MONTHLY REVIEW

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SIXTH · FEDERAL RESERVE · DISTRICT · TENN · ALA · GA · MISS · LA · FLA

FEDERAL RESERVE BANK OF ATLANTA

JANUARY 1970

The Southeast: At the Turn of the Decade

The curtain has come down on what had been heralded as the "Soaring Sixties" even before the decade began. Has this prediction come true as far as the economy of the Southeast is concerned? On the surface, the answer is a resounding "yes." By almost every statistic, the economy of the Sixth District states—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee—experienced fantastic growth in the Sixties. Personal income, the best regional yardstick available, more than doubled—from nearly $34 billion in 1959 to more than $71 billion in 1969.

Southeastern economic growth looks less spectacular when one takes population growth into account and considers that other regions have also experienced considerable economic growth over the last ten years. Per capita income in the Southeast has inched only slightly closer to the national average. If, as some Southerners believe, the Southeast should accelerate its long-term growth rate, the Sixties did, in fact, fall short of such a goal. Per capita income, relative to the rest of the country, increased much less rapidly in the Sixties than in the Fifties. Between 1949 and 1959, per capita income in the Southeast climbed from 66 percent of the national average to 75 percent. In 1969, it averaged about 78 percent.

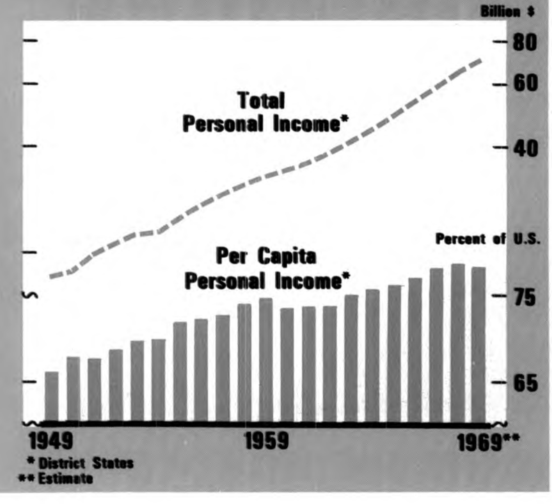
Knowing this is only part of the story. Why did the economic growth curve in the Southeast fail to outdistance the Fifties? And what did happen to the Southern economy toward the end of the Sixties? This article, and others in this issue, will fill in the gaps of knowledge about the last year of the Sixties; the longer-run changes will be discussed in future issues of the *Review*.

1969: What Kind of Year?

Looking back on the past year, economic performance was remarkably rapid on the surface. Personal income in the District was up about nine percent from 1968, according to this Bank's preliminary estimates. While later figures may affect the rankings of the six individual District states, Florida is almost certain to show the largest rate of gain.

Upon closer inspection, income gains were smaller than they appear, since the dollar in 1969 bought less than it did in 1968. Prices during the two previous years had increased too, following a period of relative price stability during a good part of the Sixties.

The Southeast in 1969 continued on its long-term growth path.



If Atlanta typifies the Southeast, consumer prices last year increased more than five percent, thus wiping out better than one-half of the Southeast residents' income gains. If the increase in prices is taken into account, average income gains are up only four percent instead of nine.

Production workers were particularly hard-hit by inflation. In 1969, average weekly earnings in Southern factories increased to $109 from $103 in 1968, based on eleven months' data. When one considers the increase in prices, the typical factory worker was actually no better off than he was in 1968.

At present, he and everyone else are still the victims of inflation, as prices continue to rise rapidly. But excessive spending, which deserves part of the blame for inflation, has begun to slow down. Southerners, as well as other Americans, have bought fewer automobiles recently. By the same token, home building has fallen off. The articles to follow present additional evidence to indicate that by late 1969 overall business activity here, as in other parts of the country, had slowed.

Response to Monetary Restraint

This condition is encouraging to those who have sought, so far as is possible through monetary means, to bring about a more orderly economic growth. The Federal Reserve in 1969 set that as its major goal of policy. To be precise, it was in December 1968 that the Federal Reserve intensified its policy of credit restraint. The reduced gains in total member bank reserves in the early part of 1969 and the outright decline in reserves later in the year have been the direct result of System operations. These measures have been aimed at curtailing the lending and investing ability of commercial banks. More basically, they were adopted to bring the demand for the economy's resources closer in line with its ability to produce, thereby moderating inflationary pressures.

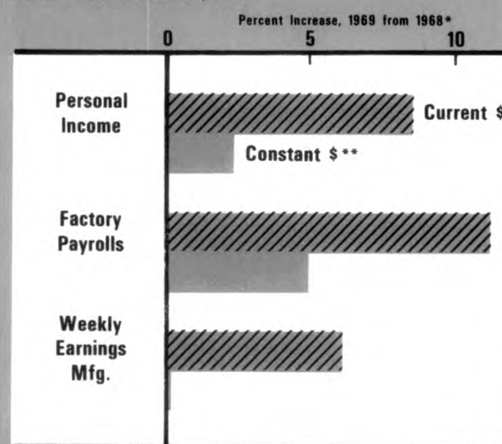
How responsive the region's banks and other savings institutions have been to Federal Reserve actions is discussed in other articles appearing in this *Review*. At any rate, it has been through monetary means that the Federal Reserve indirectly—along with fiscal restraint and other influences—helped to restrain the over-ebullient spending activity of the region's economy. That the economy now shows signs of a less feverish pace indicates that these efforts seem at long last to be succeeding.

The Future

What have we learned that will help us assess the future? Looking at last year's experience, we found, in the first place, that inflation does not necessarily bring rapid gains in living standards. Secondly, the record of 1969 shows that when inflationary pressures are extremely strong, it takes a long time before they can be effectively slowed.

Looking at the more distant past, we are reminded that periods of rapidly rising prices eventually come to an end. And when they do, recessions do not necessarily follow. For example,

Income gains evaporated to a considerable extent when allowance is made for the increase in prices.



* For District States, based on first ten months' payroll and earnings data.
** After adjusting for the increase in Atlanta's consumer price index.

price pressures, measured by wholesale prices, eased up during most of 1967; yet, the country did not slip into recession. Closer to home, Southerners (as well as other Americans) found their purchasing power between 1957 and 1964 to have changed relatively little from year to year. That only one of these was a recession year also shows that we can have a stable dollar without recession.

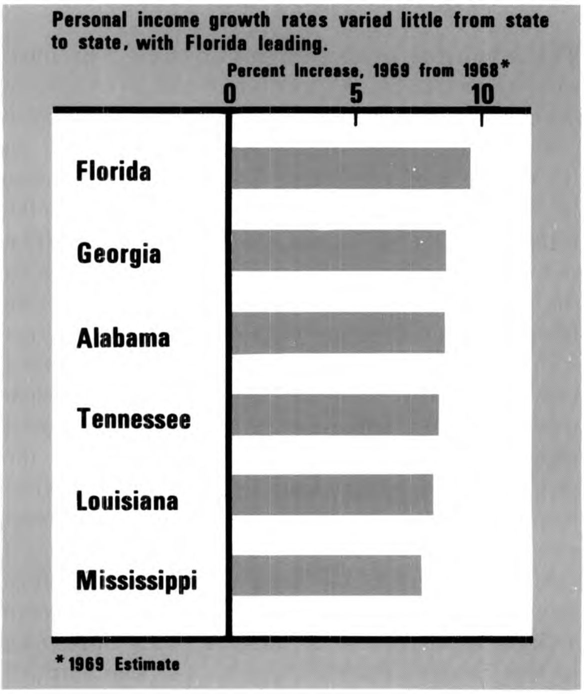
Still, for various reasons, some observers—basing their conclusions in part on how many inflationary booms in the past have ended—predict a downturn in 1970. Should this prediction prove to be correct, history of a decade ago will repeat itself. A recession here, as elsewhere, began in early 1960; it lasted about a year. That also turned out to be the last economic slump this country has had. Having escaped from this fate for such a long time is, of course, no assurance that the American people will have the wisdom and persistence to insure that a recession will never happen again. Indeed, there is food for thought in finding the Sixties have ended, as they began, on a note of uncertainty.

HARRY BRANDT

Industrial Pace Slows

Like the rest of the country, the Southeast started off 1969 with a bang. This was consistent with economic conditions found elsewhere in the nation.

If employment can be taken as a proxy of industrial output, then the Southland in the first six months experienced increasing activity in important manufacturing sectors such as primary metals, transportation equipment, food processing, and paper products. This, of course, generated increased payrolls and income which were then translated into demand for services, retail merchandise, and other goods. The record indicates that personal income did move forward along with employment in the supporting industries that benefited from rising incomes.



Midyear-itis

About midyear, however, the economic picture increased in ambiguity. Employment gains in paper products, food processing, and transportation equipment began to taper while the South's important textile and lumber products industries continued to follow a leveling trend, which began the first six months. On the other hand, employment in primary and fabricated metals industries continued to rise in the second half of 1969, but even this shows evidence of tapering as order backlogs are filled.

These developments were accompanied by definite signs of cooling in the trade and service industries. This is to be expected as personal income growth falters and the spending mood abates. Department store sales became less robust than they were in 1968 and early 1969. Consumers, aware of rising prices and tapering income gains, became increasingly cautious and selective as they shopped in retail stores and kicked tires in the new car lots. These developments are accented by consumer credit statistics which showed new installment extensions at commercial banks in late 1969 to have fallen below year-earlier levels. At the same time, consumers have stepped up repayments in an attempt to contain the size of their debts.

