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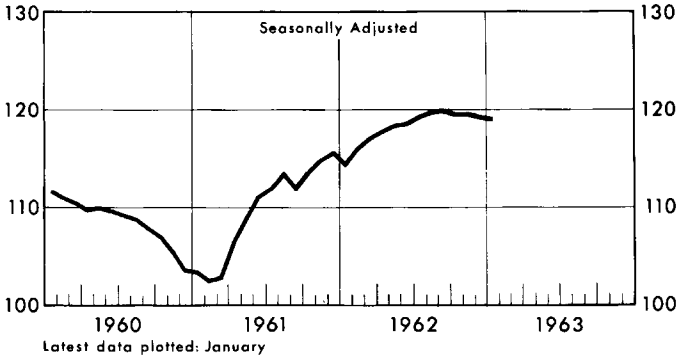
Economic Activity Continues Unchanged

Business Activity

IN JANUARY AND FEBRUARY key measures of economic activity—industrial production, employment, and unemployment—remained at levels little changed from those in the preceding six months. Prices also have continued essentially unchanged in recent months.

Industrial production edged down slightly in January and appears to have changed little in February. Output in the steel industry was up while automobile production moved down slightly. The Federal Reserve index of industrial production, seasonally adjusted, was 119.0 per cent of the 1957-59 average in January. Between last July and December, the index fluctuated within the narrow range between 119.2 and 119.8 per cent of the base period. Output of both final products and materials has shown little movement since about the middle of last year.

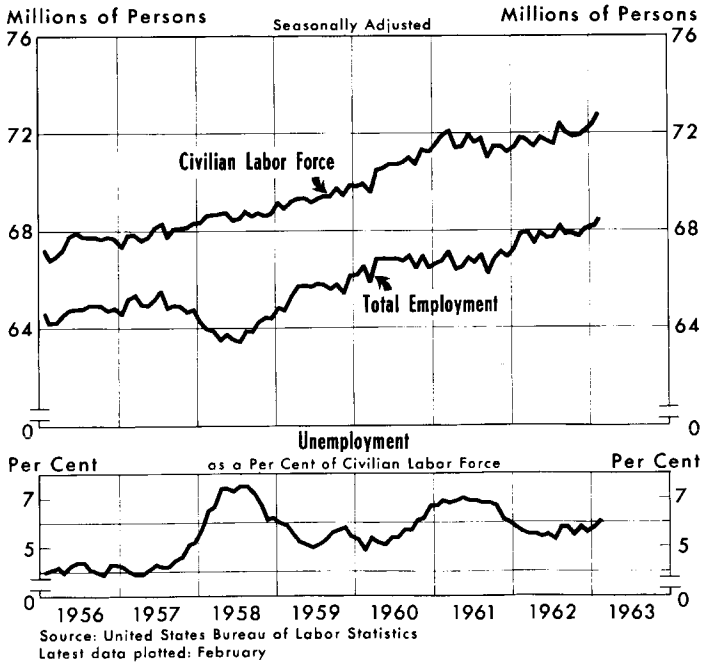
Industrial Production



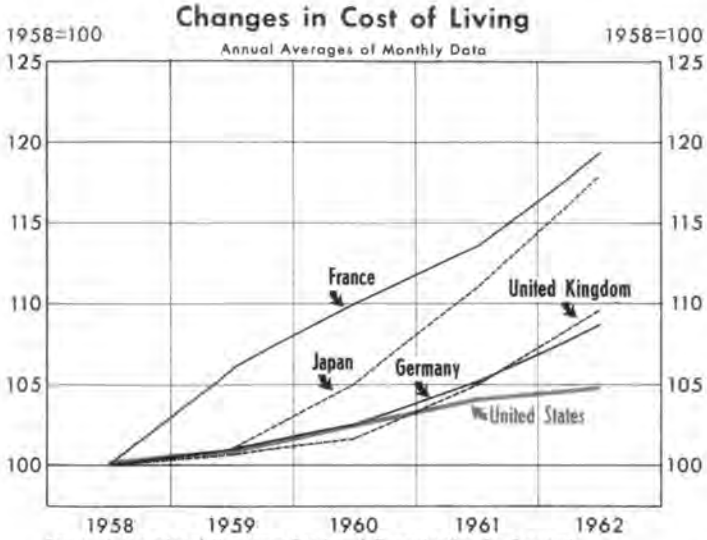
There has been some increase in the number of persons employed in recent months. Total civilian employment, seasonally adjusted, averaged 68.3 million in January and February. Last year employment totaled 67.7 million in February and 67.9 million in September and October.[1] The rate of increase in employment since last February has been about 1.0 per cent compared with a rate of 1.8 per cent in the preceding year. About one-third of the gain in employment over the past two years has occurred in the Government sector of the economy. The seasonally adjusted unemployment rate rose to 6.1 per cent in February compared with 5.5 per cent in December and 5.8 per cent in January and is now at the highest level since November 1961.

The wholesale price index increased from 100.4 (1957-59 = 100) in December to 100.6 in January, but fragmentary information suggests that wholesale prices edged down again in February. Since 1958 the wholesale price index has been virtually unchanged. Wholesale prices in most other leading industrial countries have increased since 1958. For example, from 1958 to 1962 wholesale prices increased 6.7 per cent in the United Kingdom, 3.0 per cent in Germany, 12.4 per cent in France, and 7.5 per cent in Japan.

Status of the National Labor Force



[1] Employment figures prior to April 1962 have been adjusted for the change in the estimating procedure.



Source: International Monetary Fund and Organization for Economic Co-operation and Development.

Consumer prices averaged 106.0 per cent of the 1957-59 average in January. Consumer prices have been essentially unchanged since last September but during the past 12 months have risen about 1.3 per cent. The United States consumer price index has increased 4.7 per cent since 1958. Much larger price increases have occurred in other leading industrial countries. From 1958 to 1962 consumer prices rose 9.4 per cent in the United Kingdom, 8.6 per cent in Germany, 18.4 per cent in France, and 17.8 per cent in Japan.

