MONTHLY REVIEW

FEDERAL RESERVE BANK OF ATLANTA

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Farm Real Estate Lending at Sixth District Banks

Banks are financing an increasingly large share of the investment needed to make District agriculture more efficient and more rewarding to those who till the soil. Most of this investment comes from farmers' own savings, but the 116 percent increase in farm loans at District banks from June 1946 to June 1951 reveals the growing importance of the role played by these institutions.

Although most bankers think of loans in terms of how the money is to be used and of the general credit-worthiness of the borrower, rather than in terms of the security taken, farm loans are commonly classified into two groups—those secured by mortgages on real estate and those secured in other ways. Because loans secured by mortgages on real estate are usually considered long-time investments, state and national banking laws prescribe specific rules by which banks must be guided. Out of many years of experience, bankers and supervisory authorities also have evolved some general principles or policies in regard to farm real estate loans that are intended to protect the long-run interests of lenders as well as borrowers.

The Problem

The increased demand for farm real estate loans in the last few years has created a quandary for many bankers. If they adhere closely to traditional thinking in regard to real estate loans, they may fail to provide what they consider to be legitimate credit needs of their communities. If they attempt to meet all legitimate needs for real estate credit, they may overstep the boundaries set by the principles of prudent banking. How this problem is solved has important implications for the future of agriculture, as well as for the continuation of bank leadership in this field of financing.

From the banks' standpoint, the solution depends partly upon the answer to the more general question of what should be the place of real estate loans in the investment and lending program of a commercial bank. In this country, the practice of commercial banks with respect to real estate lending has always run counter to the theory that banks should extend credit only for short periods and for purposes that result in the self-liquidation of the credit. Even before the passage of the Banking Act of 1865, state chartered banks were heavily involved in loans on both farm and urban property. Although these banks have suffered heavy losses on real estate mortgages, they continue to be important sources of mortgage credit.

National banks were completely barred from mortgage lending until the passage of the Federal Reserve Act in 1913. This act permitted national banks to make loans on farm property for five years and up to 50 percent of appraisal value with the further provision that the total of such loans at a bank did not exceed 25 percent of its capital and surplus or one-third of the time deposits. The authorization was liberalized further in 1916, 1927, and 1935, and at present these banks may lend up to 60 percent of appraisal value for ten years, provided that the instalment payments are sufficient to amortize at least 40 percent of the principal within a ten-year period. The total of such loans cannot exceed the capital and surplus or 60 percent of the time and savings deposits.

Bankers' attitudes toward real estate lending, however, probably have been influenced more by their experiences in the period between the two world wars than by the restrictions imposed by federal and state regulatory authorities. Commercial banks were the principal lenders in the farm land market boom that occurred during and immediately following World War I. In 1920, banks held 49 percent of the total farm mortgage debt held by all institutional lenders in the United States. The sharp decline in farm prices in 1920 was accompanied by declines in deposits of banks in rural areas and defaults on loans secured by mortgages on real estate. The immediate cause of many of the bank failures during the 1920's was the large investment in farm real estate mortgages that could not be liquidated without large losses. Of the 5,411 banks suspending operations from 1921 through 1929, about 92 percent were in towns of less than 10,000 population where real estate loans were normally an important part of total loans.

Although banks managed to liquidate a large share of

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their farm real estate loans during the 1920's, they still held 20 percent of the total held by institutional lenders in 1930. The collapse of farm prices in the early thirties brought about another forced and wholesale liquidation of farm mortgage indebtedness. Banks in agricultural areas again had heavy deposit withdrawals and many failed. A large number of the surviving banks incurred heavy losses because of the hurried sale of foreclosed real estate. By 1936, banks held only 11 percent of the farm mortgage debt that was held by institutional lenders.

The banks' experiences with real estate loans, and particularly farm real estate, indicate that such lending can be very hazardous. It should be stressed, however, that lending on real estate was not the only reason for bank failures or losses. Many other types of loans and investments became frozen assets. Some bankers in rural areas still believe that a conservative loan secured by a first mortgage on farm land is the safest type of loan they make and can cite their loss experience during the depression to substantiate their judgment.

Although the depression experience does not provide specific answers to the question of the place of real estate loans in commercial banks' lending programs, it does show that caution with respect to these loans is justified. All banks, therefore, probably will continue to set some upper limit on the amount of real estate loans held. For national banks this limit will probably be prescribed by law, and for state banks it will be based on past experience and judgment of the lending officers. In any event, it seems probable that both state and national banks will continue to have the problem of keeping real estate loans within reasonable limits.

The increased demand for real estate loans has come largely since 1946. During the war, construction activity was at a very low level and relatively little credit was needed for this purpose. Farm prices and incomes were very favorable and farmers repaid their farm mortgage loans rapidly. In spite of the increase in land values brought about by favorable incomes, farm transfers did not increase greatly. Many older farm operators continued to farm past the usual age of retirement and many young men who ordinarily would have started to farm during this period were called into the military service.

After the war the deferred demands for real estate credit began to be felt. In 1946, banks were in an excellent position to meet these demands. During the five years ending January 1, 1951, for example, District banks increased their holdings of farm real estate loans by approximately 120 percent. Of the total farm mortgage debt held by institutional lenders in 1946, commercial banks had only 19 percent; by 1951, commercial banks had brought their share to 29 percent.