In several parts of the Southeast, it is evident that construction got "zapped" by the restrictions on financing. In Georgia, construction employment in the second half remained approximately even with 1968 levels. In Louisiana, however, there was a decline in construction employment when chemical plant construction abruptly decelerated—partly in response to rising costs of labor and materials.

Down to Earth

The cutback in aerospace activities took its toll in Southeast employment, contributing to midyear moderation. Already the layoffs at Cape Kennedy have substantively affected the community of Cocoa Beach, Florida. The labor force in Brevard County shrank approximately seven percent during the year, and the unemployment rate, though still low, doubled. In that county, employment fell in practically every industrial sector. Reportedly, this depressed the market for homes and exerted downward pressure on property values.

In Huntsville, Alabama, de-emphasis of the space program resulted in a significant decline in ordnance and service employment, but as new industry moved into the area, this was largely countered by impressive gains in machinery, fabricated metals, and other durable goods. The labor market remains tight, although there is an abundant pool of college-trained people in the area.

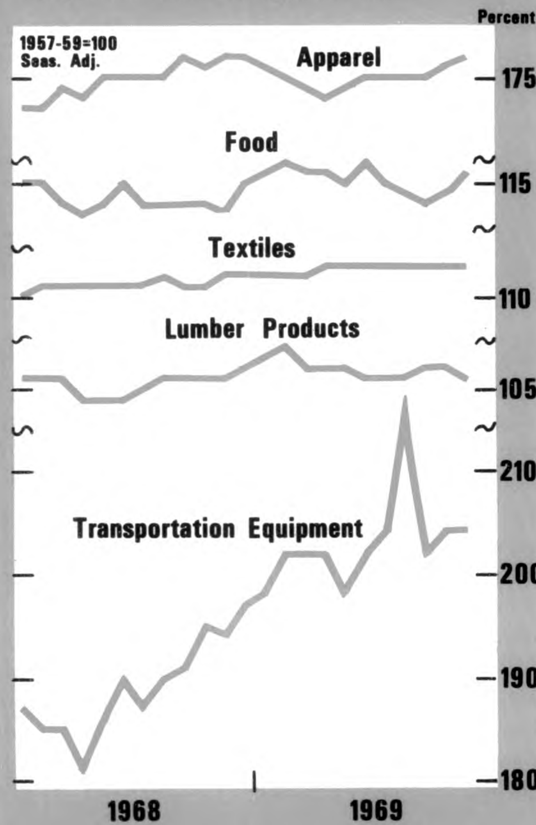
New Orleans felt the pinch of further aerospace de-escalation as employment continued to fall in ordnance, bringing the total decline in that industry to about 2,000 as of late 1969.

The Biloxi-Gulfport area of Mississippi got hit with a double "whammy" in 1969. Associated with the aerospace slowdown was an employment dropoff at the Mississippi Testing Facility. This was followed in August by Hurricane Camille, which destroyed the homes of many of the workers who were living in Pass Christian and other hard-hit communities.

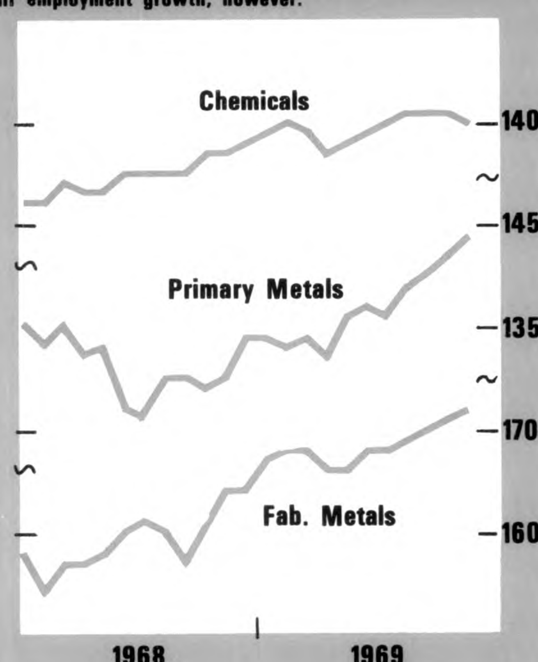
Camille eliminated some 6,000 jobs in such Biloxi-Gulfport area industries as food processing, apparel, stevedoring, trade, services, and self-employed fishing. Unemployment soared up to almost 17 percent, but in September most of the industries were back in operation. Many of the remaining idled workers found employment in the debris clean-up and rebuilding activities.

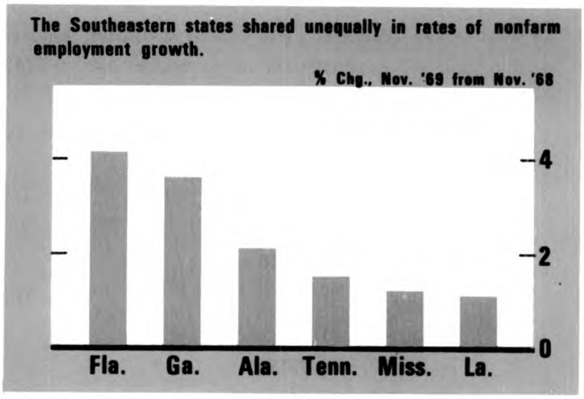
Uncle Sam's economy moves in the defense sector were felt in the South during the year as defense contracts showed sharp decreases during the second half of 1969 as compared with the same period in 1968. In the Atlanta area, the

In most of the Southeast's five leading industries, employment growth either tapered off in the second half of 1969, or employment remained below previous levels.



Several important manufacturing sectors showed second-half employment growth, however.





Lockheed Company was jolted by a "Dear John" from the Air Force, which cut orders of the C-5 cargo plane from 115 to 81. The potential direct and indirect employment effects of this could be several thousand. In order to avoid sharp cutbacks in production and employment, the company must beat the bushes for other customers such as private airlines or friendly foreign governments. On the brighter side, Atlanta is a large and diversified metropolitan area, and many workers idled by such defense cutbacks should be assimilated into other industries. Ordnance, transportation equipment, and electrical equipment employment throughout the South have been affected by similar defense cutbacks.

A Depressant of a Local Nature

The General Electric strike that started in late October idled about 2,000 workers in the deep South—mostly in Rome, Georgia, and Jackson, Mississippi. As the region and the nation move into the new year, there is every expectation that wage and cost pressures are increasing since negotiations in a number of important industries are forthcoming. From the cost-push point of view, this can be expected to add fuel to the fires of inflation.

Remaining Signs of Strength

It would be a mistake to conclude, on the basis of the foregoing evidence, that the Southland stepped onto the "downalator" in the second half of 1969. Most industries either leveled off or slowed slightly in their rate of growth. A bastion of strength was the primary metals industry where employment continued to gain significantly on into the fourth quarter. Nonfarm employment, both in manufacturing and nonmanufacturing, uptrended through the year, indicating a sustained growth in demand for labor and the goods produced by labor. Less definite signals came from manufacturing workweek figures where decreases started showing up in the second quarter of the year and continued into the third, only to confuse the seers by spurting upward in September and leveling in October and November.

On balance, economic activity in the South remained quite ebullient in 1969, and upward pressures on prices continued unabated. But the ebullience was not so singular in all quarters. The diminishing increases in personal income were matched by a weakening in both employment gains and working hours.

As the South entered the new year, the economic bang was a little muffled but could still be heard.

Robert E. Willard

Banking Responds to Monetary Restraint

Member banks in the Sixth Federal Reserve District began 1969 in a position of liquidity which had been built up before the Reserve System embarked on a course of monetary restraint in late 1968. Throughout 1969, banks adjusted to Federal Reserve actions and to demand pressures for credit.

During the first half of this past year, District banks expanded their total loans and investments about as much as during the same period in 1968 and relatively more than in the nation. Yet, there is no denying that the banks were under pressure to maintain their lending, as declines in deposits caused them to lose reserves. In order for loans to be made, banks sold securities, many of which had just been added to bank portfolios in late 1968. They also turned to augmenting their lending capacity by borrowing Federal funds from other banks. In addition, discount window accommodation increased slightly. In response to rising market interest rates and expanding loan demand, large banks raised their prime lending rate from 6¼ percent to 7 percent. This happened during three successive changes in late 1968 and early 1969. Another hike brought the prime lending rate to 7½ percent in March.

Lending Activity Begins to Moderate

Since June, the expansion of bank credit has shown a noticeable leveling-off. The effects of restrictive monetary actions taken earlier in the year began to be felt. Weak deposit inflows in the first half of the year turned into declines during the second half. Chiefly responsible for this were substantial losses in time and savings deposits.

Following a sharp rise in the prime commercial paper rate in early June, most major banks boosted the prime rate a full percentage point to a record 8½ percent. The expansion of loans continued at a reduced rate through the fall but rebounded in December after a November decline. To maintain even this degree of lending, banks in this region, like those elsewhere, were forced to sell off their investments in a far larger volume than in the first half of 1969. U. S. Government securities, sold to some extent at a loss, made up the bulk.