Interest Rate Developments

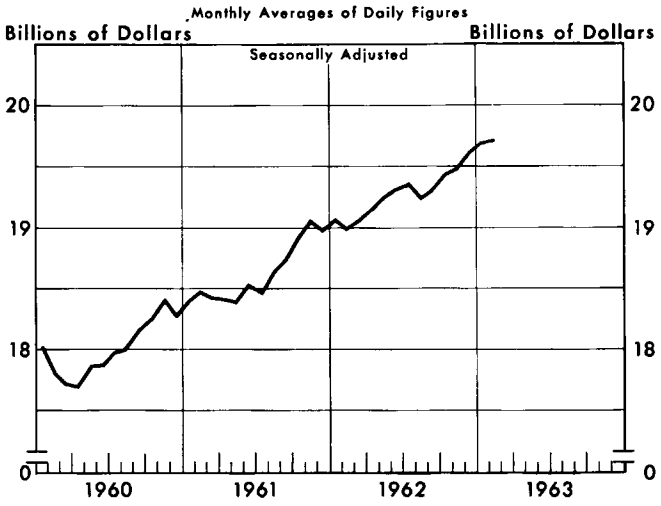
Yields on short-term Government securities, which normally decline in the first half of the year, worked up during January and early February and then edged down during the last part of February. Rates on three-month Treasury bills have risen from a little over 2.80 per cent in mid-November to almost 2.90 per cent in late February. In the early months of 1962 yields on Treasury bills averaged about 2.75 per cent. Yields on long-term Government issues averaged about 3.90 per cent in February, slightly higher than in the November to January period. However, long-term interest rates in late 1962 and early 1963 averaged about 20 basis points lower than in the same months last year.

Stock prices moved up in early 1963. The Standard and Poor's stock price index for 500 common stocks increased from an average of 62.64 (1941-43 = 10) in December to an average of 65.90 in February. Accompanying the rise in stock prices, credit extended on stocks increased from $4.9 billion last July to $5.6 billion at the end of January. Reflecting in large measure the rise in stock prices, common stock yields drifted lower in January and February. As a result, the spread between the returns on corporate bonds and the returns on stocks has widened appreciably since last autumn. The spread between the yields of these two types of assets is now wider than at any time since the stock market decline in the early summer of 1962, and wider than in most other recent years. In February 1963, the dividend price ratio on common stocks (expressed as a yield) was estimated at 3.23 per cent, and yields on AAA corporation bonds averaged 4.19 per cent, a spread of .96 percentage points. In January 1962, the spread was 1.45 percentage points but declined to .50 percentage points last June.

Bank Reserves, Bank Credit, and Money Supply

Total member bank reserves, seasonally adjusted, increased at an annual rate of 0.7 per cent from January to February. Since January 1962 total reserves have increased at an annual rate of 3.1 per cent, with most of the reserve expansion utilized to support a rapid growth in time deposits. Since January 1962 reserves available to support private demand deposits have declined slightly. By comparison, these reserves rose at an average annual rate of 2.0 per cent in the previous decade.

Total Reserves of Member Banks

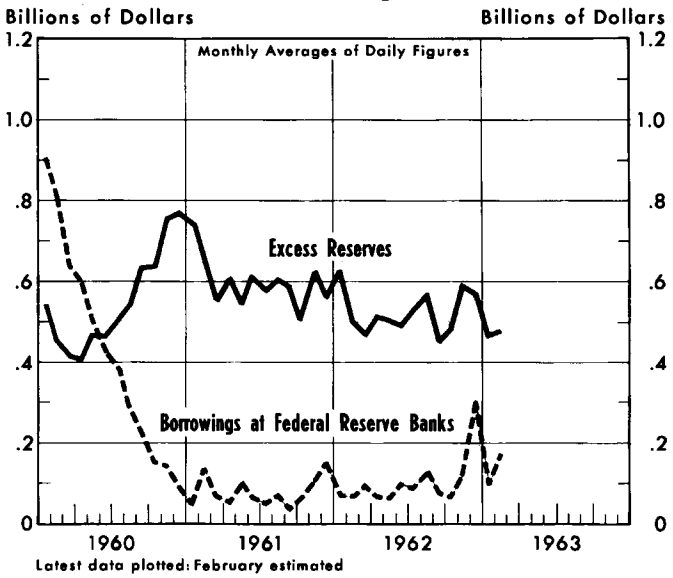


In order to provide comparable figures, adjusted for the recent change in reserve requirements, reserves previous to November 1, 1962 were reduced by 1 per cent of time deposits (for the week of October 25-31, 1962, 1 per cent of country banks only).

Latest data plotted: February estimated

Excess reserves averaged $470 million in January and February, somewhat lower than the average of other recent months. Excess reserves normally increase early in the year. During 1962 excess reserves averaged $525 million. Member bank borrowings averaged $135 million in January and February, compared to under $100 million during most of 1962.

Excess Reserves & Borrowings of Member Banks

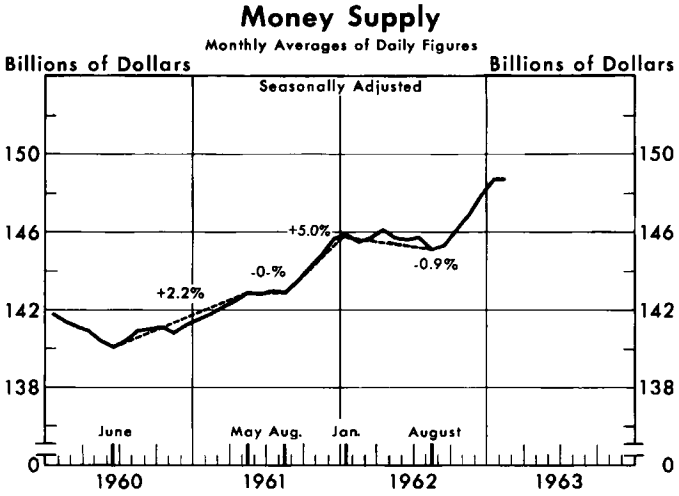


Latest data plotted: February estimated

Bank credit, seasonally adjusted, increased at an annual rate of 6.3 per cent in January and, at weekly reporting banks, increased further in February. From January 1962 to January 1963 total bank credit expanded about 8 per cent. The increase in the past two months has centered largely in investments, whereas in the latter part of 1962 loan expansion accounted for most of the credit rise.

The seasonally adjusted money supply, demand deposits plus currency, decreased at an annual rate of 1.6 per cent from January to February. Since January 1962 the money supply has increased at a 1.6 per cent rate, with the bulk of the increase occurring from September to January. Time deposits in commercial banks increased at an annual rate of 17 per cent from December to February, and since January 1962 these deposits have risen at an annual rate of 18 per cent.

Money Supply



Percentages are annual rates of change between months indicated.