FARM MORTGAGE DEBT HELD BY INSTITUTIONAL LENDERS

	Amount, (in Millions of Dollars)			Percent Held by Commercial Banks		
	1940	1946	1951	1940	1946	1951
Alabama	50.6	38.4	51.0	9.5	15.1	29.1
Florida	22.1	16.3	37.4	13.0	20.1	18.8
Georgia	64.3	48.7	65.2	10.6	18.0	32.5
Louisiana	41.3	34.5	42.1	14.7	14.6	27.2
Mississippi	72.9	60.8	84.2	11.2	11.3	17.2
Tennessee	70.0	44.8	62.7	16.9	35.4	48.5
Sixth District States	321.2	243.5	342.0	12.7	18.9	29.0

In addition to what might be termed the normal increase in demand for real estate credit brought about by the war, recent adjustments in District agriculture have also increased the demand. These adjustments have consisted largely of a shift toward livestock and an increase in the size of the average farm business. Both these developments involve larger amounts of invested capital and an increased demand for investment or capital credit as distinguished from operating credit. Although the demand for operating credit has also grown during this period, there is considerable evidence that much of this credit is being used for capital or investment purposes.

Some Examples

How the increased demands for real estate credit have been reflected in the lending activities of District banks can be illustrated by recent developments at a few selected banks. The banks used for illustration are located in small towns in agricultural areas and depend upon agriculture for a large share of their deposit and loan business.

Bank A experienced the typical rapid rise in deposits during the war, and in 1946 its deposits nearly reached the three million dollar mark. At that time, loans amounted to only 15 percent of total deposits and real estate loans were only 21 percent of time deposits. Real estate loans to farmers accounted for 89 percent of total real estate loans outstanding. From 1946 to 1951, all types of loans increased rapidly, and in the latter year loans amounted to 43 percent of total deposits. Total real estate loans were 62 percent of time deposits, slightly in excess of the legal limit for national banks. Real estate loans were about the same proportion of total loans in 1951 as in 1946. The total increase in real estate loans was about evenly divided between urban and farm loans with the result that farmers were receiving only 46 percent of the real estate credit extended in 1951. Time deposits increased during the five-year period, but at a much slower rate than real estate loans.

Bank B also had a sharp increase in deposits during the war and a reduction in loans. By 1946, this three-million-dollar bank had only 12 percent of its deposits loaned out and total real estate loans were only 30 percent of time deposits. Real estate loans to farmers accounted for 36 percent of total real estate loans. This bank also had demands for all types of loans after the war and by 1951, total loans amounted to 51 percent of total deposits. Total real estate loans were 132 percent of time deposits, with farm loans accounting for 56 percent of all real estate loans. Most of the increase in real estate loans, in other words, resulted from increased credit demands by farmers. In contrast to Bank A, this bank had a decline in time deposits from 1946 to 1951, which also brought it closer to a point of decision in regard to its real estate loans.

Bank C increased its total loans from 37 percent of total deposits in 1946 to 59 percent in 1951. Here the restricting influence on real estate loans may stem more from the total loan and deposit relationship than from the specific increase in real estate loans. Real estate loans increased from 46 percent of time deposits in 1946 to 72 percent in 1951. In contrast to Bank B, most of the gain was in urban real estate loans.

At Bank D, loans increased from 12 percent of total deposits in 1946 to 42 percent in 1951. Although real estate

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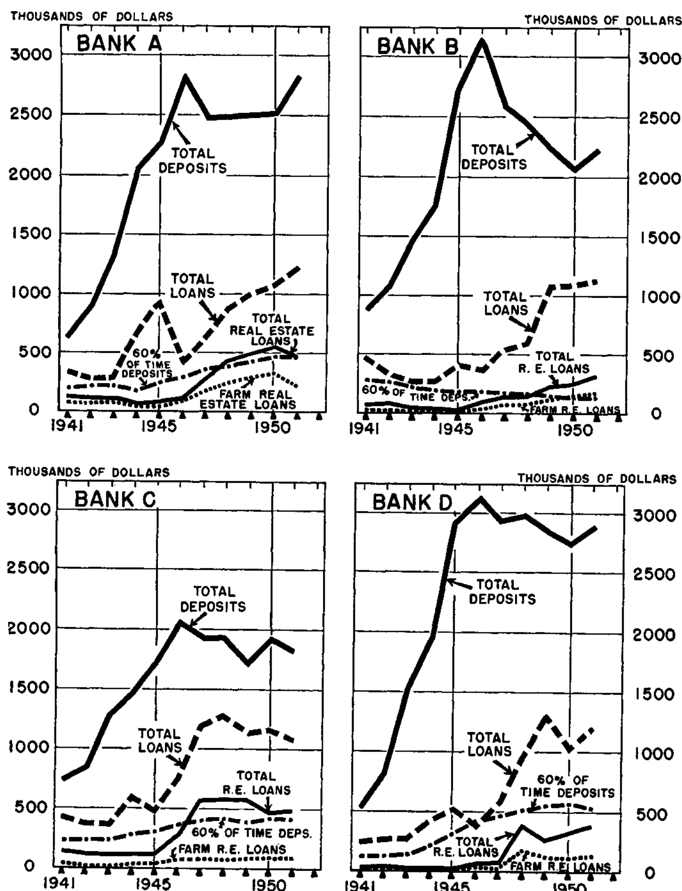
loans increased rapidly during this period, they amounted to only 43 percent of time deposits in 1951. This favorable relationship arose largely because time deposits have always been large in relation to total deposits at this bank. Real estate loans are about as large a proportion of total loans and of total deposits at Bank D as at the banks mentioned earlier.

These case histories show that individual banks have arrived at a point of decision with respect to their real estate loans for a variety of reasons. There is no evidence that any of them had to turn to real estate loans in order to build up their loan volume. The increases in real estate loans appear to reflect only the increased demands for this type of credit. The stronger demand for farm real estate credit, however, probably is mainly responsible for bankers' renewed interest in the legal and prudent restraint on real estate lending.

