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The Businessman's Stake in the Federal Reserve

An address before the Kiwanis Club of Erwin, Erwin, Tennessee, by* Leslie R. Driver*, President, First National Bank in Bristol, Bristol, Tennessee, and Director of the Federal Reserve Bank of Atlanta

Many years ago Artemus Ward, a famous American humorist, said that with most people it "ain't ignorance that does the damage, but knowing so many things that ain't so." Today I want to talk about an institution — the Federal Reserve System — concerning which most people know a great many things that "ain't so."

If you were to ask a hundred people on the street what the Federal Reserve System is, more than half would probably not have the ghost of an idea. A few would think that it is just another Government agency having something to do with banks and supported by the taxpayer. He would be the rare exception who would have any clear idea of what is undoubtedly one of the most important economic institutions in our country today.

This is not strange, for few individuals ever come into direct contact with the Federal Reserve System as such. But this doesn't mean that people in general should not be interested in it, especially businessmen; for every man, woman, and child in the nation is vitally affected by the Federal Reserve System and its operations. That's why I want to talk about it today, so that when you read something about the System in the newspaper, you will know that you have a vital stake in the outcome, whatever the immediate issue happens to be. Like the air we breathe, our money and banking system is so pervasive that we hardly ever give it a thought until something goes wrong with it.

I think you will be impressed when I state to you that the principal purpose of the Federal Reserve is to regulate the supply, availability, and cost of money, with a view to contributing to the maintenance of a high level of employment, stable values, and a rising standard of living. I hope that you will keep that statement in mind.

As intelligent citizens we should acquaint ourselves with this institution that so vitally affects us and our well-being. Two very common misconceptions about the Federal Reserve System, however, should be corrected. The first of these is that it is some sort of Government agency. This is only partially true. The System, of course, was created by an act of Congress in 1913 and is governed by a board of seven Governors, each appointed by the President with the advice and consent of the Senate. The terms are so staggered that one term expires every two years. The Board sits in Washington. The System itself, however, consists of twelve regional central banks with twenty-four branches. The one for the Southeast — the Sixth Federal Reserve Bank — is located in Atlanta. Although they are under the general oversight of the Board of Governors, these twelve Federal Reserve Banks are privately owned corporations, their capital stock being owned by the so-called "member banks." These are private commercial banks. All national banks are required to be members, and state banks which meet the eligibility requirements are invited to join. Today about 5,000 national and 2,000 state banks belong. These banks hold about 85 percent of all commercial bank deposits.

Two-thirds of the directors of the Federal Reserve Banks are elected by these member banks, and the others are appointed by the Board of Governors. Half of the directors elected by the stock-holding member banks are bankers, representing large, medium-size, and small banks. The other half is made up of prominent business leaders who represent the interests of industry, commerce, and agriculture. The directors appointed by the Board of Governors represent the public at large and are usually outstanding and public-spirited citizens, educators, and the like.

Thus, although the System is integrated through a Government-appointed board, it is not really a Government agency, despite the word "Federal" in its title. Moreover, although it is primarily a banking institution, bankers do not dominate the directorates of the Federal Reserve Banks. Businessmen and other citizens are also represented. Indeed, nonbankers have two-thirds of the votes in the Board of Directors of every Federal Reserve Bank. This gives every businessman an important stake in the Federal Reserve System.

A second misconception about the Federal Reserve is this: It is frequently thought that every agency of the Government

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is a contrivance of the devil for the wasting of the taxpayer's money. But let me say this — the Federal Reserve System does not cost the Government or the taxpayer a penny. It is self-financing out of its own earnings. The Federal Reserve Banks pay their stock-holding member banks a legally restricted dividend of 6 percent a year, but 90 percent of their net earnings are handed over to the United States Treasury. In 1948 the Federal Reserve Bank of Atlanta paid the Treasury over 10 million dollars, while the whole system paid in over 190 million dollars. The System is, thus, not a burden on the taxpayer or on the Government. On the contrary, these contributions to the Treasury actually lighten the taxpayer's burden.