Latest data plotted: February preliminary

Fiscal Developments and Debt Management

The U. S. Government operated at an estimated seasonally adjusted cash deficit of about $8 billion (annual rate) during the fourth quarter of 1962. This followed upon an almost balanced budget during the previous two quarters. It is estimated that the cash deficit is increasing further from the fourth quarter of last year to the first quarter of this year. The deficit in the income and product accounts budget also increased from the third to the fourth quarter of last year and is expected to increase further in the first quarter of this year. The income and product accounts budget is often used as a measure of the

(Continued on page 11)

Movements in Time and Savings Deposits 1951-1962

Introduction

TIME AND SAVINGS DEPOSITS of commercial banks have increased at very rapid rates since mid-1960. From June 1960 to December 1962 they rose at an annual rate of 17 per cent. During a brief span within this period, from December 1961 to June 1962, the rate of increase accelerated to 20 per cent.[1] These rates of increase may be compared with the average annual rate of increase of 9 per cent from early 1951 to mid-1960.

This article examines the behavior of commercial bank time and savings deposits over the past decade. The accompanying analysis seeks to provide some insight into the factors which have produced changes in the quantity of time and savings deposits held by the public. Growth in these deposits is compared with the growth in savings and loan shares and deposits in mutual savings banks. Also, changes in rates of increase of time and savings deposits in commercial banks are compared with changes in interest rates and with changes in the level of business activity.

From 1951 to the end of 1962 liquid asset holdings of the public increased substantially. Time and savings deposits of commercial banks, shares in savings and loan associations and deposits in mutual savings banks increased at average annual rates of 13, 33, and 6 per cent, respectively (see Chart 1).

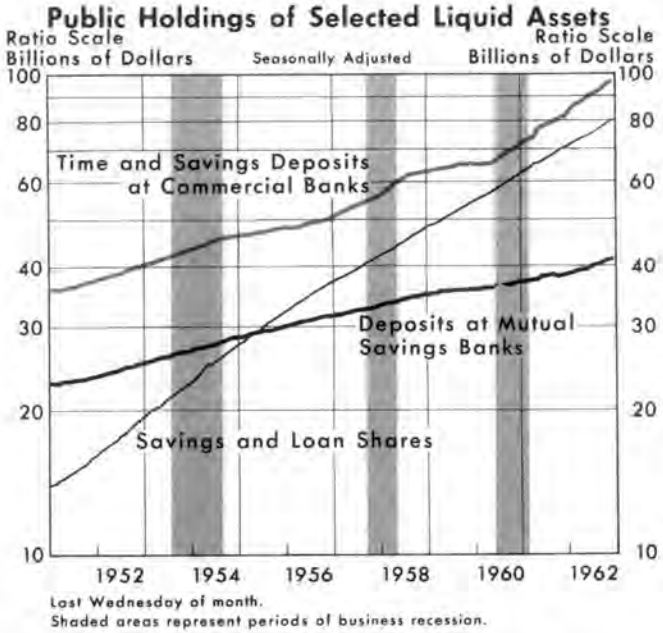
While time and savings deposits of commercial banks increased markedly in the past decade as a whole, the rate of increase varied cyclically. The rate of increase tended to rise just preceding and during a recession and to fall during periods of recovery and expansion (see Chart 1). On the other hand, the rate of growth of deposits of mutual savings banks and savings and loan shares did not show an observable relationship to cyclical changes in economic activity.

[1] This rise in the rate of increase of time and savings deposits was affected to a significant extent by an upward revision in the maximum rates which banks could pay on time and savings deposits and a subsequent increase in rates paid by many banks.

In order to understand the behavior of time and savings deposits over the past decade, it is desirable to distinguish developments with respect to time deposits on the one hand, and savings deposits on the other.[2] However, these two types of deposits have not been reported separately on a continuing basis during the 1951-1962 period. Since April 1961 there has been a separate reporting of passbook savings deposits at weekly reporting member banks, banks which currently hold about one-half of all time and savings deposits. The remainder of total time and savings deposits (consisting largely of other time accounts of individuals, partnerships, and corporations) includes the time certificates component.

Chart 1

Public Holdings of Selected Liquid Assets



Last Wednesday of month.
Shaded areas represent periods of business recession.

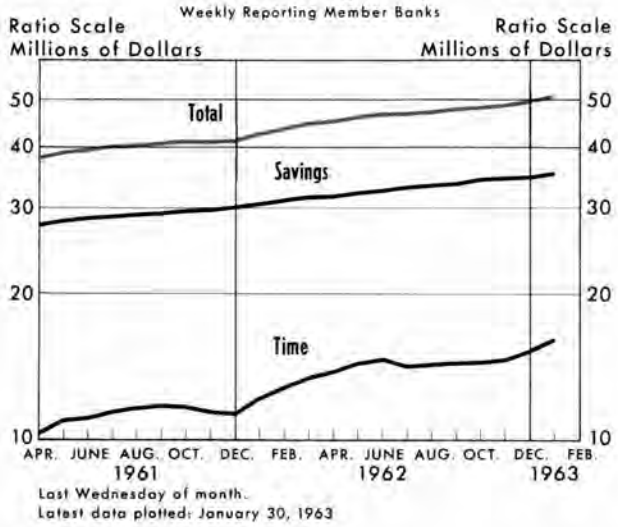
[2] Both time and savings deposits of commercial banks are interest-bearing liabilities. Savings deposits do not have a specified maturity, and, although notification prior to withdrawal may be required, in practice these deposits can usually be withdrawn on demand. Only individuals and nonprofit associations may hold savings deposits. Time deposits have a contract for a specified maturity or a *required* period of notice and may be held by business firms.

Time deposits held at weekly reporting member banks have behaved differently from the savings deposits held at these banks (Chart 2). The savings

Chart 2

Time and Savings Deposits

Weekly Reporting Member Banks



Last Wednesday of month.
Latest data plotted: January 30, 1963

deposit component moved up steadily during the entire April 1961-January 1963 period. In contrast, time deposits rose from April to September 1961, declined through December, and then (after the change in Regulation Q) increased steeply from December 1961 to June 1962. Since mid-1962 time deposits have continued to grow, but the rate of increase has moderated. Intermittent surveys of all member banks conducted over the 1945-1962 period have also shown that developments with regard to time deposits have not been identical with those of savings deposits (Table I). Time deposits have grown greatly in relative importance.