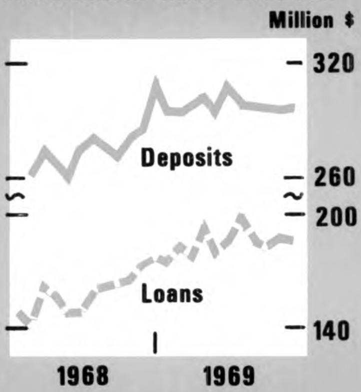
Confronted with losses on the sale of investments, increasing costs for borrowed funds, deposit runoffs, and heavy loan demands, many banks by midsummer tightened conditions on which they were willing to extend loans to applicants. Required compensating balances were more strictly enforced. Banks became less willing to make long-term loans and loans to buy securities and real estate. In many instances they turned down requests for funds to acquire other businesses. New loan applicants, and especially those outside the local service area, fared less well in getting loans than did previously established and local customers.

Banks Acquire Funds from Nondeposit Sources

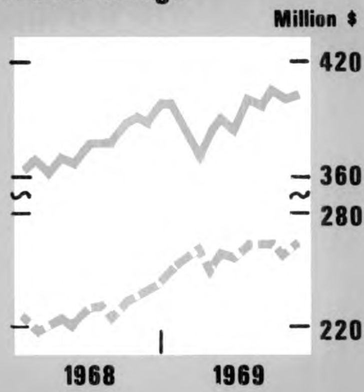
To some degree, these changes in lending policy were in response to the Federal Reserve's efforts to curtail bank credit expansion. Banks have