Another thing should be noted about the Federal Reserve Banks — although they are private corporations, they are not operated for profit. They do, indeed, make profits under certain favorable conditions, but, as I just said, the bulk of these profits are returned to the Government, which represents the public. These Banks were not set up to make money, but rather to maintain monetary and credit conditions conducive to the prosperous development of industry, commerce, and agriculture. You see, they were set up primarily to serve you and your interests. That is another stake that you have in the System — another reason why you, as businessmen, should be interested in the System's welfare.

To arouse and maintain your interest in the Federal Reserve System, however, will require an act of will on your part because few of you, unfortunately, have ever seen a Federal Reserve Bank. After all, there are only twelve of them in the country. You do have a direct contact with the System. however, by way of your local bank, if it happens to be a member of the System. You have an indirect contact even if your bank is not a member. For it is through the banking structure of the country that the System tries to do what it is supposed to do — *maintain sound monetary and credit conditions in the interest of a generally prosperous economy.* I want to tell you a little about how the System attempts to do this, but first I would like to mention a few of its many other services.

One of these is that of acting as a bank for bankers. As president of a bank, I like to think that my institution renders an important service to its customers. They deposit their funds in the bank and can then pay each other by means of checks so that little money need leave the bank. There is only a shift of balances from one account to another. This is a great convenience to the customers and it is good for the country as a whole for it economizes in the use of currency. Our customers, of course, can withdraw cash if they wish. But every coin and every piece of paper money in their pockets has come into circulation through some bank, which got it from a Federal Reserve Bank. Of approximately 27 billion dollars of money in circulation, about 23 billion are in Federal Reserve notes. Through the operations of the Federal Reserve System, the amount of currency in circulation automatically adjusts itself to the demands of individuals and business firms — expanding as demand increases and contracting as it diminishes.

Our customers, naturally, cannot get cash from us unless they have a deposit in the bank. Similarly, we cannot get currency from the Federal Reserve Bank unless we carry a deposit there. Our deposit with the Federal Reserve is called our "reserve account." All member banks are required to carry their reserves with the Federal Reserve Bank.

As I have just said, the customers of my bank can pay each other by check without any movement of funds whatsoever. But that isn't all. They can pay people all over the country in the same way. For just as my bank acts as a clearing house for the checks of its customers, so the Federal Reserve Bank acts as a clearing house for checks drawn on all the member banks of the District. And that still isn't the end of the story. The twelve Federal Reserve Banks carry their legally prescribed reserves in what is known as the Interdistrict Settlement Fund. This fund acts as a clearing house for the twelve Federal Reserve Banks. In 1948 the System handled two billion checks totaling in amount over 900 billion dollars. Checks constitute nine-tenths of our money supply in making payments. Thus, through the individual commercial bank, through the Federal Reserve Bank in the District, and through the Interdistrict Settlement Fund, it becomes possible for an enormous volume of business to be done all over the country with a minimum movement of cash. The ease with which payments by check can be made in any part of the country thus depends upon the smooth working of the Federal Reserve System. It works so smoothly, indeed, that it is hard for us to imagine the confusion, the delay, the chaos that would result if by some ill chance it should suddenly break down. Whether you are aware of it or not, this is another stake that you have in the System.

A further service that the local bank renders to its customers is the making of loans. Everyone at some time or other finds it necessary or advantageous to borrow. That is what a commercial bank is for. To make loans to its customers. But in order to accommodate their customers, banks must themselves sometimes become borrowers. When a member bank needs to borrow in order to extend further loans to its customers, it can always do so from its Federal Reserve Bank on any good assets. As bankers, therefore, our ability to serve businessmen and other individuals is made possible by the Federal Reserve System — by our ability, through it, to draw upon the resources of the whole banking system. There thus need never be a shortage of funds available to creditworthy borrowers.

The Federal Reserve Banks also perform certain important functions for the Government. The issuing and redeeming and servicing of Government bonds, for example, which a 257-billion-dollar debt entails, is done by these banks. Without the Federal Reserve Banks, the financing of the recent war would have been extremely difficult, for the Government, like the rest of us, must sometimes become a borrower, especially in time of war. When such a situation arises, the Federal Reserve Banks are one important source from which the Government can get credit. These Banks also act as fiscal agents and custodians for the Commodity Credit Corporation and they are now taking over the receipt of withholding taxes for Government account. Moreover, when consumer credit control was still in force, its administration was vested in the Federal Reserve Banks.