Table I

Time Deposits of Member Banks

as a Per Cent of Time and Savings Deposits

	June Call Dates				
	1962	1961	1958	1957	1945
New York Reserve City Banks	55	58	65	63	30
All Other Member Banks	23	19	19	16	6
Total—All Member Banks	27	23	24	20	7

While time and savings deposits have not been reported separately on a continuing basis over most of the 1951-1962 period, figures for New York Reserve City[3] Banks may serve as roughly representative of all time deposits. The series for all other commercial banks may serve as roughly representative of savings deposits. An analysis of the 1962, 1961, 1958, 1957, and 1945 June condition reports shows that for New York Reserve City Banks the time deposit category constituted the larger share of the total of time and savings deposits (see table). For member banks other than New York Reserve City Banks, time deposits represented a small, though growing, share (see table). Moreover, it is believed that many of the time certificates held in small banks are regarded by their holders as being very similar to savings accounts.

Assuming that the proportions which existed in 1957, 1958, 1961, and 1962 are somewhat representative for the 1951-62 period as a whole, it seems likely that cyclical movements in the time and savings deposits series for New York banks were dominated by shifts in the time certificates category. On the other hand, it seems likely that the time and savings deposits series for other commercial banks was little affected by cyclical changes in the time deposit component. Even though about one-fifth of the total of time and savings deposits in other member banks is time certificates it seems likely that these certificates are largely a savings medium. In any case, time deposits are dominant in the New York City series and savings deposits are dominant in the series for other member banks.

The time and savings deposits series for New York Reserve City Banks (consisting primarily of time deposits rather than savings deposits) displays pronounced cyclical movements (see Chart 3). On the other hand, movements in the series consisting of time plus savings deposits at all commercial banks except New York Reserve City Banks are similar to movements in mutual savings deposits and savings and loan shares, the other two major savings-type series (compare upper tier of Chart 3 with Chart 1).

In the next section, several possible explanations are presented of the differences between movements in time deposits as distinct from savings deposits. These explanations are then examined in the light of experience during the 1951-62 period. In this examination the time and savings deposit series for New York banks is used as a proxy in reviewing the cyclical movements in time deposits.

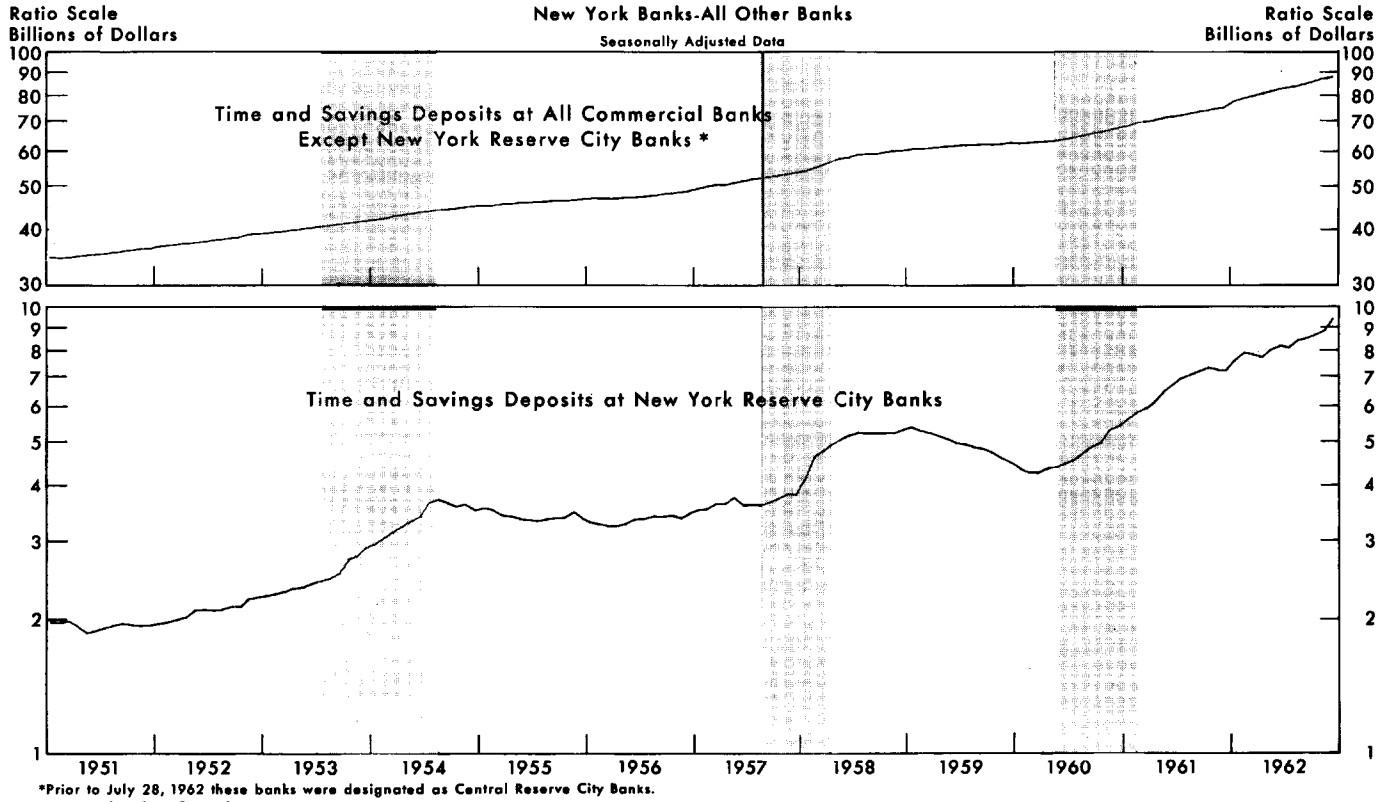
Influences on Time and Savings Deposits

Savings deposits are held almost entirely by individuals. These deposits, along with deposits at mutual savings banks and share holdings in savings and loan associations, are not subject to fluctuations in market price, and offer a yield to the saver. Moreover, relatively small amounts may be invested at intervals and at locations convenient for savers. In addition,

[3] Prior to July 28, 1962 these New York Reserve City Banks were designated as Central Reserve City Banks.