Bankers in agricultural areas of the District have an interest in agriculture that goes beyond the mere fulfillment of farmers' financial needs. Individual bankers and the state associations, through their agricultural committees have conducted tours, sponsored credit schools, promoted farm youth activities, and assisted in the establishment of marketing facilities for the purpose of helping farmers to increase their earning power. They have also encouraged farmers to embark on such projects as pasture improvement, land clearing, fencing, and the enlargement of livestock herds. Often the farmer must borrow part of the money used for these purposes.

LOANS AND DEPOSITS AT SELECTED BANKS



Bankers have met most of these loan demands without taking a real estate mortgage as security. A survey of farm loans at District banks in 1950 showed that real estate, or a combination of collateral that included real estate, was used on only 9 percent of the loans made and was not used with any greater frequency on livestock expansion loans than on crop production loans. Of the money borrowed 27 percent was used to begin or expand livestock enterprises. Of the livestock expansion loans, 46 percent were made with some verbal understanding about a renewal. Bankers, in other words, are now extending large amounts of so-called "intermediate" farm credit. As farmers go further into their livestock expansion program, however, and as the demand for this type of credit grows, there is a question of whether banks should have the additional security provided by a mortgage on the farm. For banks that are approaching their legal or prudent limit on real estate loans, this is a serious question.

Because all banks are not subject to the same restrictions, it is difficult to ascertain just how many banks are nearing their limit. The current situation at the national banks, however, may be indicative. On June 30, 1951, about 27 percent of the national banks held real estate loans amounting to 80 percent or more of their legal limit. Of the national banks with less than 3.5 million dollars of deposits, 38 percent had real estate loans amounting to 80 percent or more of their legal limit. About one-fourth of the national banks with deposits of 3.5 million dollars to 10 million had 80 percent or more of their legal limit in real estate loans. For all national banks with deposits of less than one million dollars, aggregate real estate loans amounted to 80 percent of the aggregate legal limit. For banks with deposits of one million dollars to 3.5 million, real estate loans amounted to 67 percent of the aggregate legal limit; and for those with deposits of 3.5 million dollars to 7 million, the figure was 58 percent at the middle of 1951.

These figures indicate that about one-fourth of the national banks are now at a point where they must be concerned about further expansion of their real estate loan volume. They also show that the problem is concentrated largely in the smaller banks, which, of course, are the ones most concerned with farm credit.

Tabulations by type of farming areas indicate that banks located in areas where farm credit is an important part of the total loan business are more heavily involved in real estate loans than are banks in areas where agriculture is less important. Within farming areas, the tendency for the smaller banks to be nearer their legal limit on real estate loans persists.

This does not mean, however, that the smaller banks have approached their limit primarily because of extensions of farm credit. Of the banks with deposits of less than 3.5 million dollars and with real estate loans amounting to 80 percent or more of their legal limit, 59 percent had less than a third of their total real estate loans in farm real estate loans.

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The stricter regulations concerning the aggregate amount of real estate loans at national banks, compared with state banks, are reflected in their lower proportion of real estate loans to total loans and to time deposits. On June 30, 1951, at banks with deposits of one million to 3.5 million dollars, for example, real estate loans were 28 percent of total loans at national banks and 36 percent of the total at state member banks. For this same size group, real estate loans were 40 percent of time deposits at national banks and 65 percent of time deposits at state member banks.

REAL ESTATE LOANS AT NATIONAL AND STATE MEMBER BANKS

	Deposit Size of Bank (in Millions of Dollars)			
REAL ESTATE LOANS	Less Than 1	1.3-5	3.5-7	7-10
As Percent of Total Loans				
National Banks	26	28	25	24
State Members	25	36	34	31
As Percent of Time Deposits				
National Banks	48	40	35	30
State Members	55	65	47	36

Because of large fluctuations in deposits and loan demands from area to area and from bank to bank within an area, it is not possible to devise a rigid formula for determining a prudent limit for real estate loans. If it is assumed, however, that bankers as a group have been exercising reasonable caution, the deviation from average ratios of loans to deposits and of real estate loans to total loans by any particular bank is a rough measure of how near it is to a prudent limit. It may be safe to assume that a bank which is above the average in ratio of loans to deposits and far above the average in ratio of real estate loans to total loans, is at or near the limit dictated by prudence. Among District banks with deposits of 10 million dollars or less, loans amounted to about 35 percent of deposits, and real estate loans accounted for 28 percent of all loans. Of the banks that had more than 35 percent of their deposits loaned out, 8 percent had more than half of their loans in real estate loans.

Implications

The farm real estate credit situation described here has at least two important implications. One is that some farmers will have to look beyond their local bank if they continue to expand their use of this type of credit. The other is that some bankers may have to devise new policies in regard to these loans if they are to continue to strengthen the position of leadership they have assumed in the farm financing field.

Although District farmers have other sources of real estate credit available such as federal agencies, insurance companies, and individuals, most of them prefer to use their local bank. The principal reason for this preference is that banks offer superior service. The banker usually knows the farmer's character, financial capacity, farming ability, and in addition, has a good idea of the value of the property offered as collateral. As a result, closing and servicing costs are low and the loan can be closed very quickly. Since individual banks do not have to follow any complicated set of rules or regulations prescribed by a central or national office as is the case with some other institutional lenders, they can be more flexible in the terms and conditions of loans granted.