Banking Statistics

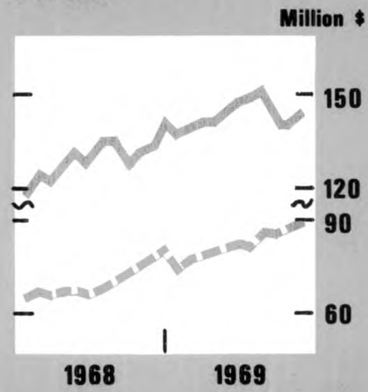
Alexandria-Lake Charles



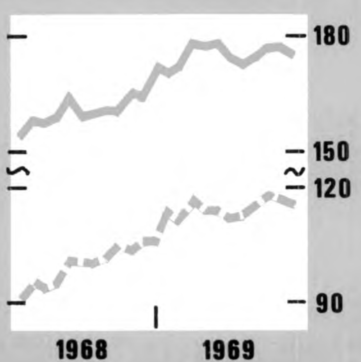
Baton Rouge



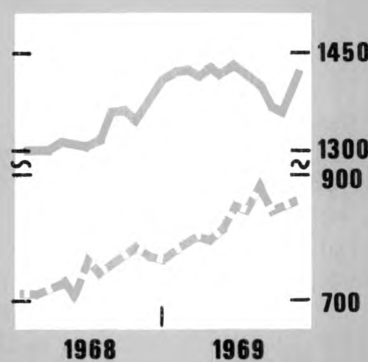
Dothan



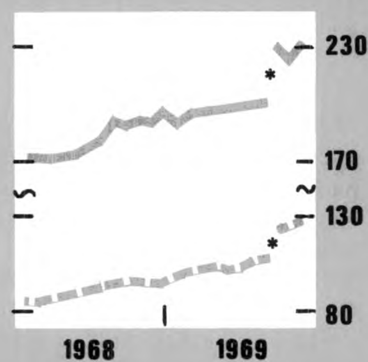
Anniston-Gadsden



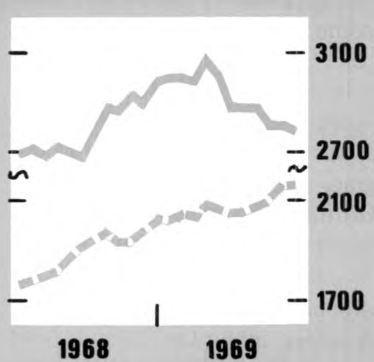
Birmingham



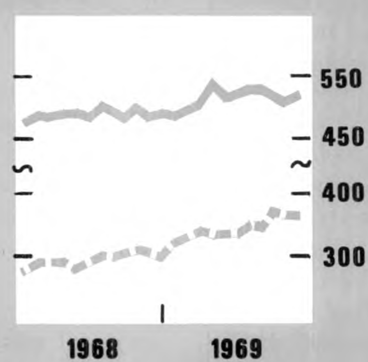
Hattiesburg-Laurel-Meridian



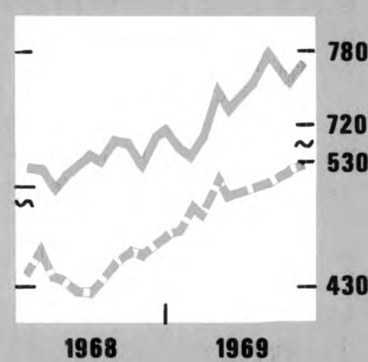
Atlanta



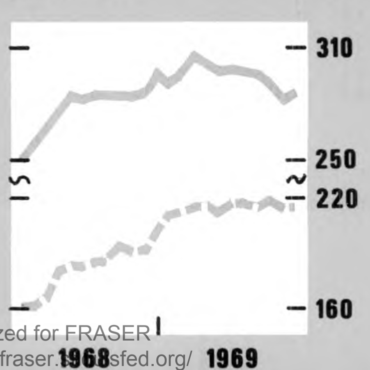
Chattanooga



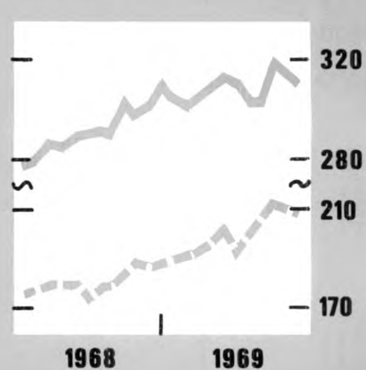
Jackson



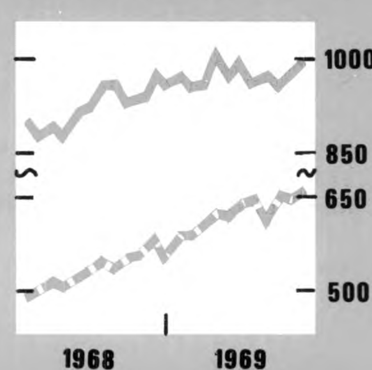
Augusta



Columbus

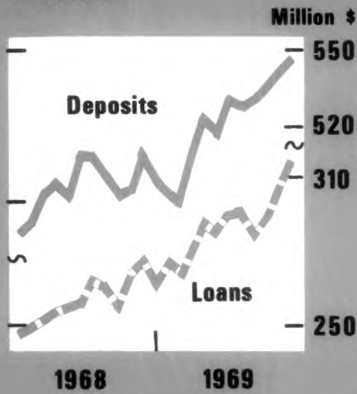


Jacksonville

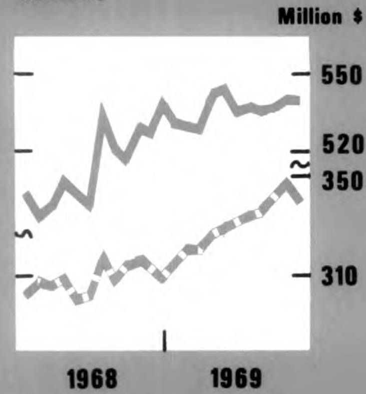


* New Series

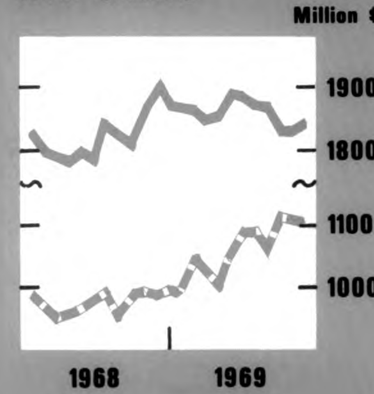
Knoxville



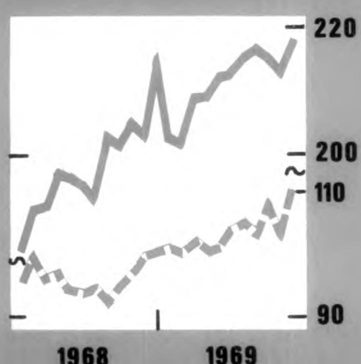
Mobile



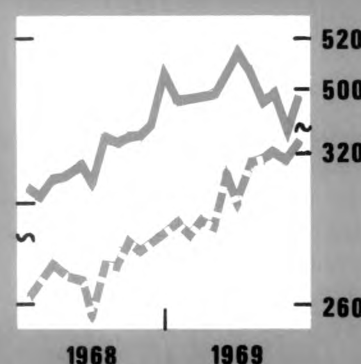
New Orleans



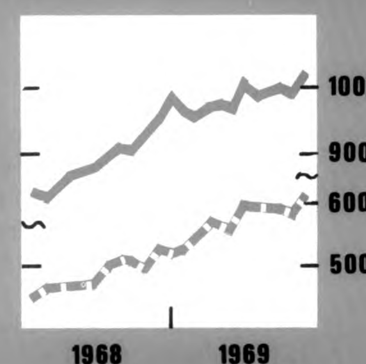
Lafayette-Iberia-Houma



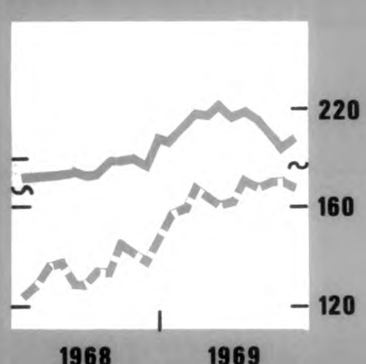
Montgomery



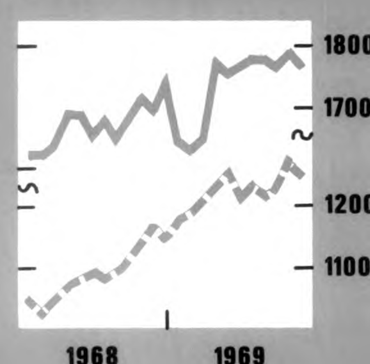
Orlando



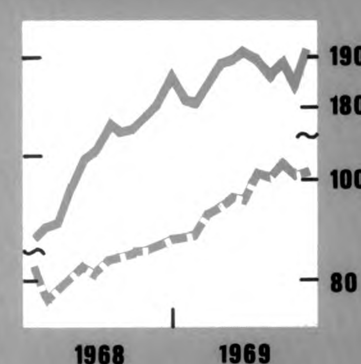
Macon



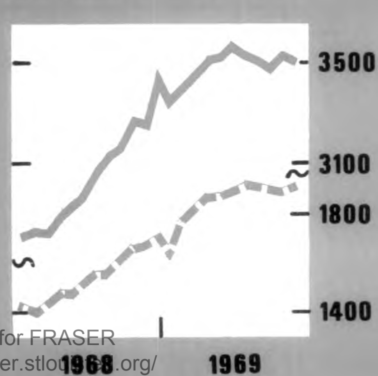
Nashville



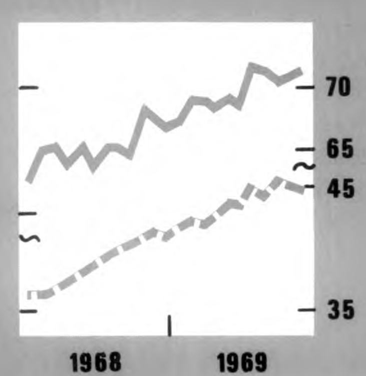
Pensacola



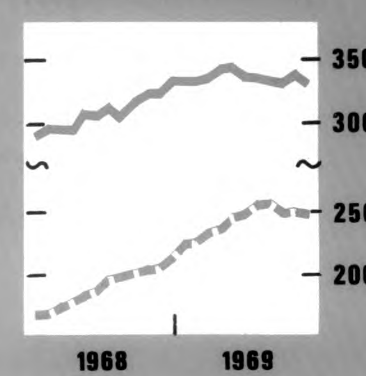
Miami

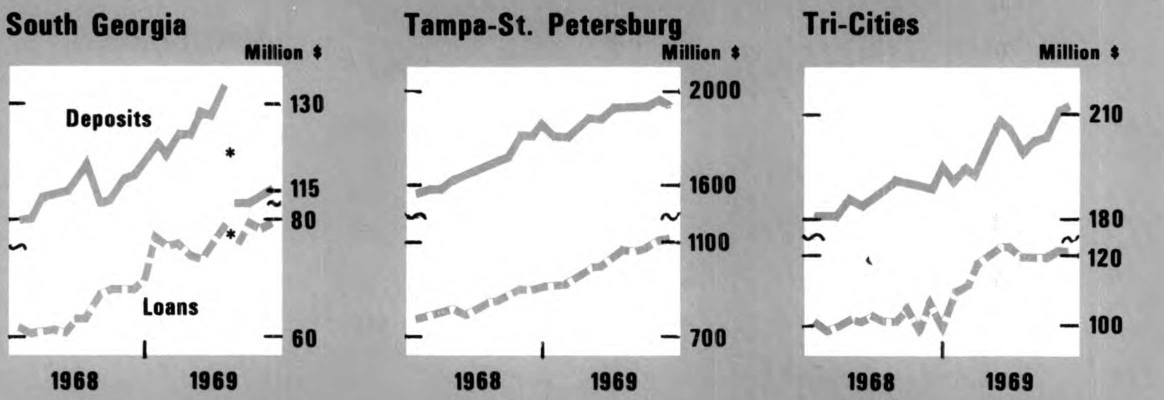


Natchez



Savannah





*New Series

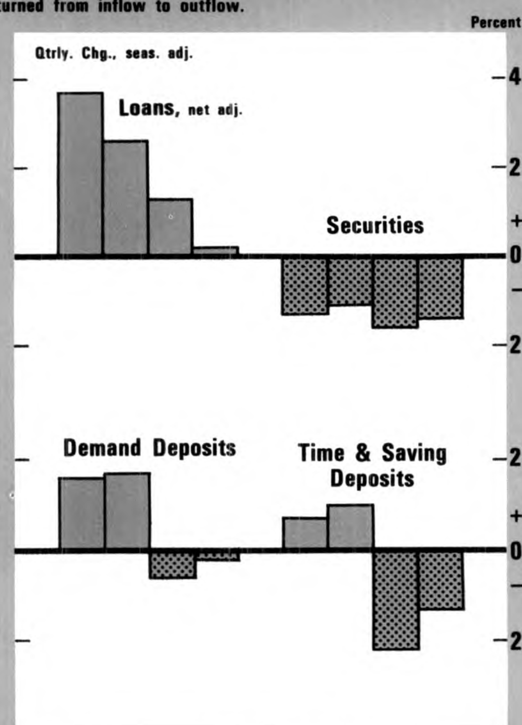
Note: All figures are seasonally adjusted and are shown by trade and banking areas. The areas include several counties surrounding central cities.

found it difficult to retain time deposits and compete for new funds. Although interest rates on competing financial instruments rose substantially, member banks were limited (under Regulation Q) by the Board of Governors of the Federal Reserve System as to how much they could increase their rates on time deposits. The greatest deposit losses, therefore, were in negotiable time certificates of deposit issued in denominations of $100,000 and more. Though 1969, the large commercial banks in the District lost 36 percent of the $657 million in certificates of this type held at the first of the year. In Atlanta, where the competition of the national money market is most keenly felt, the decline has been proportionately more severe.

The loss of deposits has caused some District banks, like those nationally, to turn to nontraditional methods of acquiring funds through nondeposit sources. The sale of loans under repurchase agreements (the bank sells a loan with the understanding that it will buy back the loan, thus protecting the purchaser from any capital loss) provided one method early last summer for banks to pay more than the 6¼-percent maximum rate on certificates of deposit. When this practice began to involve a substantial source of funds for banks, the Board of Governors in late July moved to bring this form of bank liability under reserve and interest regulations. Since then, sales under repurchase agreements have decreased in use.

With the curtailment of one nondeposit source of funds, some banks began to rely more heavily on the sale of short-term commercial paper. In late October, the Board became concerned over the volume of commercial paper outstanding and restricted its sale by banks and their affiliates.

District member banks had in 1969 gradually slowed down their loan expansion and stepped up their sale of securities. Deposits turned from inflow to outflow.



Note: Fourth quarter figures are preliminary estimates.

The Board also indicated that it is considering regulating commercial paper sales by the banks' parent holding company.

The Impact of Restraint is Varied

While few banks, if any, have escaped the influence of Federal Reserve actions and have generally tightened credit conditions, individual banks have been affected differently, depending upon size and location. The reserve city banks had been losing deposits since January, and the decline accelerated after July. As a result, these banks reduced their rate of lending after June and began selling off investments in increasing amounts. In addition, they stepped up their purchases of Federal funds and their usage of nondeposit sources of funds. Country banks, on the other hand, managed to increase deposits throughout the first half of 1969. They have been particularly successful in holding on to their time and savings deposits, which carry a lower reserve requirement than demand deposits. Encouraged by the high interest rates earned on Federal funds, the country banks lent large amounts of such overnight reserves, but since midsummer, these banks were pressed to hold deposits. Their lending activity since August, therefore, moderated somewhat.

The very large rebound in total deposits in Tennessee last spring was accounted for by the nearly 18-percent increase in time deposits. Time deposits made a rapid reversal after the Tennessee legislature enacted new legislation which took effect in April 1969. This allowed Tennessee banks to pay the maximum interest rates established by the Board of Governors.

Not only were banks of different location and size being differently affected, so were the volume and types of loans made. Rapidly expanding demands for commercial and industrial loans help explain why lending for these purposes rose more in 1969 than in 1968. Credit extended to manufacturing concerns, public utilities, and the service industry was especially large. Since midyear, real estate loans and lending for construction purposes have slackened relative to a year ago. These loans are typically among the most sensitive to changed credit conditions.

JOHN M. GODFREY

Bank Announcements

The **Second National Bank of North Miami Beach,** North Miami Beach, Florida, a newly organized member bank, opened on December 10. Officers are Alfred W. Slobusky, president; Jack Hanish, vice president; and Anthony P. Cassinelli, vice president and cashier. Capital is $300,000; surplus and other capital funds, $450,000.

CHANGE IN PAR STATUS

Effective January 1, 1970, checks drawn on all banks in Georgia may be cleared through the Federal Reserve System at par. This is the result of legislation passed by the Georgia General Assembly last spring.