We come now to the main purpose of the Federal Reserve System — the maintenance of sound credit conditions — and how it tries to accomplish this task. Since the end of the war, we have had some experience with inflation. We have seen the general price level rise to record heights and the value of money melt away in consequence. Most of us also had some experience with deflation in the early thirties. In those days we saw prices fall to ruinous levels, and businesses by the thousands going bankrupt, while millions walked the streets seeking jobs that were not to be found. These violent changes in the value of money, up and down, although they may favor certain groups, nevertheless work immeasurable hardship on the great majority of people. They certainly make it difficult for any businessman to plan his business rationally.

What causes these violent changes in the value of money, remembering that bank credit is our main form of money? Fundamentally the trouble lies in the relation between the volume of money and the volume of goods and services to be bought with money. When the stream of money grows faster than the stream of goods, we have rising prices — inflation. When the stream of money does not grow as fast as the stream of goods we have falling prices — deflation. The Federal Reserve tries to minimize these fluctuations by influencing the size of the money stream in such a way that it will more nearly match the size of the goods stream.

How does it do this? Let us see. The ability of a member bank to extend credit to its customers, and thus add to the supply of money, depends upon the size of the reserve which it carries with the Federal Reserve Bank. For each dollar in its reserve account, a bank can extend five or six dollars in deposit credit to its customers. The more dollars it has in its reserve, therefore, the more credit it can extend. The fewer dollars, the less credit it can extend. Because the Federal Reserve has the power, within certain limits prescribed by law, to vary the reserve requirement for member banks, it has, consequently, the power to restrict or to increase the banks' ability to extend credit to their customers.

The Federal Reserve works to this same end in still another way — through the buying and selling of Government securities in the open market. When the Federal Reserve buys securities, it obviously puts money into the hands of the persons from whom the securities are bought. This money eventually finds its way into the banks and thence into their reserve accounts, where it enables them to extend more credit. On the other hand, when the Federal Reserve sells securities in the open market, it takes money out of the accounts of the purchasers and so, ultimately, reduces the reserve accounts of the banks. In this way the ability of banks to extend credit is diminished. The Federal Reserve can therefore act upon reserves either directly, by varying reserve requirements, or, indirectly, through its buying and selling of securities, providing banks with reserves by buying operations, or depriving them of reserves by selling. Still another method is to influence the volume of borrowing by member banks from the Federal Reserve Banks by raising or lowering the discount rate. A higher rate makes it more expensive for member banks to increase their reserves through borrowing and thus tends to discourage credit expansion. A decrease in the discount rate makes it less expensive for the member banks to increase their reserves and, therefore encourages credit expansion. This is relatively ineffective now when reserves can be obtained by selling Government securities — held to such a large extent by the banks.

It is primarily through the use of these instruments that the Federal Reserve seeks to minimize fluctuations in the value of money and so to protect business from its tendency to go through disastrous booms and busts.

Of course the Federal Reserve System has not worked perfectly — no human institution ever does. In the first place, only a part of the banking system has accepted the voluntary discipline involved in membership in the System. Many banks remain outside the System. In the second place, too many other things are involved in the problem of inflation and deflation for it to be solved completely or solely by monetary means. Nevertheless, imperfect though it be, the Federal Reserve is today the only instrument that exists primarily for the protection of business and the public against these violent changes in the value of money. It is the only alternative to direct Government intervention if the nation is to be protected to any degree at all against violent business fluctuations. Federal Reserve actions, even though adapted to changing conditions, tend to be unpopular because if effective they place the System in position of constantly bucking the popular trend. But it is a job which must be done and when done successfully results in great benefits for every individual and every business firm, proving again your stake in this System and your interest in preserving, extending, and improving it.