Chart 3

Comparison of Movements in Time and Savings Deposits



*Prior to July 28, 1962 these banks were designated as Central Reserve City Banks.
Last Wednesday of month.

because these assets can be converted into cash readily they are especially attractive for individuals, who, therefore, do not have to plan carefully the timing of the maturity of their investment portfolios. In view of these considerations it seems reasonable to expect that movements in savings deposits and other savings-type assets would have been dominated by the steady growth in personal income. This appears to be the case with respect to the savings deposits of mutual savings banks and the shares held in savings and loan associations (Chart 1). It appears reasonable to infer that it is also true of the savings-type deposits held at commercial banks (see upper tier of Chart 3).

Time certificates of deposit are held largely by corporations, foreign institutions, and state and local governments. Businesses as a matter of careful planning hold time deposits and other liquid assets in order to be in a position to meet short-run obligations such as expected capital expenditures, dividends, and tax payments. In addition, holdings of short-term liquid assets are related to changing business conditions, tending to rise during a business downturn (as businesses allow current sales to trim stocks). Later, during a business recovery, inventory liquidation ceases and accumulation begins. In the expansion phase of the business cycle, production costs rise and inventory accumulation continues; at the same time, the cost of borrowing tends to increase. During these periods businesses begin drawing down cash and liquid asset positions.

Because businesses have large sums for short-term investment, minor differentials in rates of return on alternative types of liquid assets may involve very large differences in total returns. Hence, those who have large sums to manage are usually sensitive to small shifts in alternative yields among various investment media. While many individuals hold time certificates the total dollar volume of their holdings is quite small. Individuals do not, in general, face the same range of alternative assets at the same prices as do corporations and other institutions. Because of the large minimum size of a transaction, and because of other transactions costs, for most individuals Treasury bills and other high-grade, short-term marketable instruments are not effective alternatives to savings-type deposits.

In light of these considerations it seems reasonable to expect that variations in the rate of expansion in

Chart 4

Proxy Time Deposits at Annual Rates of Change*

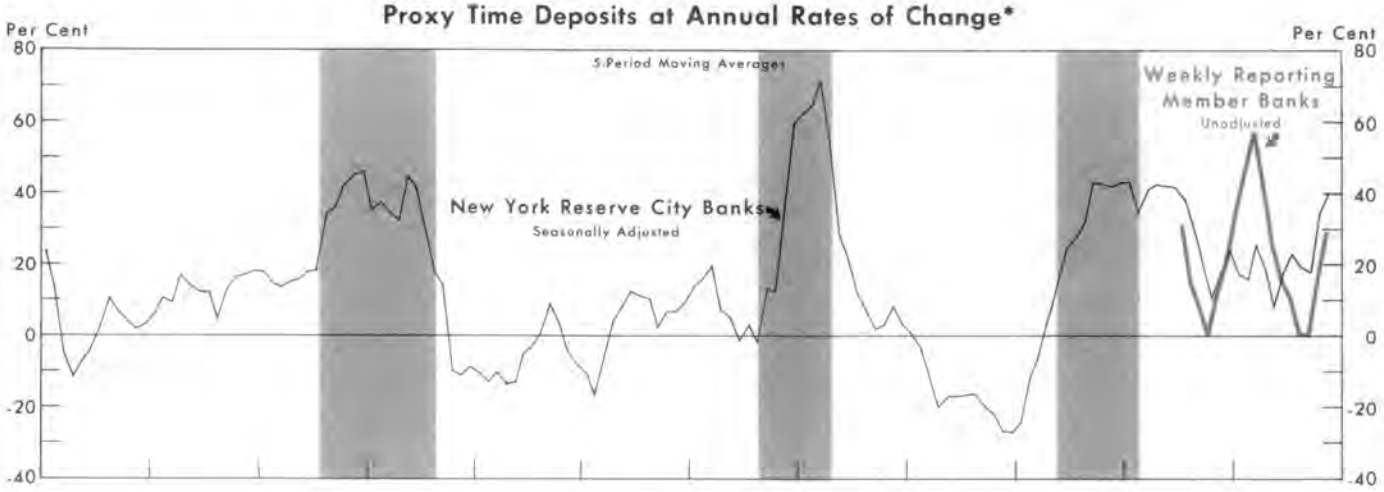
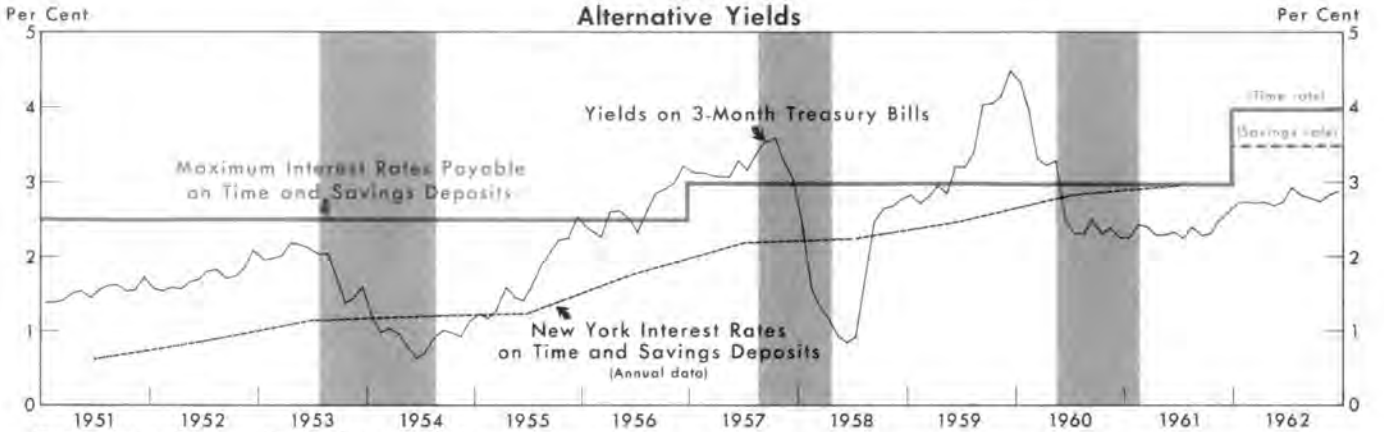


Chart 5

Alternative Yields



*Time and Savings Deposits at New York Reserve City Banks. Last Wednesday of month.

time deposits have reflected changes in the rate paid on such short-term instruments as Treasury bills relative to the rate paid on time deposits. When the rate paid on time deposits improves relative to the yield on Treasury bills, time deposit growth tends to accelerate (and conversely). The rate of expansion in time deposits has also shifted in response to adjustments by businesses to changing business conditions.