Agriculture Shows Mixed Behavior

The agricultural sector has experienced a year of mixed blessings. Soaring prices and increasing production bolstered income from livestock. But many cash crops suffered from a series of weather extremes that ranged from hot and dry to wet and windy. Farmers continued to expand their use of credit in spite of sharply higher interest rates, but reports of loan delinquencies increased as the old year bowed out.

Livestock

The brisk pace in the general economy was reflected by rapidly rising livestock prices and reduced supplies throughout the first half of the year. Even though total production increased during the last half of 1969, prices held up well. Cash receipts from livestock sales were up strongly from 1968 levels.

Rising cattle and hog prices led the price advance for the livestock and products group through June. Slaughter of livestock in the District lagged behind year-ago figures, however. Pork production baffled forecasters by remaining below the 1968 volume through much of the year, in spite of the most attractive hog prices in recent years. Cattle and calf slaughter was also down, although cattle production did not decline. High feeder cattle prices apparently reduced the number of veal calves and grass-fed cattle that were slaughtered locally, and large numbers of cattle were shipped to feed lots outside the District for finishing prior to slaughter.

Unlike pork and beef, District poultry production increased from 1968 levels as the year progressed. Prices held up well through most of the year as chickens shared in the brisk demand for meat products throughout the economy.

Egg production was largely unchanged from year-earlier levels, although egg prices were highly volatile. At year's end, prices moved sharply upward, giving a healthy boost to incomes of egg producers. November prices averaged nearly eight cents per dozen higher than the October level and seven cents higher than in November 1968.

Milk production was also largely unchanged from the 1968 level. Although per capita consumption of milk continued to decline, prices to farmers increased as the year's low price averaged seventeen cents per cwt. higher than the low point of a year ago.

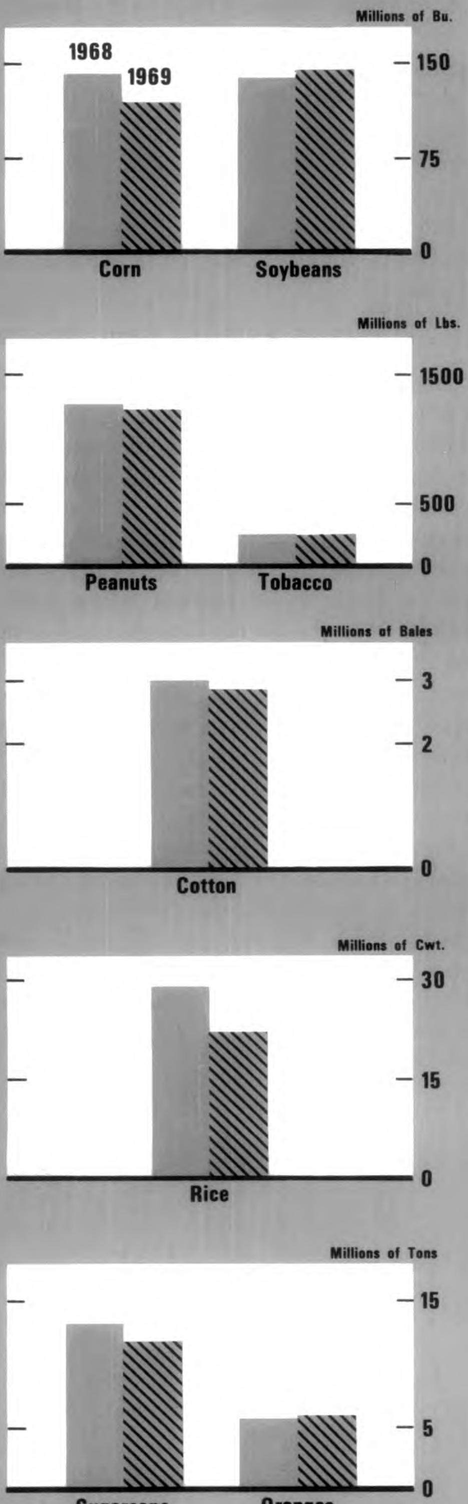
Crops

On balance, 1969 was considerably less favorable than 1968 for crop production. A variety of extreme weather conditions plagued cash crop producers. Intensely hot, dry weather in the late spring severely cut corn production throughout the District. Extended summer drought and high temperatures in Louisiana and Mississippi reduced cotton, rice, and soybean yields. Nevertheless, soybean production held up well because of exceptionally good crops in Georgia and Florida. But the moisture that improved soybean yields in the Southeast created late season rank growth and reduced yields in the cotton crop.

The dry, hot weather in Louisiana took its toll on two important crops—sugarcane and rice. Price increases resulting from a high sucrose content of the harvested cane partially offset the effects of reduced yields on income to sugarcane farmers. Rice acreage allotments were also cut in 1969; however, the reduction in per acre yields resulted in a more than proportionate decline in rice production.

Peanut and tobacco crops compared favorably

Production of cash crops in the District was generally lower in 1969.*



* 1969 production levels are November 1, 1969, estimates of the U.S.D.A. Crop Reporting Board.

with 1968 levels of production. Prices of these crops also have held up well in 1969, contributing to a year of good income for these particular farmers.

In contrast to many crops, Florida citrus production is reported to be the largest on record. The bumper crop has depressed prices from a year ago, however, placing a damper on incomes.

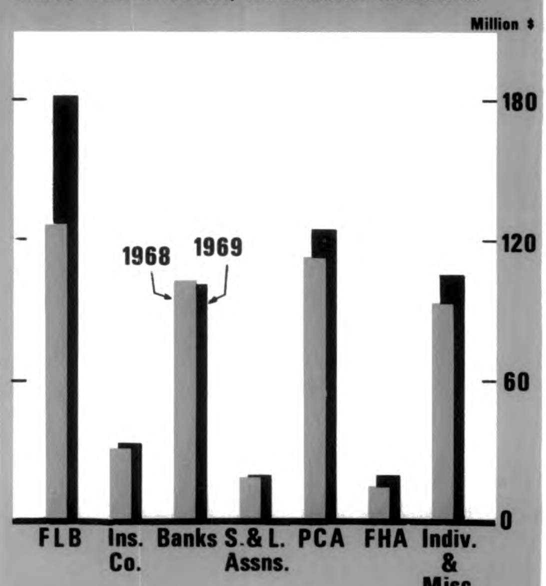
Hurricane Camille, the most intense storm ever to hit the U. S. mainland, came ashore on August 11. As it whirled its way over the Gulf Coast near the Mississippi and Louisiana border, it inflicted extensive damage on crops in its pathway. Tung trees were left split, gnarled, and uprooted, and the nut crop was literally blown away. Timber was splintered, broken, and flattened over an area of two million acres. Although most of the damaged trees were salvable for pulpwood, dollar losses in terms of potential marketable uses were expected to be extremely large.

Wind-inflicted damages to row crops in the inland pathway of the storm were offset somewhat by beneficial rains accompanying Camille. However, much of the pecan crop along the Mississippi and Alabama coasts was lost.

Credit

Farmers continued to expand their use of credit, at least during the first half of 1969. If com-

Although total farm real estate credit in the Southeast* showed a sizable increase, not all lenders shared in it.

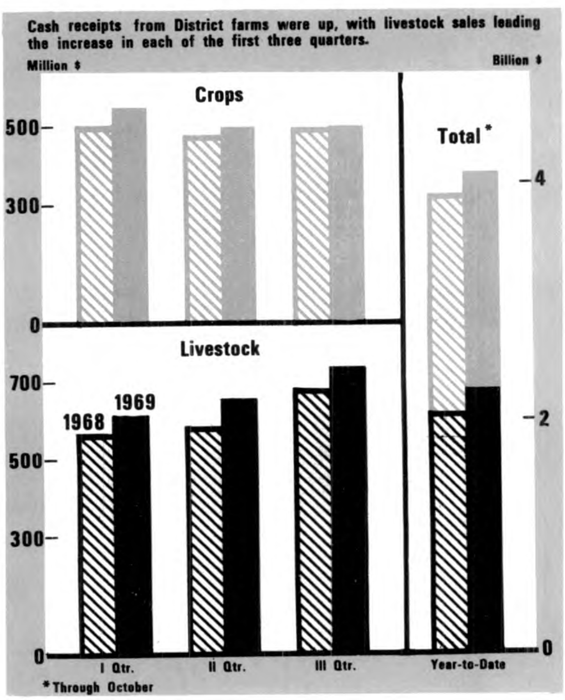


*The Southeastern states deviate from the six District states by including the Carolinas and excluding Tennessee.

pared with previous years, some effects of credit restraint were evident in the slower rate of growth in credit usage. Other evidence of credit tightening was the shift of new loan volume away from banks and insurance companies to lenders whose supply of funds is not as directly restricted by tight credit policies. However, all agricultural borrowers felt the brunt of rising costs of money. They paid sharply higher interest rates for loans from all sources of credit. The willingness of farmers to continue borrowing at higher costs for expansionary purposes was, perhaps, indicative of the continued profitability of using borrowed funds.

Farm Income

Farmers' income, as indicated by combined cash receipts for crop and livestock marketings, has shown substantial growth over a year ago. Increases were particularly sharp in the first and second quarters of 1969, reflecting larger receipts from both livestock and crops. In the third quarter, livestock receipts were still increasing. Crop income, however, began to dwindle when the reduced production of weather-damaged crops became noticeable. Although the cumulative total of cash receipts through October 1969 was still 5 percent larger than during the same period in 1968, the October volume of cash receipts from crops was 5 percent below the comparable month in 1968. Reduced harvests of crops make further reductions in late 1969 crop incomes virtually certain.