In order to formulate its policies so that they may best serve the interests of the whole economy, the Board of Governors must know as much as it can about business conditions as they continuously change. It must have at its disposal an enormous body of facts upon which to base decisions. To collect these facts, the Board maintains a large staff of economists, statisticians, and other highly trained professional men. Each Federal Reserve Bank maintains a similar but smaller staff in its Research Department to collect figures and to study the economic problems of its particular District. Neither the Board nor the Federal Reserve Banks keep this information secret, for they know that it is valuable to business as well as to System authorities. It is therefore the policy of the System to make this information public. The Board of Governors publishes monthly the *Federal Reserve Bulletin*, which may be obtained for a very small charge. This publication is one of the most complete, authoritative, and up-to-the-minute compilations of business figures in the country.

Each Federal Reserve Bank also publishes one or more monthly periodicals which may be received regularly, without cost, merely by requesting them. In addition to its *Monthly Review*, the Federal Reserve Bank of Atlanta, for example, also publishes a *Bankers Farm Bulletin* as a special service to the numerous country banks in this District — keeping them informed of important agricultural developments and letting them know what other banks are doing and how the problems of our rapidly changing southern agriculture are being met. Many mimeographed releases are also put out dealing with current developments in various kinds of business. These, too, are available free to those who may be interested.

In the short time at my disposal, I have been able to give you only a few of the high-lights of the Federal Reserve System. I wish I could have told you more about it. If you ever have the opportunity to do so, I wish you would visit one or another of the Federal Reserve Banks or their Branches. You will receive a cordial welcome from all of its officers and employees. You will find all of them eager to tell you everything they can about their work. They are not operating secretly and in the dark. You will discover that a Federal Reserve Bank is not a cold, austere, and impersonal institution. You will find, on the contrary, a warm and friendly group of highly competent and devoted men who are working in the interest of a more prosperous America. You will come away from such a visit, I am sure, with a wholesome respect for this the greatest central banking system in the world, the Federal Reserve System, of which my bank and thousands like it are proud to be members.

Deposit Growth at Georgia Member Banks

WHEN the 396 commercial banks in Georgia added up the amounts they had to the credit of their depositors on December 31, 1949, they arrived at a total of 1,624 million dollars. Just ten years before, the year-end total was only 496 million dollars. This 227-percent increase raised per capita bank deposits from 159 dollars at the end of 1939 to 508 dollars at the end of 1949.

Data on deposits at all Georgia banks for earlier periods are more difficult to obtain. Deposit changes at banks that are members of the Federal Reserve System, however, fairly well reflect changes at all banks. About 70 percent of the total bank deposits in Georgia are kept at member banks, a ratio which has changed little over the years.

In general, bank deposits change because of an increase or a decrease in the credit granted by the nation's banks. Economic conditions governing credit throughout the country, of course, have been the most important factors governing the level of deposits at Georgia member banks. But during the last thirty years, there have been many times when Georgia bankers have seen the deposits at their banks change in a different degree or in a different direction than deposits in other parts of the country. Most of these differences can be traced to dissimilarities in the rates of income growth and decline.

Depression After World War I

One of those periods was from 1919 through 1921. The events of those years have been deeply etched in the memories of Georgia bankers whose experience dates back thirty years or more. They saw their bank deposits shrink by a third in the three years, most of the drop occurring in 1919. Banks all over the country were losing deposits during this period—the primary postwar depression after World War I—but their loss amounted to only 10 percent.

Cotton was king in Georgia in those days. Loans and deposits had been expanded on the basis of cotton, which sold in the middle of 1920 for over 40 cents a pound. In August of that year, the price began to drop and by mid-1921 it had fallen to around 12 cents. With about 40 percent of the state's income coming from agriculture, Georgia's whole economy felt the impact of this decline.

Recovery from the low point in 1921 at Georgia banks roughly paralleled growth throughout the nation. At the end of 1926, however, deposits were lower than at the end of 1925, contrary to the national trend. Moreover, although Georgia deposits remained practically unchanged from 1926 through 1928, deposits throughout the country expanded.