Cyclical Movements in Time Deposits[4]

The rate of increase of time deposits of commercial banks has been relatively high during each of the three most recent recessions (see Chart 4). These accelerated rates of increase have closely paralleled decreases in interest rates on short-term marketable securities relative to rates paid on time deposits.[5] Short-term interest rates began to decline around the July 1953 and July 1957 peaks in business activity (see Chart 5). Accompanying the decline in market rates relative to rates paid on time certificates, the rate of increase of time deposits began to rise (see Chart 4). Market interest rates declined sharply in early 1960, several months before the May 1960 business cycle peak. At about the same time that interest rates

[4] Rates of change in the time and savings deposits series for New York Reserve City Banks is used as a proxy in reviewing the cyclical movements in time deposits during the 1951-1962 period. Since April 1961 passbook savings deposits have been reported separately from other time deposits (which consist largely of time certificates) at weekly reporting member banks. Rates of change in other time deposits at weekly reporting member banks is also used as a proxy for total time certificates during the April 1961-December 1962 period.

[5] There is no continuous series for the 1951-1962 period showing rates paid on time certificates by New York banks; therefore, it has been necessary to use other series which approximate the range within which rates paid on time deposits have moved. The solid green line shows the maximum rates which banks were permitted to pay on time deposits, and the dotted line shows the costs of New York banks stemming from payments on time and savings accounts (expressed as a percentage of their holdings of these deposits).

began to fall time deposits began to expand; these deposits continued to expand rapidly during the 1960-61 recession.

In the prosperity period of 1951-53 the growth of time deposits was less than in the subsequent recession. During this 1951-53 period the yield on 3-month Treasury bills was considerably above the rates which New York banks were paying on time deposits. In the recovery and expansion which occurred during the 1954-57 period the growth in time deposits was nominal, and in the 1958-60 recovery there was actually a decline. These declines in the rate of growth in time deposits occurred during periods when rates paid on time deposits were less than the yield on short-term securities (compare Charts 4 and 5).

The recovery of 1961-63 has been exceptional in that time deposits have continued to grow rapidly (Charts 2 and 4). For about eight months following the trough month of the 1960-61 recession (February 1961) short-term interest rates were substantially below prevailing rates on time deposits. In addition, the attractiveness of large denomination time certificates for short-term investments was enhanced by the development and expansion of a secondary market for these instruments.[6] Consequently, the rate of time deposit expansion continued to be rapid during this period. However, when rates on Treasury bills moved up during the last two months of 1961, the rate of growth in time deposits slowed (see Charts 5, 4, and 2).

As of January 1962 the maximum allowable rate on time and savings deposits was raised. Following this change in regulation, and the increases in rates paid by many commercial banks, there was an acceleration of the rate of growth in time deposits. From January to June 1962 time deposits at weekly reporting member banks grew at a 24 per cent annual rate. Since June of 1962 the rate of growth in time deposits at weekly reporting member banks has been rapid, but has moderated. During this latter period the spread between rates paid on time certificates and the yield on short-term Treasury obligations appears to have narrowed somewhat.

Chart 6 throws additional light on the rapid growth in time deposits during the 1961-1963 period. This chart presents manufacturing corporations' holdings of U. S. Government securities, including Treasury savings notes, and the accrued tax liabilities for these same corporations. The swings in accrued tax liabilities reflect largely the changes in before-tax profits of manufacturing corporations. During a business recession there is a deterioration in profits; during the early recovery there is sharp improvement. Profits tend to decline during the last phases of expansion as production costs rise, the rate of increase in sales declines, unwanted inventory accumulation occurs, and downward pressures on prices tend to develop.

There is a close correspondence between changes in accrued tax liabilities and changes in manufacturers' holdings of Government securities (see Chart 6). Corporate treasurers have found it advantageous to fund for future tax payments by purchasing Govern-

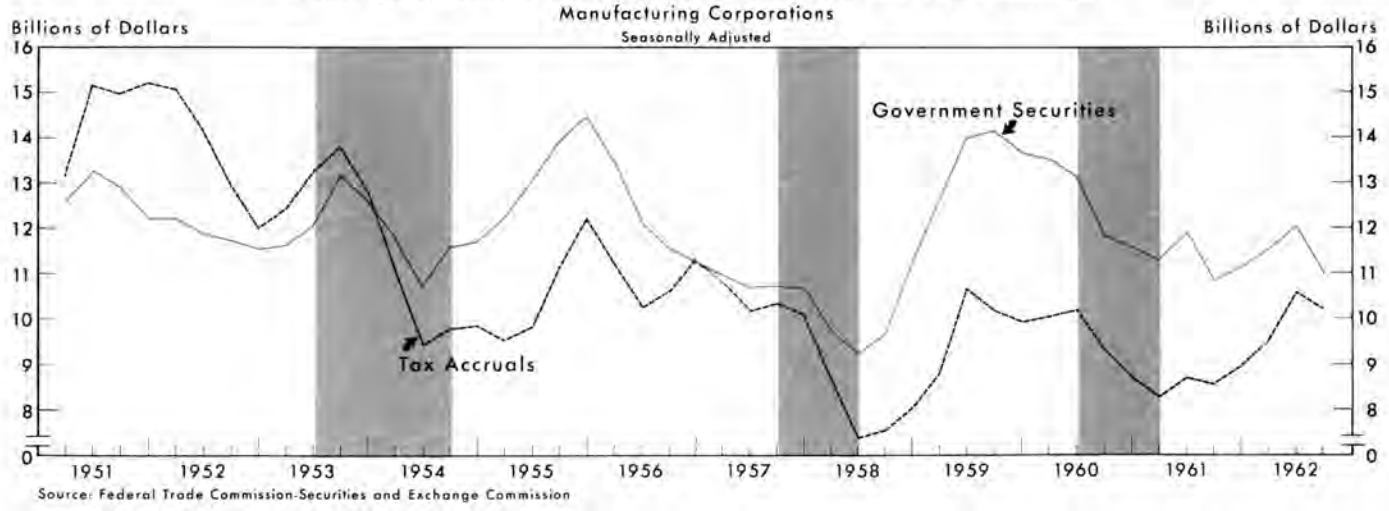
[6] With the development of a ready market in which time certificates can be sold the holder no longer must await the maturity of the instrument before he can have access to his funds. Instead, he may readily shift from a time certificate into cash. For a discussion of these developments see "Trends in Banking and Finance—Negotiable Certificates of Deposit," in the February 1963 issue of *Business Conditions*, a publication of the Federal Reserve Bank of Chicago.

