since mid-1958, member banks have obtained an increasing volume of reserves to support bank credit expansion by borrowing from the Federal Reserve Bank of Atlanta. In June 1958, for example, average daily borrowings totaled about $14 million, compared with average daily borrowings of $64 million for the first two weeks of March 1959. This rise in borrowing, however, reflects primarily an increase in average amount, rather than an increase in number of borrowing banks.

Only about 35 of the 400 member banks in this District borrowed during March. Typically, the number of borrowing banks is small because commercial banks are reluctant to go into debt. Most banks maintain a degree of liquidity sufficient to satisfy unforeseen variations in deposits. In addition, however, banks generally have a margin of secondary reserves—United States Government Securities—that can be readily converted into lendable funds if there are urgent customer needs to be met or opportunities for new lending arise.

U.S. Security Holdings and Loan Expansion

District member banks, through January 1959, had been accumulating rather than liquidating Government securities. With credit relatively easy throughout most of 1958, and with loan demand up only moderately, banks—on the average—did not find it necessary to dispose of securities. In recent weeks, however, there has appeared to be a trend toward moderate liquidation. It is reasonable to assume that if loan demands continue to increase and credit tightens further, liquidation of securities will be the principal means of financing loan expansion.

In January of this year, member bank holdings of Government securities totaled over $3.1 billion. Of this amount, 29 percent represented securities with maturities of under one year; securities with maturities of one to five years and five years and over accounted for 48 percent and 23 percent, respectively. The maturity distribution of security holdings is particularly important because the rise in interest rates since mid-1958, together with a corresponding decline in the market value of securities, may have an important bearing on the volume and type of securities that may be liquidated.

During the early stages of recovery, banks generally obtain funds by selling short-term securities or accepting cash for bills as they come due. The income advantage from switching out of securities into loans depends, of course, on the differential between yields on securities and the bank loan rate. With interest rates on Government securities currently high, banks may be somewhat reluctant to convert assets from securities to loans, unless loan rates are also adjusted upward.

The decision to switch from investments to loans is only partly explained by differentials in rates. Banks

with relatively small holdings of short-term securities, of course, may find it necessary to liquidate longer-term securities if they wish to take advantage of loan opportunities. In that instance, a factor deterring the security sale will be the size of the capital loss that would have to be absorbed. Both intermediate and long-term Government bonds have dropped substantially since mid-1958, with some issues off as much as $10 per $100. Before disposing of such securities, therefore, banks would have to weigh the amount of loss that would be sustained after tax write-offs against the income that might be obtained by reinvesting the proceeds of the sale.

ALFRED P. JOHNSON

Bank Announcements

On March 9, the First State Bank of Altoona, Altoona, Alabama, a nonmember bank, began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Jack L. Ray is President; Rex L. Phillips is Vice President and Cashier; and Janelle Battles is Assistant Cashier. Capital totals $25,000 and surplus and undivided profits total $56,834.

On March 17, the Bank of Ozark, Ozark, Alabama, a nonmember bank, began to remit at par. Sam J. Carroll, Jr. is President; H. H. Hodges is Vice President; R. C. Joiner is Executive Vice President; Wilmer Parker is Vice President and Cashier; Arnie Glover, Jr. is Assistant Cashier. Capital totals $200,000 and surplus and undivided profits total $365,297.

On April 1, the Wauchula State Bank, Wauchula, Florida, a nonmember bank, began to remit at par. L. Grady Burton is President; Gene A. Brock is Vice President; Roger S. Greene is Cashier; and H. D. Wofford is Assistant Cashier. Capital totals $100,000 and surplus and undivided profits, $641,662.

On April 1, the Bank of Prattville, Prattville, Alabama, a nonmember bank, began to remit at par. Officers are Carlie G. Smith, President and Chairman of the Board; J. W. Strange, Vice Chairman of the Board; D. L. Yarbrough and J. B. Striplin, Vice Presidents; J. M. Donovan, Vice President and Cashier; Karl A. Clark, Florene Q. Boone, Ruby N. Durden, and Mary Y. Myers, Assistant Cashiers. Capital totals $200,000 and surplus and undivided profits total $216,598.