Cash receipts from District farms were up, with livestock sales leading the increase in each of the first three quarters.

Effects of Reduced Crop Income

The impact of reduced crop incomes began to be felt toward the year's end, especially in the Mississippi Delta areas. Bankers and other lending agencies have reported an unusually high incidence of carryovers from 1969 crop loans to farmers. The failures to repay on schedule are resulting from localized crop yields which averaged as much as 50 percent below 1968 levels. Reports from the South Georgia corn production area indicate that two successive years of debilitating drought have brought loan carryovers to the point where extensive long-term debt refinancing is needed.

Although demand for credit is likely to become even more intense as a result of reduced incomes in 1969, crop farmers will probably find more lender reluctance awaiting them when they attempt to borrow for the 1970 crop. The future appears much brighter for livestock producers, however. Favorable returns in 1969 will probably encourage expansion and result in increased output and greater incomes from all types of livestock in 1970.

Gene D. Sullivan

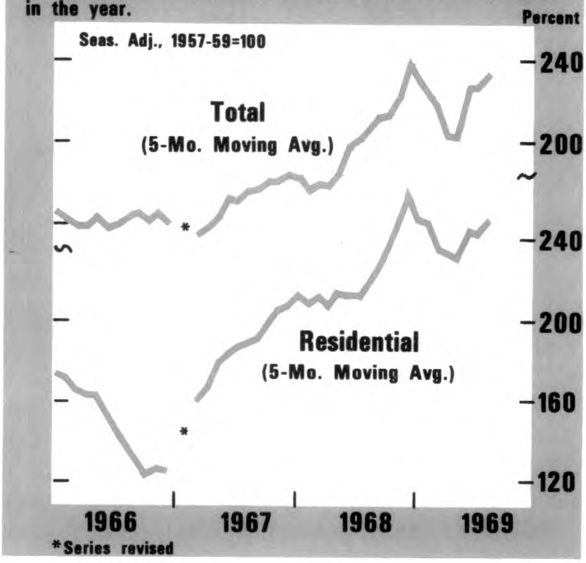
Construction Continues Strong

Rising interest rates and the declining rate of credit expansion contributed to a slowdown in construction during 1969. This slowing was much less, however, than one would ordinarily expect in an area of expenditure as sensitive to credit restriction as construction. Construction activity in dollars and measured by seasonally adjusted construction contracts was 14 percent higher in the first eleven months of 1969 than during the same period in 1968. This exceeded a 9 percent increase in the nation as a whole. Most of these increases are the result of higher prices; yet, the District and the nation showed small increases in the number of units constructed.

Although total construction volume increased in 1969, monthly construction activity, when allowance is made for seasonal change, peaked at the beginning of 1969, after climbing steeply in late 1968. It dipped early in the year, then ascended in late Spring to a high plateau. It remained on this plateau through October but decreased slightly in November.

When compared with changes in construction activity during the tight money period of 1966, the region's 1969 construction performance appeared quite strong. This is particularly true for the residential sector of the industry. The 1969 decline in activity in this sector was considerably smaller than it was in 1966. This decline reflects weakness in construction of one-to-four unit structures. On the other hand, building of five-or-more unit structures increased and kept total residential construction activity from a decline of considerably greater proportions.

Construction contract volume receded from its 1968 boom but continued to perform strongly after a brief dip early in the year.

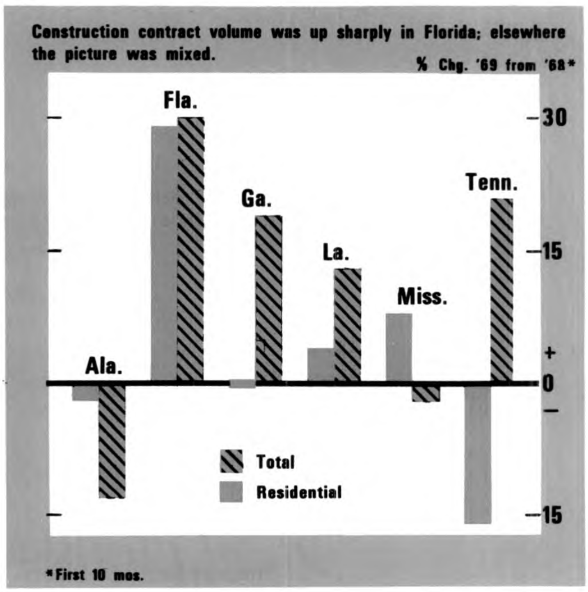


*Series revised

Nonresidential construction took up some of the slack left by declining residential construction. Part of this was accounted for by continued strength in private capital spending. Increases in public projects, such as roads, water and sewer systems, electric generating facilities, schools, and hospitals, also added to nonresidential expenditures. The largest of this latter group was a $300-

million electric generating facility in Hamilton County, Tennessee. It accounted for more than 30 percent of the dollar value of nonresidential construction contracts in that state in the first eleven months of 1969. When nonresidential construction was added to residential activity, construction remained strong—with consistently larger gains during the first eleven months of 1969 than in 1966.

The strength of total construction in 1969 was not evenly distributed among Southeastern states or areas within these states. Of all District states, Florida achieved the greatest growth in nonresidential and residential construction. Its strength offset weak performances by other states, particularly in residential construction.



The continuing boom in large apartment and condominium building in South Florida pushed the dollar value of residential construction in Florida from slightly over one-third in the years 1963-68 to almost one-half of the total of the volume of residential construction in the Sixth District states. Leading this boom were the Miami area, where residential construction during the first eleven months of 1969 was almost two-thirds above its volume in the same period in 1968, and the Tampa-St. Petersburg area, where the increase was one-third. Outside Florida, residential construction strength was found in the Savannah, Georgia, and Mobile, Alabama, metropolitan areas, both of which approximately doubled residential construction volume for the first eleven months of 1969 as compared with the same period in 1968. The performance of most other areas outside Florida was weak, however. Knoxville, Tennessee, and Birmingham, Alabama, showed the greatest declines. Residential construction was off about one-third in each.

Bases of Construction Strength

In spite of restricted credit, there has been continued strength in the construction sector of this region's economy. This reflects a combination of strong demand and changes in the institutions and methods by which construction is financed. The stock of residential units and the capacity of manufacturers' capital were put under pressure in 1969. Operating in many cases at near plant capacity, manufacturers were under pressure to expand plants or build new ones. At the same time, higher incomes, growing population, and vacancy rates which were down from low 1968 levels, intensified demand for additional units of housing.

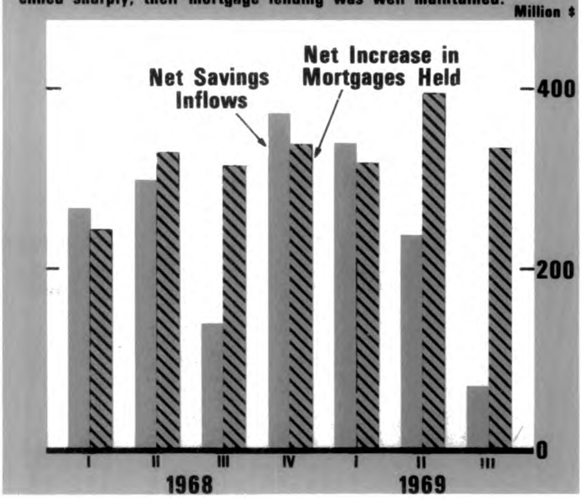
Demand was further intensified by expectations of rising construction costs. Because of these expectations, purchasers of houses and other construction were motivated to accelerate their purchases in an attempt to beat the gun on the next round of cost increases.

Within the region, Florida presented a special demand factor. The state has experienced continuing migration from other areas and increased income for its residents. The Florida population has thus gained a large number of people whose age, income, and asset levels make them prime customers for housing. Nonresidents' demand for second homes in Florida has also been an important factor in its housing market. These developments strengthened Florida housing demand which, as noted earlier, has become a dominant force in the Southeast.

Prospective buyers in the construction sector found financing more expensive and more difficult to obtain during 1969. Modified institutions and financing methods, however, prevented declines in availability of credit for construction from being as abrupt as in the past. Builders of multi-unit dwellings and of other rental buildings, such as shopping centers, managed to compete more effectively for funds through agreements which provide lenders with a share of the rental earnings of the project, as well as providing them with the usual interest payments. Mortgage investment trusts allowed increased channeling of funds through equity capital markets into construction financing.

Deposit flows into commercial banks and savings and loan associations, cash flows to life insurance companies, and loan commitments to mortgage bankers were significantly slowed in this region, as elsewhere, when yields on securities of the U.S. Government, Federal agencies, states and municipalities, and corporations rose to record highs. The difficulties which faced these important mortgage lenders were reduced, however, by active mortgage market support from the Federal Home Loan Banks and the Federal National Mortgage Association. The activity of both of these organizations was an important factor in keeping residential construction expenditures on the one-to-four unit structures from paralleling its precipitous 1966 decline. The Federal Home Loan Banks, by reducing liquidity requirements and providing advances to savings and loan associations, have allowed these important residential lenders to maintain lending levels even in the face of decreased savings flows. At the same time, the Federal National Mortgage Association substantially increased its commitments to buy FHA and VA mortgages. The total value of commitments in the nation rose from about $800 million in the third quarter of 1968 to $2.1 billion in the third quarter of 1969. These commitments provide private mortgage lenders with a sure method of disposal of new mortgages when necessary; thus, they have aided in securing private funds for residential construction. Regional residential mortgage lenders took advantage of this

Even though savings inflows by savings and loan associations declined sharply, their mortgage lending was well maintained.



support to make up some of the difference between their declining private savings flows and strong demand for mortgage and construction loans. Yet, as 1970 began, they were faced with large potential losses of lending capacity and were doubtful of their ability to sustain last year's lending volume.