Chart 6

Holdings of Government Securities and Accrued Tax Liabilities

Manufacturing Corporations

Seasonally Adjusted



Source: Federal Trade Commission-Securities and Exchange Commission

ment securities during periods when tax liabilities are accrued. Thus, during the recoveries from the 1953-54 and 1957-58 recessions both accruals of tax liabilities and manufacturers' holdings of Government securities rose sharply. During both of these periods the yield on short-term instruments was considerably above rates paid on time deposits. The 1961-63 recovery period presents a different picture. During this period yields on Treasury bills have remained below rates paid on time deposits. Hence, the buildup of security holdings which was in evidence during the two previous recoveries has not occurred.

Summary

Time and savings deposits at commercial banks include both passbook savings accounts and time certificates of deposit. The evidence presented in this article suggests that during the 1951-62 period passbook savings in commercial banks behaved much like such other savings-type deposits as savings and loan shares and deposits at mutual savings banks. In contrast, the rate of increase in time deposits varied cyclically. The rate of increase tended to rise at or prior to the beginning of downturns and continued at a rapid pace during the recessions. Later, as the recessions reached their troughs, the rate of increase in time deposits declined and continued at a nominal pace during the periods of business expansion.

The data also suggest that changes in the rate of increase in time deposits have been responsive to interest rate differentials between such short-term assets as Treasury bills and rates paid on time deposits. When short-term interest rates fell below rates paid on time deposits, as usually happened during recessions, the rate of increase in time deposits tended to accelerate. Conversely, when short-term interest rates rose above the rates paid on time deposits, as usually happened during recovery and expansion periods, the rate of increase in time deposits moderated.

These observations may throw some light on the significance of the rapid rate of increase of time deposits during the past two years, a period of business recovery and expansion. The great growth since February 1961, at an average annual rate of 16 per cent, has been unusual for a recovery period. It contrasts with rates of 7, 6, and 5 per cent during the 1951-53, 1954-57, and 1958-60 periods of business expansion.

The rapid growth in time deposits is only partly explained by the increase in rates paid on time deposits beginning in January 1962, since growth in the preceding ten months of recovery had already been unusual. The factor apparently explaining this rapid growth has been that Treasury bill rates and other short-term money market rates have remained below rates paid on time deposits. In an early stage of other recoveries bill rates rose above rates paid on time deposits. The increase in rates paid on time deposits in early 1962 partly explains why the relation between bill rates and time certificate rates during the past few years has been so different from previous recoveries. However, the unusual relationship seems to have resulted much more from the failure of the bill rate to rise in this recovery in a manner comparable to the increases of earlier recoveries.

Changes in Rates on Time Deposits at District Banks

AN INCREASE in the maximum permissible rate payable on savings accounts and other time deposits became effective on January 1, 1962.[1] In the middle of that month, the Federal Reserve System conducted a survey of interest rates paid by member banks on time deposits and subsequently published the results in the February 1962 *Federal Reserve Bulletin*. The System repeated the survey in February 1963, using approximately the same sample of banks.

The sample included all banks with total deposits of $50 million or more and 10 per cent of all other banks selected at random. In the Eighth District, the sample included a total of 72 banks. Data for the smaller banks were expanded to provide estimates for all member banks in the district.

Thirteen per cent of the total number of member banks in the Eighth District had raised their interest rates payable on savings accounts or other time deposits since the last survey. In each of the two bank size groups, the percentage of banks increasing interest rates was the same—13 per cent.

Of the total number of banks, 2 per cent raised rates applicable to savings accounts while 11 per cent raised other time deposit rates. The median interest rate increase was ½ of 1 per cent.

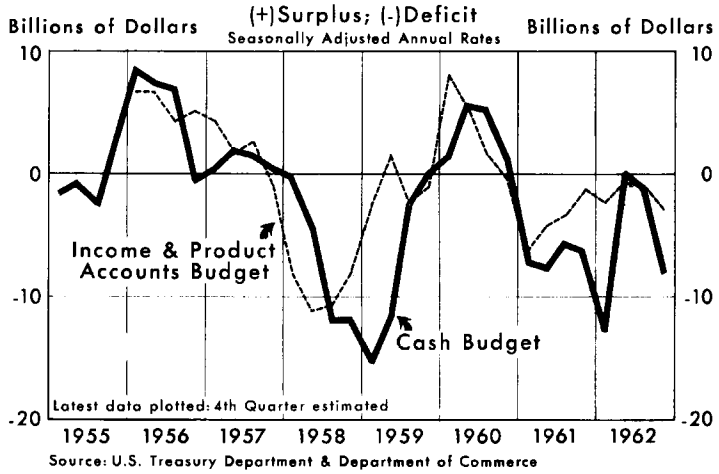
The survey also revealed that 2 per cent of the total number of banks reduced interest rates paid on these deposits. No bank reported that it contemplated any rate changes between mid-February and July 1, 1963.

[1] See "Recent Growth of Time Deposits" in the April 1962 issue of this *Review*.

Economic Activity Continues Unchanged—*Continued from page 4*

impact of the Federal Government's taxing and spending on incomes. The budget developments in late 1962 and early 1963 have probably been stimulative to economic activity.

U.S. Government Fiscal Operations



Source: U.S. Treasury Department & Department of Commerce

The increase in the cash deficit requires an increase in the Federal debt. Thus, debt management operations in 1963 involve not only the normal operations of managing a publicly held debt of $217 billion but also the problem of raising new money.

On January 30, the Treasury announced plans for refunding $9.5 billion of securities ($5.5 billion of which was held by the public) maturing February 15. The public exchanged the maturing issues for about $2.8 billion of 3¼ per cent one-year certificates and $2.5 billion of 3¾ per cent five-year bonds. The result of this operation was an increase in the average maturity of the publicly held debt, i.e., a decline in the volume of short-term securities and an increase in long-term securities.

The Treasury followed up this operation with an announcement in late February that it would offer holders of $29.0 billion of outstanding Treasury securities, of which $20.3 billion are held by the public, the opportunity to extend their holdings at higher yields. Holders of these securities were given the choice of exchanging them for a 3⅝ per cent four-year note, a 3⅞ per cent eight-year bond, a 3⅞ per cent 11-year bond, or a 4 per cent 17-year bond.