For District farmers, however, the greatest single advantage possessed by banks is that they will lend relatively small sums for short periods. Most insurance companies, for example, do not like to make real estate loans for less than five years or for less than five thousand dollars. Because of their low costs and flexible arrangements, banks can and do make this kind of loan with benefits to themselves and to their customers. Farmers, therefore, have a vital interest in the continued expansion of real estate lending at commercial banks.

Since the end of World War II, commercial banks have achieved a greater position of leadership in farm financing than at any time in the last 30 years. A skillful handling of the farm mortgage loan problem is essential if they are to retain and expand this leadership. It does seem certain, on the other hand, that the present is a poor time for any relaxation of the restrictive and cautious policies followed by all institutional lenders on farm property during and since the war. These policies have undoubtedly promoted the financial stability of agriculture and have helped prevent a disastrous farm land boom such as that of the twenties. Furthermore, many farmers are operating on such a high level of costs that a decline in farm prices coupled with an increase in fixed costs, such as mortgage loan repayments, could bring serious difficulties.

What is needed are bank lending policies that will continue to encourage farmers to make capital investments that will increase their efficiency, that will enable banks to retain their position of leadership in farm lending, but will also keep total real estate loans within safe limits. Such a policy must go beyond the policy that has been followed at most banks, that is, the meeting of all legitimate credit demands as they arise. It must provide a definite guide in determining the kind of loans a bank will make. It should be based upon the goals that a particular bank wishes to attain and upon the needs of the community served. A bank, for example, that wished to promote the establishment of Grade A dairies might find it necessary to curtail real estate loans on urban property and loans for the purchase of farms in order to have sufficient funds available for the dairy development. The bank, in other words, would be reserving what might be termed its real estate lending power for the purpose that its management believed would make the greatest contribution to the economic growth of the community.

How well such a policy would work might depend partly upon the performance of other institutional lenders such as insurance companies and the federal agencies. The bank, for example, would be in a much better position to reject an application for a real estate loan it did not wish to make if it could send the prospective borrower to a satisfactory source of credit. In any event, policies with respect to real estate loans deserve careful consideration by bankers who are serving agricultural areas. Banks can render the greatest service to farmers and can use their own resources most profitably and safely by concentrating on the kind of real estate loans they are best fitted to make.

BROWN R. RAWLINGS

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District Business Conditions

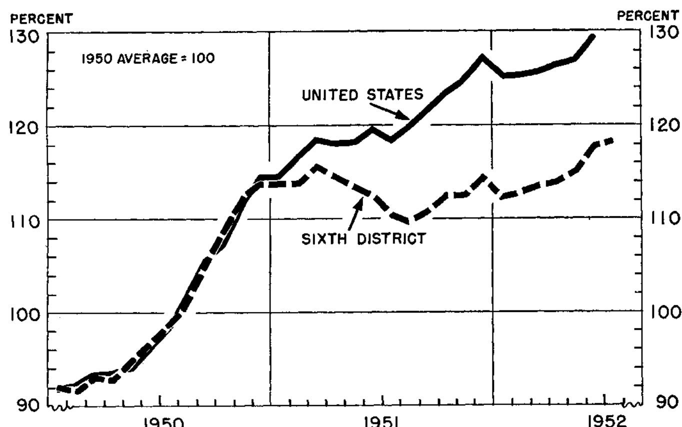
The Outlook for Bank Credit

Usually, by the end of summer, member banks in this District find their total loans lower than at the first of the year. This year, however, their loans outstanding were 67 million dollars greater at the end of July than at the first of the year. The growth, however, probably did not continue through August.

Demands for bank credit strong enough to offset seasonal declines merit attention, if only for possible clues about future demands. They also merit attention because they ended the less-than-national increase in loans at District banks that occurred during 1951.

Of the 2.1 billion dollars of total loans outstanding at District member banks at mid-year, about 45 percent were to commercial and industrial concerns. Consumer loans accounted for roughly 20 percent of the total, and real estate loans for about 15 percent. Loans to farmers accounted for 4 percent, and other types, including single payment loans, made up the remainder. These proportions vary from bank to bank, of course, with agricultural loans assuming more importance at the smaller banks; at banks in cities of less than 2,500, loans to farmers amounted to 37 percent of total loans.

In 1952, LOANS at District member banks have consistently expanded in contrast with the decline occurring during the corresponding period last year.



Lending to consumers, security purchasers, and farmers, however, explains most of this year's growth in total loans and the growth from last year. Between the first of the year and the end of June, total loans increased 70 million dollars; consumer loans increased 30 million dollars; loans for purchasing or carrying securities, 14 million; loans to farmers, 10 million; and real estate loans, 9 million. Single payment loans to individuals of over 3,000 dollars increased 6 million dollars. Commercial and industrial loans declined slightly although at the end of June this year they were 26 million dollars greater than a year ago. As a rule, small town bankers have been more active in extending credit than bankers in the larger cities.

During the remainder of this year, retail and wholesale merchants, the chief business borrowers, will need more credit to finance larger inventories and accounts receivable accompanying increased fall and winter sales. Also credit demands from many District manufacturers should be greater because manufacturing is usually stepped up during the latter part of the year. Although farm production loans ordinarily decline in the fall, commodity dealers will probably need credit to help finance the marketing of crops.