BOYD F. KING

ANNOUNCEMENT

The Federal Reserve System paid the U. S. Treasury $3,019,000,000 during 1969. Under a policy adopted by the Board of Governors at the end of 1964, the Federal Reserve Banks' net earnings (after statutory dividends to member banks and additions to surplus) are turned over to the U. S. Treasury as interest on Federal Reserve notes. The Reserve Banks' net earnings in 1969 amounted to $3,097 million; dividends $39 million; and additions to surplus, $39 million.

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, 1957-59 = 100, unless indicated otherwise.)

	Latest Month 1969		One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Personal Income (Mil. $, Annual Rate)	Oct.	N.A.	N.A.	71,792	65,682
Manufacturing Payrolls	Nov.	250	249	249	229
Farm Cash Receipts	Oct.	155	143	177	133
Crops	Oct.	112	98	167	104
Livestock	Oct.	188	186	178	161
Instalment Credit at Banks* (Mil. $)					
New Loans	Nov.	319.0	329.7	325.8	339.1
Repayments	Nov.	297.3	297.9	287.4	292.9
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Nov.	149	149	148	144
Manufacturing	Nov.	147	146	146	143
Apparel	Nov.	177	176	175	177
Chemicals	Nov.	140	141	141	137
Fabricated Metals	Nov.	172	171	170	164
Food	Nov.	116	114	113	112
Lbr., Wood Prod., Furn. & Fix.	Nov.	106	107	107	106
Paper	Nov.	129	128	128	126
Primary Metals	Nov.	144	142	140	130
Textiles	Nov.	113	113	113	112
Transportation Equipment	Nov.	204	204	202	194
Nonmanufacturing†	Nov.	149	149	149	144
Construction	Nov.	139	140	140	134
Farm Employment	Nov.	56	52	49	60
Unemployment Rate (Percent of Work Force)†	Nov.	3.8	3.7	3.7	3.9
Insured Unemployment (Percent of Cov. Emp.)	Nov.	1.8	2.0	1.9	1.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.9	40.8	41.1	41.1
Construction Contracts*	Nov.	200	211	196	226
Residential	Nov.	216	249	217	233
All Other	Nov.	187	179	178	220
Electric Power Production**	Oct.	164	161	160	150
Cotton Consumption**	Oct.	100	103	99	101
Petrol. Prod. in Coastal La. and Miss.**	Nov.	233	234	251	215
FINANCE AND BANKING					
Loans*					
All Member Banks	Nov.	335	334	331	296
Large Banks	Nov.	282	281	276	259
Deposits*					
All Member Banks	Nov.	229	227	226	222
Large Banks	Nov.	189	189	189	190
Bank Debits*/**	Oct.	275	271	269	235
ALABAMA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	N.A.	N.A.	8,874	8,209
Manufacturing Payrolls	Nov.	212	216	211	193
Farm Cash Receipts	Oct.	118	131	177	105
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Nov.	131	131	130	128
Manufacturing	Nov.	134	133	132	130
Nonmanufacturing	Nov.	130	130	130	128
Construction	Nov.	126	127	126	124
Farm Employment	Nov.	63	54	51	64
Unemployment Rate (Percent of Work Force)†	Nov.	4.0	4.0	4.2	4.5
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.8	41.2	40.9	41.3
FINANCE AND BANKING					
Member Bank Loans	Nov.	300	299	294	267
Member Bank Deposits	Nov.	215	209	212	211
Bank Debits**	Nov.	239	227	225	219
FLORIDA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	N.A.	N.A.	22,303	19,886
Manufacturing Payrolls	Nov.	336	331	329	298
Farm Cash Receipts	Oct.	222	196	178	162
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Nov.	170	170	170	163
Manufacturing	Nov.	169	168	170	167
Nonmanufacturing	Nov.	170	170	170	163
Construction	Nov.	131	132	134	116
Farm Employment	Nov.	90	84	78	94
Unemployment Rate (Percent of Work Force)†	Nov.	2.8	2.7	2.6	2.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	41.5	41.1	41.4	41.9
FINANCE AND BANKING					
Member Bank Loans	Nov.	378	373	374	326
Member Bank Deposits	Nov.	263	260	258	246
Bank Debits**	Nov.	294	293	282	248
GEORGIA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	N.A.	N.A.	14,117	12,904
Manufacturing Payrolls	Nov.	268	262	260	242
Farm Cash Receipts	Oct.	149	156	156	132
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Nov.	150	149	148	145
Manufacturing	Nov.	143	142	142	139
Nonmanufacturing	Nov.	153	153	152	147
Construction	Nov.	148	149	148	145
Farm Employment	Nov.	48	52	45	48
Unemployment Rate (Percent of Work Force)†	Nov.	3.3	3.2	3.4	3.4
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.4	40.8	41.5	40.9
FINANCE AND BANKING					
Member Bank Loans	Nov.	344	343	341	309
Member Bank Deposits	Nov.	236	236	236	241
Bank Debits**	Nov.	322	327	319	269
LOUISIANA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	N.A.	N.A.	10,125	9,377
Manufacturing Payrolls	Nov.	193	191	191	182
Farm Cash Receipts	Oct.	164	116	245	150
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Nov.	134	134	134	132
Manufacturing	Nov.	123	123	123	123
Nonmanufacturing	Nov.	136	137	137	134
Construction	Nov.	136	137	135	143
Farm Employment	Nov.	51	52	45	58
Unemployment Rate (Percent of Work Force)†	Nov.	5.6	5.3	5.0	5.2
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	42.0	41.9	41.8	40.5
FINANCE AND BANKING					
Member Bank Loans*	Nov.	270	274	275	242
Member Bank Deposits*	Nov.	179	178	178	179
Bank Debits*/**	Nov.	207	204	203	196
MISSISSIPPI					
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	N.A.	N.A.	5,304	5,135
Manufacturing Payrolls	Nov.	265	265	270	255
Farm Cash Receipts	Oct.	131	101	184	120
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Nov.	147	147	147	145
Manufacturing	Nov.	156	157	157	157
Nonmanufacturing	Nov.	144	143	143	141
Construction	Nov.	159	156	159	147
Farm Employment	Nov.	45	38	34	52
Unemployment Rate (Percent of Work Force)†	Nov.	4.7	4.5	4.7	4.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.9	40.5	41.0	41.5
FINANCE AND BANKING					
Member Bank Loans*	Nov.	407	403	396	353
Member Bank Deposits*	Nov.	273	268	272	253
Bank Debits*/**	Nov.	315	283	301	251

TENNESSEE	Latest Month 1969		One Month Ago	Two Months Ago	One Year Ago
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	N.A.	N.A.	11,069	10,171
Manufacturing Payrolls	Nov.	240	242	239	221
Farm Cash Receipts	Oct.	121	126	149	120
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Nov.	147	147	146	145
Manufacturing	Nov.	155	156	155	149
Nonmanufacturing	Nov.	143	142	142	136
Construction	Nov.	170	166	164	165
Farm Employment	Nov.	57	51	53	61
Unemployment Rate (Percent of Work Force)†	Nov.	3.9	3.7	3.7	4.1
Avg. Weekly Hours in Mfg. (Hrs.)	Nov.	40.7	40.1	40.5	40.9
FINANCE AND BANKING					
Member Bank Loans*	Nov.	317	319	312	288
Member Bank Deposits*	Nov.	206	206	203	194
Bank Debits*/**	Nov.	278	273	279	253

*For Sixth District area only. Other totals for entire six states. **Daily average basis. †Preliminary data. r-Revised. N.A. Not available

Sources: Personal income estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U.S. Dept. of Labor and cooperating state agencies; cotton consumption, U.S. Bureau of Census; construction contracts, F. W. Dodge Corp.; petrol. prod., U.S. Bureau of Mines; industrial use of elec. power, Fed. Power Comm.; farm cash receipts and farm emp., U.S.D.A. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.