Department Store Sales and Inventories*

	Percent Change				
	Sales			Inventories	
	Feb. 1959 from		2 Months	Feb. 28, 1959 from	
Place	Jan. 1959	Feb. 1958	1959 from 1958	Jan. 31 1959	Feb. 28 1958
ALABAMA	—5	+13	+12	+9	—8
Birmingham	—4	+14	+12	+9	—9
Mobile	—8	+12	+12	..	..
Montgomery	—9	+6	+6	..	..
FLORIDA	—3	+15	+11	+4	+3
Daytona Beach	+14	+19	+17	..	..
Jacksonville	—10	+21	+16	+11	—9
Miami Area	—0	+9	+6	—2	+8
Miami	—2	+4	+1	..	..
Orlando	—7	+27	+24	..	..
St. Petersburg-Tampa Area	—5	+16	+12	+11	—3
St. Petersburg					
Tampa					
GEORGIA	—7	+11	+10	+9	+1
Atlanta**	—11	+9	+9	+9	+2
Augusta	+19	+33	+20	..	..
Columbus	—1	+5	+5	+4	+2
Macon	—3	+13	+14	+15	+6
Rome**	—6	+26	+26	..	..
Savannah	—6	+5	+7	..	..
LOUISIANA	—14	+3	+5	+15	—4
Baton Rouge	—12	+3	+5	+17	+7
New Orleans	—15	+3	+7	+13	—7
MISSISSIPPI	—10	+17	+15	+17	—5
Jackson	—13	+16	+15	+4	—7
Meridian**	—6	+13	+12	..	..
TENNESSEE	—6	+19	+14	+11	+3
Bristol-Kingsport-Johnson City**	+6	+21	+11	+14	—0
Bristol (Tenn. & Va.)**	+2	+20	+10	+20	—1
Chattanooga	—8	+20	+15	..	..
Knoxville	—9	+20	+14	+11	+0
DISTRICT	—6	+12	+10	+8	—0

*Reporting stores account for over 90 percent of total District department store sales.
**In order to permit publication of figures for this city, a special sample has been constructed that is not confined exclusively to department stores. Figures for non-department stores, however, are not used in computing the District percent changes.

Debits to Individual Demand Deposit Accounts

(In Thousands of Dollars)