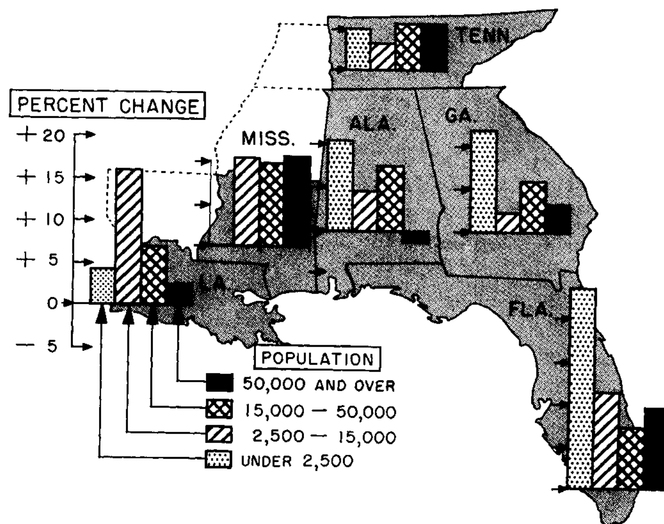
On the basis of past experience, seasonal influences can be expected to cause about a 7-percent rise in loans outstanding from the end of August through the end of the year. A forecast of demands for credit at District banks during the remainder of the year, however, also requires an analysis of how credit demands arising from changing business conditions may add strength or weakness to seasonal demands.

Trade Credit

Trade demand for working capital credit is, of course, basically dependent on the sales outlook as forecast by the businessman. On the basis of seasonal influences, department store operators, for example, can safely forecast that sales and stocks will rise in the last half of the year, whereas cash receipts in relation to sales will decline. Consumer purchases at District department stores in December normally jump about 110 percent above the July level. Since 60 cents of each dollar sale is made on credit, working capital requirements naturally increase. In anticipation of the greater volume of sales in December, moreover, department stores add to inventories so that the peak level in November is usually 14 percent greater than in July.

But the merchant must also consider other factors that may strengthen or weaken the seasonal pattern, and to some extent these considerations are based upon his recent experiences. Thus, in determining inventory policy he must consider the level of stocks in relation to sales. Despite steady

The growth in LOANS at SIXTH DISTRICT MEMBER BANKS from June 1951 to June 1952 has been greatest in smaller cities.



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liquidation, District department store stocks for the first six months of 1952 averaged higher in relation to sales than in other postwar years except 1951, which is primarily because of larger stocks of consumer durables. For non-durables, which account for 80 percent of department store sales, the ratio is more in line with the average for 1947-50 than is the ratio for durables. Some accumulation, therefore, may be necessary to meet even the seasonal demand.

In addition to credit demands for financing inventories, the merchant must also consider how his working capital needs will be influenced by current repayment practices on the part of his customers. Seasonal changes in repayment practices are indicated by the relationship between cash receipts and sales. Cash receipts at District department stores are generally higher in relation to sales in the first part of the year because of repayments on credit sales made during the last part of the preceding year, and lower in the last half of the year because of the growth in credit sales. There is, however, another trend apparent in people's repayment practices that is indicated by the relationship between cash receipts and stocks and receivables combined. Peaks and troughs of cash receipts during 1951 and 1952 have tended to lag only about one month behind corresponding highs and lows of combined stocks and receivables. In earlier years the lag was somewhat greater.

During 1951, consumers in the District repaid their department, furniture, and household appliance store instalment debts at an ever increasing pace while taking progressively more time to dispose of charge account obligations at department stores. In January 1951, instalment accounts at department stores were outstanding for an average of 13 months; by December the average time was 10 months. At household appliance stores, the change was even more striking. In 1952, however, the repayment period began to lengthen and with the suspension of Regulation W in May, it probably has risen further, thereby increasing the cash receipts lag and the demand for credit.

Trade demand for credit during the last half of 1952 undoubtedly will rise. Whether this demand will be above or below seasonal expectations depends on the degree to which rising needs to carry accounts receivable will be offset by the probable less-than-seasonal expansion in inventory financing.

Industrial Credit

Industrial activity, as indicated by employment figures, normally becomes stronger in the second half of the year, particularly in the textile, chemical, apparel, and food processing industries. To date, employment in these major District industries has followed, fairly closely, the seasonal pattern with the exception of the apparel business. Apparel employment has risen steadily since January, and contra-seasonally in April, May, and June. Increasing demands for credit in these industries during the remainder of 1952 will probably more than offset declining demands in others, such as construction and primary metals, which do not normally show a gain in the last half of the year.

Bank loans, according to limited data, have also followed this seasonal trend. Industrial credit demands this fall will depend essentially on the extent to which new orders can be filled out of current inventories. Since inventories through May 1952 were still high in relation to sales, a moderate increase in consumer demand could probably be

Sixth District Statistics

INSTALMENT CASH LOANS

		Volume		Outstandings	
		Percent Change July 1952 from		Percent Change July 1952 from	
Lender	Reporting No. of Lenders	June 1952	July 1951	June 1952	July 1951
Federal credit unions	37	—23	+52	+3	+5
State credit unions	17	—25	+51	+5	+29
Industrial banks	10	—7	+7	+1	+10
Industrial loan companies	11	—4	+8	+0	+13
Small loan companies	36	+2	+18	+2	+13
Commercial banks	33	+0	+46	+3	+14

RETAIL FURNITURE STORE OPERATIONS

		Percent Change July 1952 from	
Item	Number of Stores Reporting	June 1952	July 1951
Total sales	134	—15	+29
Cash sales	118	—10	—1
Instalment and other credit sales	118	—17	+34
Accounts receivable, end of month	126	+3	+37
Collections during month	126	+2	+18
Inventories, end of month	90	+1	—8