Debt management policies, along with the economic policies of other Governmental agencies, have focused on two problems, the deficit in the balance of payments and the sluggish growth of the economy. In addition, decisions have had to take into consideration the ordinary problems associated with managing the public debt.

Debt management actions can play an important role in solving the broad economic problems facing the nation. Increasing the quantity of short-term debt instruments puts upward pressure on short-term rates. This permits the Federal Reserve to expand reserves and the money supply with a minimum effect on short-term interest rates. Such action also implies lower long-term rates which tend to stimulate domestic private investment. In addition, an increase in the quantity of short-term securities, because they are near to cash, may itself be stimulative to the economy.

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Spending in Six Medium-Size District Cities

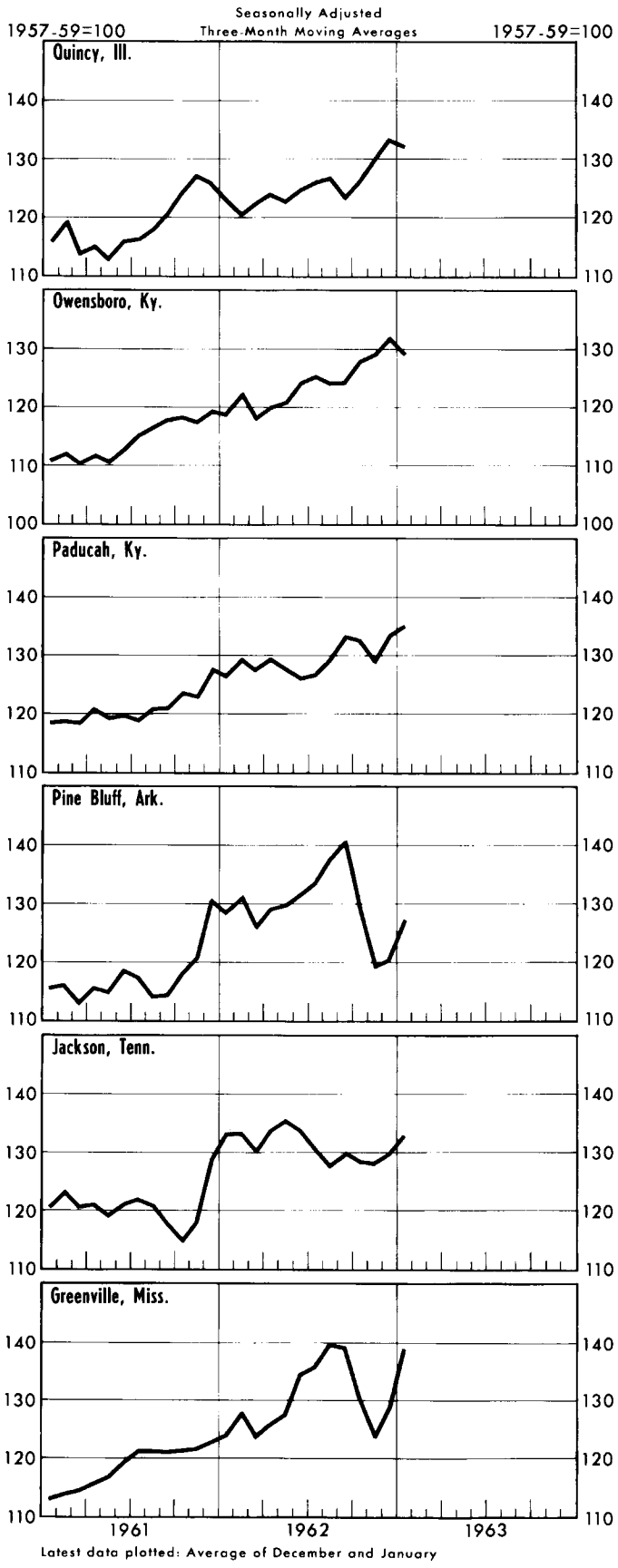
ONE BROAD MEASURE of local economic activity is the volume of check payments and other debits to demand deposit accounts.[1] Since most consumer, business, and local government expenditures are made by check, bank debits are considered a useful indicator of over-all economic activity in an area.[2]

This note reviews debits figures during 1962 for six of the larger cities of the Eighth Federal Reserve District other than the seven metropolitan areas. All of the data have been seasonally adjusted. A three month moving-average has been used to reduce the irregular fluctuations characteristic of debits data.

In Pine Bluff, Arkansas, Greenville, Mississippi, Owensboro, Kentucky, and Jackson, Tennessee, bank debits for 1962 were about ten per cent higher than in 1961. Quincy, Illinois, and Paducah, Kentucky, had increases of around five per cent.

An examination of the accompanying charts indicates that movement of debits over the course of 1962 varied among these centers. Debits in Quincy decreased from late 1961 to February 1962. Subsequently, they increased about 11 per cent to the end of 1962. Owensboro debits rose slightly during the first quarter of 1962, and then advanced approximately 12 per cent in the last nine months of the year. In Paducah, debits changed little during the first half of the year, but then rose moderately to year end.

Bank debits in Pine Bluff, Jackson, and Greenville followed a common pattern during 1962, which differed considerably from the pattern of the three more northern cities. In each of these southern cities debits rose sharply during the first half year and then fell during the fall months. Part of these decreases were offset by gains late in 1962. These declines in debits during autumn, the cotton-harvesting season, have been attributed to a large shift from hand harvesting to machine harvesting of cotton. This change in methods resulted in a reduction in the number of agricultural workers hired during this season.[3] The resulting decrease in wage payments was reflected in the decline of debits. A similar decline in debits occurred in Memphis, an important cotton marketing center. In addition, much of the early cotton harvest was acquired by the Federal Government in the price support program, and these acquisitions are not recorded as bank debits. In the fourth quarter, some of this Government-stored cotton moved to the market, accounting for part of the rise in debits around the end of 1962.



[1]Debits to demand deposit accounts of individuals, partnerships, and corporations, and states and political subdivisions.

[2]Debits, when used as an indicator of local business conditions, should be interpreted carefully and in conjunction with other local economic data. Debits as a local economic indicator are subject to the following limitations. Debits may reflect large and varying amounts of transactions unrelated to current activity (such as security purchases). They include transactions from outside the area. Some expenditures do not result in debits, while other outlays are recorded several times. Finally, some individuals and businesses bank outside their local areas.

[3]Agricultural employment during the autumn in the Greenville, Mississippi, area (Washington County) was approximately 1,000 under the usual level of previous harvest seasons.