Bank Credit Grows Uninterrupted

Monetary policy has a strong influence on bank credit. Thus it is important that we look at changes in monetary policy, as well as changes in the demand for bank credit, when explaining what happened at District banks last year.

Throughout the first half of 1968, in an effort to curb inflationary price and cost pressures, monetary policy moved in the direction of further restraint. Interest rates climbed during the winter and spring months, reflecting not only more restrictive monetary policy, but continued relatively heavy credit demands and uncertainty as to whether a program of fiscal restraint would be legislated. In May, most short-term rates climbed above their 1966 highs, and then started to come down as the prospects for fiscal restraint improved. The fiscal measures instituted in June led to expectations of further rate declines—based mainly on anticipation of some weakening in the outlook for business and an easier monetary policy. Rates did fall early in the summer, and there was some easing of monetary policy. But, as the summer progressed, developments indicated considerably more strength than anticipated. By early fall, interest rates were again climbing rapidly, and late in the year monetary restraint was intensified. At year end, rates were above their earlier 1968 highs.

The impact of these changes is reflected in the pattern banking followed nationally. During the first half of the year, firming monetary policy and rising interest rates greatly retarded banks' deposit inflows. In order to meet the credit demands of borrowers, which were strong compared to deposit inflows, banks curtailed the expansion of their security portfolios. Bank credit growth slowed.

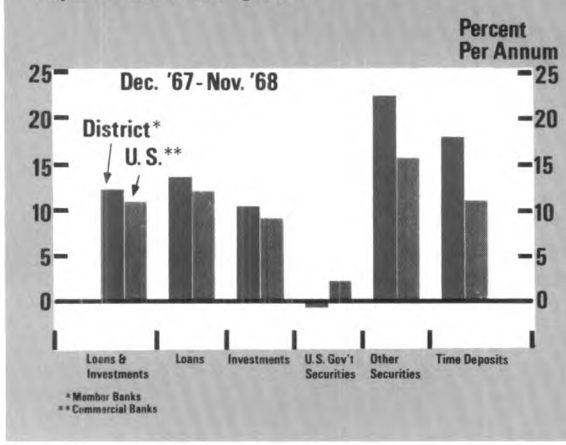
Deposit inflows picked up sharply during the summer as monetary policy eased and interest rates fell. Banks were able to meet stronger loan demands and built up their investments. Bank credit growth accelerated. Late in the year, rising interest rates and firmer policy again reduced the rate of bank credit expansion.

Generally, that is also the pattern banking in the District followed. However, changes in the pace of deposit inflows and bank credit growth were much less severe here.

Bank credit at Sixth District member banks (loans and investments—seasonally adjusted) grew at a much faster pace than nationally during the first half. For one reason, deposit inflows were then much stronger in the District—time and savings deposits growing about twice as fast as nationally. However, by the end of March rates on large denomination negotiable certificates of deposit were no longer competitive with yields on other money market instruments, and banks had CD losses. In mid-April, the Board of Governors raised Regulation Q ceilings on all but the shortest-term large denomination CD's. Though banks—in the District, as well as nationally—quickly raised their rates to the new ceilings, it wasn't until July that District bankers were successful in attracting any sizable volume of these deposits.

Also in mid-April, the major District banks joined others in increasing their prime lending rate from 6 to 6½ percent, but this apparently had little effect on the level of loan demand.

District banks were ahead of the U.S. in rate of deposit and credit growth.