WHOLESALE SALES AND INVENTORIES*

	Sales			Inventories		
		Percent Change July 1952 from			Percent Change July 31, 1952, from	
Type of Wholesaler	No. of Firms Reporting	June 1952	July 1951	No. of Firms Reporting	June 30 1952	July 30 1951
Automotive supplies	4	+23	+4	4	+13	—8
Electrical—Full-line	3	—8	+14	.	..	.
" Wiring supplies	3	—2	—17	3	+4	+8
" Appliances	5	—7	+69	4	—6	—27
Hardware	7	—6	+17	3	—4	—15
Industrial supplies	13	+1	—19	3	—5	—9
Jewelry	4	—8	+1	3	0	—12
Lumber and bldg. mat'ls	7	+6	+11	5	+21	+17
Plumbing & heating supplies	4	—12	—0	3	—5	—12
Refrigeration equipment	6	+6	+30	6	—3	—4
Confectionery	6	+12	+7	.	..	.
Drugs and sundries	10	+9	+9	3	—3	+17
Dry goods	17	+20	+4	12	+4	—21
Groceries—Full-line	39	+3	+13	28	—3	—5
" Specialty lines	10	+10	+19	6	—5	—4
Tobacco products	9	—3	+13	6	+8	+10
Miscellaneous	15	—6	+5	11	—2	+4
Total	162	+1	+11	100	—1	—8

*Based on U. S. Department of Commerce Figures.

DEPARTMENT STORE SALES AND INVENTORIES*

	Percent Change				
	Sales			Inventories	
	July 1952 from		Yr.-to-Date	July 31, 1952, from	
Place	June 1952	July 1951	1952-1951	June 30 1952	July 31 1951
ALABAMA	—20	+2	+7	—1	—3
Birmingham	—21	—4	+4	+2	+1
Mobile	—18	+17	+15	.	.
Montgomery	—15	+4	+6	.	.
FLORIDA	—14	+12	+5	+1	—3
Jacksonville	—14	+12	+7	—5	—2
Miami	—12	+10	+2	+2	—2
Orlando	—16	+6	+4	.	.
St. Petersburg	—14	+11	+9	+8	—4
Tampa	—12	+16	+10	.	.
GEORGIA	—17	+10	+6	+1	—10
Atlanta**	—14	+7	+2	+0	—15
Augusta	—24	+32	+28	.	.
Columbus	—20	+13	+8	—2	—1
Macon	—25	+2	+5	+0	—8
Rome**	—19	+9	+2	.	.
Savannah**	—19	+21	+19	.	.
LOUISIANA	—8	+16	+9	+3	—11
Baton Rouge	—13	+12	+5	+8	—8
New Orleans	—8	+16	+9	+1	—12
MISSISSIPPI	—16	+2	+4	+1	—16
Jackson	—18	+1	+3	+4	—19
Meridian**	—9	+2	+1	.	.
TENNESSEE	—16	+4	+2	+2	—10
Bristol**	—24	—5	—4	—2	—5
Bristol-Kingsport-Johnson City**	—19	—7	—6	.	.
Chattanooga	—10	+18	+4	.	.
Knoxville	—15	—7	—4	+0	—12
Nashville	—21	+9	+9	+0	—7
DISTRICT	—15	+10	+7	+1	—8

*Includes reports from 122 stores throughout the Sixth Federal Reserve District.
**In order to permit publication of figures for this city, a special sample has been constructed which is not confined exclusively to department stores. Figures for any such non-department stores, however, are not used in computing the District percentage changes.

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met without a noticeable rise in employment and production. On balance, unless there is a sharper increase in demand for textile products than has been apparent so far, or unless over-all demands for consumer goods rise more than usual, industrial credit needs probably will be below seasonal expectations.

Consumer Instalment Bank Credit

Throughout most of 1951, commercial banks in the Sixth District reduced their instalment loans to consumers, partly because of consumer credit controls and voluntary credit restraint. Beginning in October 1951, however, the trend was reversed. Loans to finance automobile purchases advanced sharply in May and June, following the lifting of Regulation W, while more moderate gains occurred in each component of total consumer instalment credit.

Such credit at commercial banks can be expected to rise in the latter part of the year as is true of instalment receivables at District department, furniture, and household appliance stores. The rapid growth in consumer instalment credit during the last few months has exceeded seasonal expectations, but it cannot be maintained during the remainder of the year unless the recent high level of purchases of major consumer durables is continued.

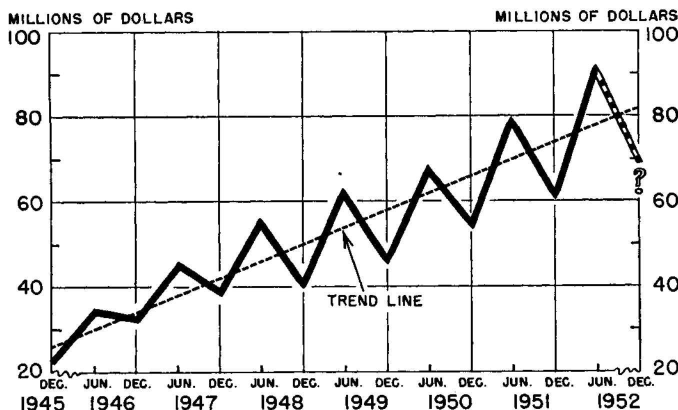
Farm Credit

For the last few years, farmers in the Sixth District have been using increasing amounts of bank credit. This has been a natural result of rising production costs as well as of farmers' efforts to improve their facilities for production. The 13-percent gain in total agricultural loans by District member banks from June 1951 to June 1952 reflects such demands for credit. The components of agricultural loans—production loans and farm real estate loans—show increases of 15 and 5 percent, respectively.