Debits to Demand Deposit Accounts

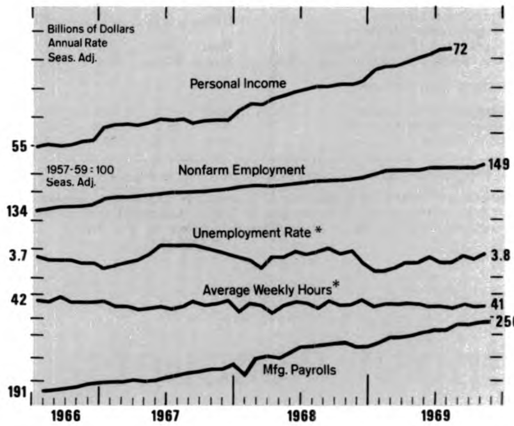
Insured Commercial Banks in the Sixth District

(In Thousands of Dollars)

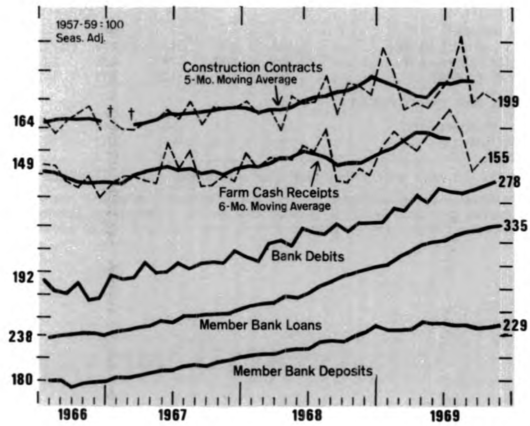
	November 1969	October 1969	November 1968	Percent Change: November 1969 From Oct. 1969	Percent Change: November 1969 From Nov. 1968	Percent Change: Year to date 11 mos. 1969 from 1968
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham	1,702,253	1,919,166	1,719,574	−11	− 1	+ 8
Gadsden	66,123	72,505	65,972	− 9	+ 0	+ 4
Huntsville	191,343	224,896	195,323	−15	− 2	+ 6
Mobile	592,488	638,570	512,565	− 7	+16	+13
Montgomery	349,216	395,066	333,887	−12	+ 5	+11
Tuscaloosa	119,162	134,769	111,946	−12	+ 6	+14
Ft. Lauderdale—Hollywood	979,708	1,120,002	814,672	−13	+20	+30
Jacksonville	1,769,752	2,021,659	1,692,722	−12	+ 5	+15
Miami	3,384,575	3,707,019	2,897,751	− 9	+17	+19
Orlando	667,996	777,739	608,862	−14	+10	+11
Pensacola	213,455	261,797	203,692	−18	+ 5	+11
Tallahassee	188,134	187,497	162,890	+ 0	+15	+18
Tampa—St. Pete.	1,879,741	2,199,811	1,621,435	−15	+16	+21
W. Palm Beach	556,534	616,788	482,089	−10	+15	+23
Albany	104,887	118,065	97,042	−11	+ 8	+10
Atlanta	6,784,007	7,623,742	5,838,595	−11	+16	+20
Augusta	282,727	335,953	278,644	−16	+ 1	− 2
Columbus	257,619	301,117	229,663	−14	+13	+15
Macon	311,033	329,130	271,867	− 5	+14	+17
Savannah	293,235	357,808	298,594	−18	− 2	+ 9
Baton Rouge	735,198	720,779	594,488	+ 2	+24	+ 8
Lafayette	145,595	172,250	144,754	−15	+ 0	+15
Lake Charles	157,451	178,302	162,584	−12	− 3	+ 6
New Orleans	2,348,985	2,872,795	2,467,946	−18	− 5	+ 3
Biloxi—Gulfport	179,693	179,876	118,757	− 0	+51	+20
Jackson	880,608	934,492	758,162	− 6	+16	+13
Chattanooga	780,045	836,096	625,584	− 7	+25	+20
Knoxville	518,500	621,096	510,883	−17	+ 1	+ 9
Nashville	1,907,892	2,019,117	1,900,789	− 6	+ 0	+15
Anniston	70,375	84,606	74,015	−17	− 5	+ 5
Dothan	84,247	93,226	71,491	−10	+18	+17
Selma	55,426	57,485	50,494	− 4	+10	+ 7
Bartow	33,718	35,559	35,117	− 5	− 4	+ 8
Bradenton	80,818	98,280	74,982	−18	+ 8	+16
Brevard County	193,520	223,599	216,266	−13	−10	− 4
Daytona Beach	102,152	110,878r	87,345	− 8	+17	+ 6
Ft. Myers—N. Ft. Myers	111,027	128,132	111,480	−13	− 0	+28
Gainesville	100,667	115,425	102,863	−13	− 2	+ 9
Lakeland	140,928	178,122	122,939	−21	+15	+15
Monroe County	34,278	39,550	38,438	−13	−11	+ 3
Ocala	83,629	87,365	64,642	− 4	+29	+31
St. Augustine	21,335	34,045	21,726	−11	− 2	+14
St. Petersburg	396,816	480,630	356,065	−17	+11	+20
Sarasota	174,806	185,214	128,381	− 6	+36	+28
Tampa	1,038,662	1,192,410	866,020	−13	+20	+22
Winter Haven	67,138	77,293	64,205	−13	+ 5	+12
Athens	89,674	103,620	86,116	−13	+ 4	+13
Brunswick	49,434	54,131	45,771	− 9	+ 8	+12
Dalton	124,364	129,767	110,484	− 4	+13	+16
Elberton	17,780	16,954	14,089	+ 5	+26	+13
Gainesville	77,287	91,845	67,803	−16	+14	+11
Griffin	38,148	42,344	36,376	−10	+ 5	+ 4
LaGrange	18,033	23,629	20,486	−24	−12	+ 9
Newnan	22,669	25,039	23,216	− 9	− 2	− 2
Rome	88,273	98,779	87,160	−11	+ 1	+10
Valdosta	62,785	64,247	54,814	− 2	+15	+ 8
Abbeville	11,982	14,092	12,779	−15	− 6	+ 7
Alexandria	150,945	173,149	162,208	−13	− 7	+15
Bunkie	8,747	9,749	9,673	−10	−10	+13
Hammond	39,674	46,030	38,134	−14	+ 4	+10
New Iberia	37,872	44,578	30,517	−15	+24	+11
Plaquemine	13,005	14,878	14,723	−13	−12	+ 6
Thibodaux	23,212	24,996	25,403	− 7	− 9	+ 9
Hattiesburg	69,912	82,828	62,380	−16	+12	+17
Laurel	44,190	56,268	39,240	−21	+13	+18
Meridian	94,528	95,498	67,400	− 1	+40	+25
Natchez	41,617	46,997	40,742	−11	+ 2	+11
Pascagoula—Moss Point	82,823	91,194	70,861	− 9	+17	+22
Vicksburg	48,289	51,446	46,223	− 6	+ 4	+ 6
Yazoo City	28,728	28,723	29,879	− 0	− 4	− 4
Bristol	84,902	98,773	78,239	−14	+ 9	+14
Johnson City	95,642	108,625	79,300	−12	+21	+16
Kingsport	161,385	188,949	167,027	−15	− 3	+ 9
SIXTH DISTRICT Total	37,855,999	43,508,152r	34,606,477	−13	+ 9	+15
Alabama‡	4,506,785	5,055,952	4,346,036	−11	+ 4	+ 8
Florida‡	12,198,333	13,810,978r	10,836,357	−12	+13	+19
Georgia‡	10,090,371	12,257,344r	8,896,641	−18	+13	+17
Louisiana†*	4,285,753	4,968,360	4,271,162	−14	+ 0	+ 6
Mississippi†*	1,924,809	2,034,542	1,615,220	− 5	+19	+14
Tennessee†*	4,849,948	5,380,976	4,641,061	−10	+ 5	+16

*Includes only banks in the Sixth District portion of the state. †Partially estimated. ‡Estimated. r-Revised.

District Business Conditions



*Seas. adj. figure; not an index.



†New series.

Business expansion generally continued to simmer down. Consumer credit remained weak in November. Falling construction employment became a salient characteristic of the building industry. Despite slight increases in nonfarm employment and manufacturing payrolls, unemployment climbed higher in November. Farm cash receipts were larger than a year ago, reflecting sharp gains in livestock income. Bank credit rose in December, reversing a November contraction.

Bank lending declined in November, but then expanded during the first three weeks of December. Business lending by large commercial banks accounted for much of this expansion. The heaviest business borrowing was by the service and retail trade sectors. There was a strong inflow of demand deposits during the first half of December. The attrition of large time certificates of deposit accelerated in December since many maturing certificates were not renewed.

Reflecting a lackluster trend of consumer activity, new consumer credit instalment volume was down from October and less than in November 1968. Leading the decline were sharp reductions in automobile paper and repair and modernization loans. Repayments also fell behind month-ago and year-ago levels. Preliminary indications are that department store activity, on the whole, was not exceedingly robust during the holiday period. Retail food prices in Atlanta soared in November—the first rise for that month in many years.

October farm cash receipts rose higher than year-ago levels, but most of the strength lay in the livestock sector. Only Florida, the District's leader in agriculture, showed gains in crop receipts. A bumper citrus harvest and high vegetable prices proved advantageous to the Sunshine State. Crop receipts were off sharply in Mississippi and Louisiana but declined only moderately in the other states.

Nonfarm employment registered an uptick in November, despite fewer construction jobs. Important gainers in factory jobs were apparel, metals, paper, and food processing, while chemicals, lumber products, and textiles showed up losers. Factory payrolls increased, and working hours lengthened a bit. Despite a decline nationally, unemployment rose as new entrants swelled the District's workforce.

The nearly half-percent decline in construction employment since October was a reflection of the weakness in building activity. The District's construction sector finished the year and the decade on a downbeat, as measured by dollar volume of construction contracts. Savings flows into deposit-type institutions were weak, and sales of FHA-VA mortgages to private investors virtually stopped. Hopefully, the New Year's Eve boost in the FHA-VA mortgage interest rate ceiling will help to restore the flow of funds to residential construction.

NOTE: Data on which statements are based have been adjusted whenever possible to eliminate seasonal influences.