SIXTH DISTRICT MEMBER BANKS

Trade and Banking Areas	Percentage Change: 1968 from 1967* Loans	Investments	Deposits
ALABAMA			
1—Anniston-Gadsden	16.5	13.6	12.2
2—Birmingham	8.6	9.6	7.6
3—Dothan	11.7	10.9	11.0
4—Mobile	5.9	2.2	6.0
5—Montgomery	11.8	10.0	11.0
FLORIDA			
6—Jacksonville	11.3	7.4	8.6
7—Miami	16.1	25.0	18.6
8—Orlando	11.0	23.2	13.8
9—Pensacola	12.2	20.7	18.0
10—Tampa-St. Petersburg	12.8	22.7	16.8
GEORGIA			
11—Atlanta	10.1	13.8	10.3
12—Augusta	20.2	8.8	15.3
13—Columbus	9.1	9.6	9.3
14—Macon	19.1	-2.9	9.1
15—Savannah	17.4	18.1	14.2
16—South Georgia	11.3	8.0	10.8
LOUISIANA			
17—Alexandria-Lake Charles	10.3	15.0	11.2
18—Baton Rouge	8.5	22.6	12.0
19—Lafayette-Iberia-Houma	4.8	16.1	9.2
20—New Orleans	2.6	11.2	5.3
MISSISSIPPI			
21—Jackson	11.3	7.6	6.6
22—Hattiesburg-Laurel-Meridian	10.1	11.4	12.1
23—Natchez	9.6	7.5	7.1
TENNESSEE			
24—Chattanooga	8.2	3.3	5.8
25—Knoxville	9.1	2.6	6.7
26—Nashville	12.5	11.1	7.6
27—Tri-Cities	6-1	5.8	5.8
SIXTH DISTRICT TOTAL	10.8	14.4	10.9

*Based on averages of 11 months (January through November) for each year.

During the summer, time deposit inflows picked up sharply, and District banks were attracting sizable amounts of large denomination CD's at well below ceiling rates. Credit demands continued to strengthen—with business and consumer lending especially strong. The greater availability of funds also enabled banks to add heavily to their municipal securities.

With market interest rates at a somewhat reduced level and with banks able to attract funds for loan and investment expansion, the larger banks lowered their prime rate in late September. Some felt this move was premature. Most limited their rate adjustments to loans to national accounts and selected borrowers.

From early November on, interest rates were again on the rise and by mid-December some bankers were having trouble replacing maturing CD's even at ceiling rates. Once again disintermediation was a threat. Yet there was no weakening in the demand for loans. The prime rate was raised to 6½ percent in mid-November and to 6¾ percent in mid-December. Another increase, to 7 percent, took place in early January.

During the closing months of last year, while interest rates rose rapidly and monetary policy showed signs of tightening, District banks fared better than nationally—both in terms of deposit inflows and bank credit expansion. In the District, time deposit inflows were relatively stronger than nationally. And, there was no slowing in the pace of bank credit growth. District bankers continued to meet the heavy demands of their borrowers and at the same time made sizable additions to their security portfolios. Thus, 1968 ended on a strong note for District bankers.

DOROTHY F. ARP

Bank Announcements

Industrial National Bank, Tallahassee, Florida, a conversion of Industrial Savings Bank of Tallahassee, opened as a member bank on December 4 and began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Julian V. Smith is president; F. O. Conrad, vice president; R. Spencer Burress, executive vice president and cashier. Capital is $300,000; surplus and other capital funds, $200,000.

On December 16, **The Nashville Bank and Trust Company,** Nashville, Tennessee, a newly organized nonmember bank, opened for business and began to remit at par. Officers are Joseph T. Howell, Jr., president; John B. Hardcastle, vice president and cashier; H. G. Aldred and J. R. Mathis, vice presidents. Capital is $2,000,000; surplus and other capital funds, $2,180,000.

Trust Company of Columbus, Columbus, Georgia, commenced operation as a commercial bank on December 31, 1968, and began to remit at par.

First National Bank of Port Allen, Port Allen, Louisiana, a newly organized member bank, opened on January 2 and began to remit at par. O. B. Harrell is president. Capital is $300,000; surplus and other capital funds, $450,000.

Also on January 2, **The Citizens Bank of Hendersonville,** Hendersonville, Tennessee, opened as a new nonmember bank and began to remit at par. The officers are Noble C. Caudill, president; Ralph L. Jones, executive vice president; William T. Burgess, vice president and cashier. Capital and surplus funds are $500,000.

Citizens Bank of Calhoun, Calhoun, Georgia, opened on January 2 as a new nonmember bank and began to remit at par. Richard M. Zorn is president; Charles E. Anderson, vice president and cashier; Claude E. Nichols, vice president. Capital is $200,000; surplus and other capital funds, $200,000.