The pronounced seasonal pattern for agricultural production loans has consistently varied from a high in June to a low in December. The pattern for the last 10 years shows December to be about 23 percent below the June peak. This highly seasonal demand for loans is strongly influenced by the District's row crop agriculture.

When the seasonal variation and long-time trend are taken into account, the expected volume of production loans by member banks would be about 70 million dollars in December 1952—a decline of 21 million dollars from the

FARM LOANS NOT SECURED BY REAL ESTATE
Sixth District Member Banks



Sixth District Statistics

CONDITION OF 27 MEMBER BANKS IN LEADING CITIES
(In Thousands of Dollars)

Item	Aug. 20 1952	July 16 1952	Aug. 15 1951	Percent Change August 20, 1952, from July 16 1952	Aug. 15 1951
Loans and investments—					
Total	2,852,231	2,891,496	2,620,952	—1	+9
Loans—Net	1,103,054	1,133,130	1,066,709	—3	+3
Loans—Gross	1,122,889	1,152,963	1,085,078	—3	+3
Commercial, industrial, and agricultural loans	627,144	640,555	615,595	—2	+2
Loans to brokers and dealers in securities	13,144	19,077	12,580	—31	+4
Other loans for purchasing or carrying securities	43,939	55,974	35,790	—22	+23
Real estate loans	92,108	91,578	89,650	+1	+3
Loans to banks	3,514	2,785	10,312	+26	—66
Other loans	343,040	342,994	321,151	+0	+7
Investments—Total	1,749,177	1,758,366	1,554,243	—1	+13
Bills, certfiicates, and notes	765,055	791,269	683,892	—3	+12
U. S. bonds	722,105	717,303	643,487	+1	+12
Other securities	262,017	249,794	226,864	+5	+15
Reserve with F. R. Bank	513,458	518,955	481,452	—1	+7
Cash in vault	46,989	45,432	43,504	+3	+8
Balances with domestic banks	226,346	231,021	215,519	—2	+5
Demand deposits adjusted	2,086,327	2,090,876	1,969,881	—0	+6
Time deposits	552,194	550,779	526,043	+0	+5
U. S. Gov't deposits	170,130	211,703	75,695	—20	*
Deposits of domestic banks	587,348	586,025	568,972	+0	+3
Borrowings	16,000	24,500	11,750	—35	+36

*More than 100 percent.

DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Place	July 1952	June 1952	July 1951	Percent Change July 1952 from June 1952	July 1951	Yr.-to-Date 7 Mos. 1952 from 1951
ALABAMA						
Anniston	28,729	32,261	26,747	—11	+7	+4
Birmingham	403,910	419,393	388,426	—4	+4	+6
Dothan	16,667	16,428	17,184	+1	—3	—1
Gadsden	22,137	21,258	21,583	+4	+3	+1
Mobile	167,918	168,629	162,379	—0	+3	+3
Montgomery	88,077	83,919	79,458	+5	+11	+3
Tuscaloosa*	29,044	29,498	27,941	—2	+4	—0
FLORIDA						
Jacksonville	382,218	391,352	332,275	—2	+15	+5
Miami	319,615	321,660	280,867	—1	+14	+8
Greater Miami*	500,400	487,699	431,248	+3	+16	+9
Orlando	73,755	76,381	63,122	—3	+17	+8
Pensacola	48,123	48,180	40,426	—0	+19	+14
St. Petersburg	82,921	78,004	67,371	+6	+23	+10
Tampa	162,630	174,614	143,104	—7	+14	+4
GEORGIA						
Albany	33,793	32,842	31,462	+3	+7	+7
Atlanta	1,149,249	1,120,226	1,019,619	+3	+13	+5
Augusta	95,390	90,678	77,387	+5	+23	+15
Brunswick	11,218	12,051	12,020	—7	—7	+2
Columbus	75,276	80,147	69,055	—6	+9	+10
Elberton	4,121	4,987	3,793	—17	+9	+4
Gainesville*	25,603	23,298	20,723	+10	+24	+15
Griffin*	12,355	12,312	11,132	+0	+11	+3
Macon	77,499	76,216	70,112	+2	+11	+4
Newnan	9,927	10,839	11,090	—8	—10	—1
Rome*	25,276	23,397	22,018	+8	+15	—3
Savannah	118,578	118,552	106,298	+0	+12	+4
Valdosta	24,629	17,081	23,426	+44	+5	+16
LOUISIANA						
Alexandria*	43,742	48,842	38,941	—10	+12	+11
Baton Rouge	122,863	115,865	112,965	+6	+9	+4
Lake Charles	51,481	53,118	44,011	—3	+17	+13
New Orleans	875,938	864,408	812,472	+1	+8	+8
MISSISSIPPI						
Hattiesburg	19,294	19,481	17,794	—1	+8	+5
Jackson	170,045	163,396	148,714	+4	+14	+6
Meridian	30,884	30,120	28,181	+3	+10	+2
Vicksburg	29,784	28,676	28,939	+4	+3	+23
TENNESSEE						
Chattanooga	179,154	181,625	178,231	—1	+1	—1
Knoxville	124,833	127,041	133,676	—2	—7	—9
Nashville	433,796	417,092	375,641	+4	+15	+7
SIXTH DISTRICT						
32 Cities	5,434,452	5,396,520	4,927,828	+1	+10	+6
UNITED STATES						
342 Cities	146,984,000	144,769,000	124,425,000	+2	+18	+6

*Not included in Sixth District totals.

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June 1952 peak of 91 million. The probability is, however, that there will be an estimated 10 percent above normal carryover of loans by District bankers to ease the strain on farmers whose crops suffered in the drought.