				Percent Change		
				Feb. 1959 from		Year-to-date 1959 from
	Feb. 1959	Jan. 1959	Feb. 1958	Jan. 1959	Feb. 1958	1958
ALABAMA						
Anniston	34,395	40,849	30,346	—16	+13	+13
Birmingham	767,373	786,354	633,735	—2	+21	+13
Dothan	30,180	33,852	26,857r	—11	+12	+7
Gadsden	31,961	41,805	28,297r	—24	+13	+16
Mobile	237,793	283,036	242,204	—16	—2	+1
Montgomery	150,496	166,291	124,394	—10	+21	+22
Selma*	19,603	24,284	17,525	—19	+12	+7
Tuscaloosa*	46,488	52,440	40,304	—11	+15	+12
Total Reporting Cities	1,318,289	1,428,911	1,143,662r	—8	+15	+11
Other Cities†	662,619	784,733r	579,314r	—16	+14	+17
FLORIDA						
Daytona Beach*	56,354	60,864	50,983	—7	+11	+3
Fort Lauderdale*	208,337	235,036	183,371	—11	+14	+7
Gainesville*	35,569	41,421	30,693	—14	+16	+11
Jacksonville	742,670	801,852	656,657r	—7	+13	+6
Key West*	15,614	17,641	13,785	—12	+13	+10
Lakeland*	73,340	84,508	60,375	—13	+21	+19
Miami	850,153	904,811	733,910	—6	+16	+14
Greater Miami*	1,291,238	1,406,458	1,119,614	—8	+15	+12
Orlando	234,538	259,916	179,686r	—10	+31	+27
Pensacola	76,917	90,530	74,002	—15	+4	+6
St. Petersburg	221,348	247,582	184,028r	—11	+20	+16
Tampa	390,228	437,546	336,299r	—11	+16	+13
West Palm Beach*	140,310	151,426	120,696	—7	+16	+12
Total Reporting Cities	3,486,463	3,834,780	3,010,189r	—9	+16	+12
Other Cities†	1,548,243	1,710,641r	1,269,873r	—10	+22	+17
GEORGIA						
Albany	57,335	63,887	48,112	—10	+19	+12
Athens*	32,040	37,337	30,954	—14	+4	+2
Atlanta	1,735,765	1,900,324	1,555,959r	—9	+12	+8
Augusta	92,095	101,304	86,383r	—9	+7	+8
Brunswick	24,197	25,241	19,937	—4	+21	+13
Columbus	91,297	100,493	84,789	—9	+8	+4
Elberton	7,641	9,155	6,870	—17	+11	+8
Gainesville*	40,841	49,105	39,783	—17	+3	+2
Griffin*	16,402	18,478	14,652	—11	+12	+12
LaGrange*	28,531	21,805	17,385	+31	+64	+24
Macon	114,045	119,642	91,093	—5	+25	+15
Marietta*	27,394	33,068	22,498	—17	+22	+19
Newnan	16,359	19,622	13,618	—17	+20	+8
Rome*	37,251	41,812	33,539	—11	+11	+5
Savannah	181,431	193,021	159,944	—6	+13	+11
Valdosta	28,512	32,317	23,237r	—12	+23	+17
Total Reporting Cities	2,531,136	2,766,611	2,248,753r	—9	+13	+9
Other Cities†	800,206	883,219r	708,928r	—9	+13	+9
LOUISIANA						
Alexandria*	65,132	78,191	62,686	—17	+4	+5
Baton Rouge	267,002	272,635	220,346r	—2	+21	+6
Lafayette*	60,431	70,895	46,872	—15	+29	+21
Lake Charles	82,842	99,168	78,371	—16	+6	+5
New Orleans	1,239,297	1,352,173	1,152,792	—8	+8	+3
Total Reporting Cities	1,714,704	1,873,062	1,561,067	—8	+10	+4
Other Cities†	563,500	642,987r	494,244r	—12	+14	+9
MISSISSIPPI						
Biloxi-Gulfport*	44,562	45,782	37,978	—3	+17	+17
Hattiesburg	31,701	36,509	28,654	—13	+11	+11
Jackson	249,650	285,451	181,825	—13	+37	+38
Laurel*	24,122	27,532	21,042	—12	+15	+21
Meridian	37,970	41,905	32,654	—9	+16	+16
Natchez*	21,183	23,837	19,581	—11	+8	+5
Vicksburg	18,093	19,868	17,534	—9	+3	+3
Total Reporting Cities	427,281	480,884	339,268	—11	+26	+27
Other Cities†	211,258	242,742	203,013	—13	+4	+6
TENNESSEE						
Bristol*	39,506	43,527	33,280	—9	+19	+17
Chattanooga	284,089	356,942	241,290	—20	+18	+14
Johnson City*	36,387	42,910	33,247	—15	+9	+7
Kingsport*	67,307	79,456	59,926	—15	+12	+13
Knoxville	202,825	243,284	187,019	—17	+8	+10
Nashville	769,976	721,045	543,974	+7	+42	+27
Total Reporting Cities	1,400,090	1,487,164	1,098,736	—6	+27	+19
Other Cities†	461,823	531,119	434,925	—13	+6	+5
SIXTH DISTRICT	15,125,612	16,666,853r	13,091,972r	—9	+16	+11
Reporting Cities	10,877,963	11,871,412	9,401,675r	—8	+16	+11
Other Cities†	4,247,649	4,795,441r	3,690,297r	—11	+15	+12
Total, 32 Cities	9,300,174	10,088,410	8,024,816r	—8	+16	+11
UNITED STATES 344 Cities	195,770,000	221,927,000	181,696,000	—12	+8	+6

*Not included in total for 32 cities that are part of the National Bank Debit Series.
†Estimated. r Revised.