Cotton prices are likely to remain strong throughout the marketing season this fall, with the result that farmers may place less cotton under loan with banks. The expected increase in loans outstanding arising from the drought, however, will more than offset the decline in bank lending on cotton. Production loans, therefore, probably will not decline to the expected level, based on the long-run trend and normal seasonal movement.

Farm real estate loans in the District have been increasing at a rate of about 7 percent each year. This rate of increase will probably continue during the remainder of 1952, but because of seasonal influences real estate loans probably will decline slightly during the last half of the year.

Total agricultural loans during the last half of the year probably will decrease somewhat less than the 23-million dollar decline which might be expected on the basis of seasonal variation and long-run trends.

Implications

No changes in business conditions likely to greatly reduce the seasonal increase in the demand for credit at District banks are evident at present. A growing demand for trade and industrial loans and consumer loans will in all likelihood offset decreasing credit demands for construction and farm production expenses, as has been true in the past. That the total demand for loans during the remainder of 1952 will rise, therefore, is fairly certain.

Many of the factors that have offset the ordinary seasonal decline during the first part of the year and which might be expected to augment the demand for loans during the remainder of this year are losing some of their strength. Because of slow collections, merchants need more credit to finance a given amount of credit sales, but unless they reverse their present inventory policy, they will not need more than the usual total amount of credit. At banks the growth in consumer credit, which was greatly responsible for the growth in total loans this year, resulted chiefly from the stepped-up buying of consumer durable goods after the elimination of consumer credit controls. A continuation of such a rapid rate of sales expansion is at best problematical. Loans to purchase or carry securities, important in explaining the past growth in total loans at the larger banks, are more likely to diminish than to increase since most of them were made to finance nonbank purchases of the Treasury's bond issue of July. There has apparently been no movement to build up inventories on the part of the principal Sixth District manufacturers.

The strength of other factors can only be tested as the year progresses. The full effects of the recent drought on farmers' ability to pay off production loans, for example, is still uncertain. Whether or not consumer buying during the remainder of the year will follow the pattern set in May and June, when sales were rising more than seasonally, or that set in July, when sales declined somewhat, will be an important consideration in establishing inventory policies during the remainder of the year. Another uncertainty is whether or not an expansion greater than that experienced recently by the textile industry will raise credit demands from this important bank borrower.

Sixth District Indexes

1947-49 = 100

DEPARTMENT STORE SALES AND STOCKS*

Place	Adjusted**			Unadjusted		
	July 1952	June 1952	July 1951	July 1952	June 1952	July 1951
DISTRICT SALES	120	138	113r	96	117	90r
Atlanta[1]	119	135	115r	92	110	89r
Baton Rouge	101	122	94	88	105	82
Birmingham	94	118	102	80	105	86
Chattanooga	117	129	103	98	114	86
Jackson	108	135	111	85	108	88
Jacksonville	107	125	99	91	110	85
Knoxville	98	121r	110	88	108r	99
Macon	125	164	126	99	136	99
Miami	123	136	116	91	107	86
Nashville	109	130	104	86	113	82
New Orleans	121	128	109	97	110	87
Tampa	116	129	105	99	116	89
DISTRICT STOCKS	129	125	140	121	120	132

[1]In order to permit publication of figures for this city, a special sample has been constructed which is not confined exclusively to department stores. Figures for any such non-department stores, however, are not used in computing the District Index.

GASOLINE TAX COLLECTIONS

Place	Adjusted**			Unadjusted		
	July 1952	June 1952	July 1951	July 1952	June 1952	July 1951
SIX STATES	149	153	145	146	154	142
Alabama	145	145	139	142	151	136
Florida	150	147	142	139	147	132
Georgia	148	148	154	143	151	149
Louisiana	155	164	151	152	167	148
Mississippi	163	167	164	159	172	159
Tennessee	147	144	138	148	146	139

COTTON CONSUMPTION*

Place	July 1952	June 1952	July 1951
TOTAL	84	104	101
Alabama	81	120	98
Georgia	86	95	104
Mississippi	101	117	87
Tennessee	82	101	95

ELECTRIC POWER PRODUCTION*

	June 1952	May 1952	June 1951
SIX STATES	154	146	133
Hydro-generated	90	84	89
Fuel-generated	203	202	172

MANUFACTURING EMPLOYMENT

Place	June 1952	May 1952	June 1951
6 States Adj.	106	107	107
6 States Unadj.	105	107	106
Alabama	93	105	105
Florida	114	117	111
Georgia	111	111	110
Louisiana	102	100	99
Mississippi	110	108	108
Tennessee	107	106	105

CONSTRUCTION CONTRACTS

Place	July 1952	June 1952	July 1951
DISTRICT	235	246r	214
Residential	193	192r	221
Other	267	287r	208
Alabama	220	193	159
Florida	222	229	166
Georgia	291	281	215
Louisiana	160	166	330
Mississippi	125	110	100
Tennessee	277	347	286

CONSUMERS PRICE INDEX***

Item	July 1952	June 1952	July 1951
ALL ITEMS	197	195	190
Food	238	231	230
Clothing	207	209	210
Fuel, elec., and refrig.	143	143	143
Home furnishings	205	204	210
Misc.	175	175	166
Purchasing power of dollar	.51	.51	.53

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	July 1952	June 1952	July 1951
Unadjusted	20.7	22.8	22.4
Adjusted**	21.8	23.9r	23.6
Index**	113.2	124.1r	112.5

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	July 1952	June 1952	July 1951
Unadjusted	134r	135r	128
Adjusted**	134	136r	128

*Daily average basis
**Adjusted for seasonal variation
***1935-39 = 100
r Revised

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