The period from 1925 through 1928 demonstrates how the relative rates of income changes in any area can influence the flow of deposits into and out of the area. Agriculture was less important as a source of income than in the early part of the decade, but was still the direct source of a fifth of the income received by individuals as well as a very important indirect source of most of the remaining four-fifths.

Cash farm income in Georgia was 20 percent lower in 1926 than in 1925; national farm income declined only 4 percent. Georgia agriculture fared worse during the years that followed than agriculture throughout the country. And in 1932 cash receipts from Georgia farm marketings were only 31 percent of what they had been in 1925. This decline was accompanied by a loss of over 25 percent in deposits of the Georgia member banks.

Wartime Growth and Postwar Decline

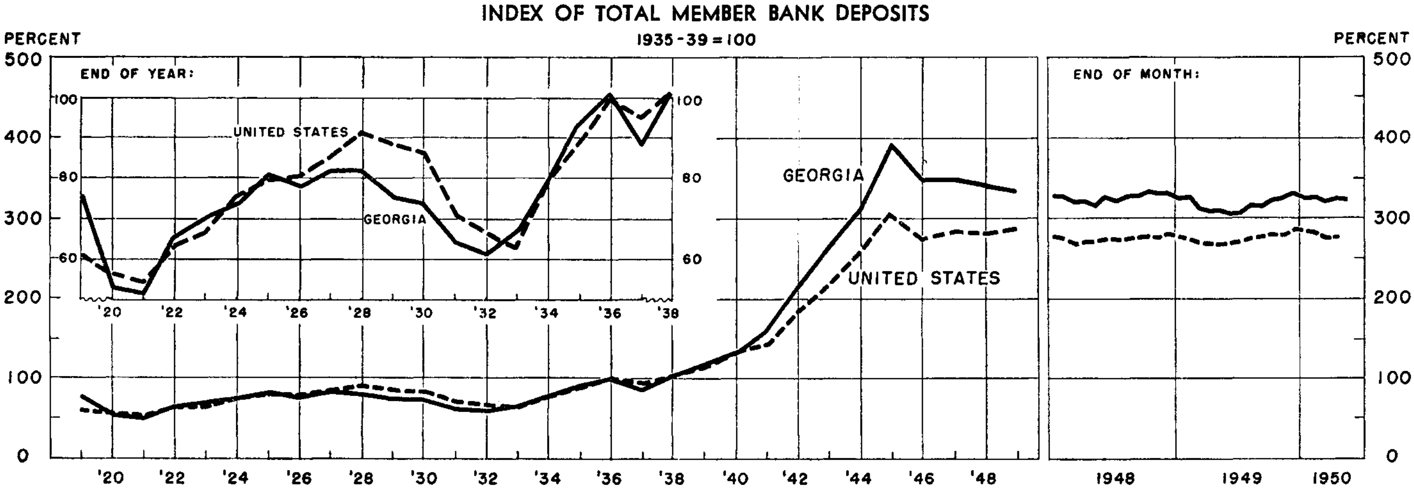
After the low point in 1933, recovery at Georgia banks again paralleled that of the country as a whole. At the beginning of the war period in 1939, deposits at Georgia member banks were at about the same position relative to deposits at all member banks as they had been twenty years earlier.

Most persons are familiar with the wartime developments that increased deposits at practically every bank in the country. But the growth at Georgia banks exceeded the national rate of growth. By the end of 1945, deposits were 231 percent greater than at the end of 1939, compared with an increase of 163 percent for the country as a whole.

In Georgia, total deposits declined after the war just as they did elsewhere. The decline in 1946 was accounted for primarily by the use of the Treasury's war-loan accounts to retire bank-held Government securities. Each year since then, however, deposits at Georgia member banks have been lower than at the end of the preceding year. By the end of 1949, Georgia deposits were 4 percent less than they were at the end of 1946, whereas for the nation, deposits rose 4 percent.

INDEX OF TOTAL MEMBER BANK DEPOSITS

1935-39=100



The deposit decline since 1946 at Georgia member banks cannot be blamed on a decline in income. United States Department of Commerce estimates of income payments to individuals in Georgia show a growth of 6 percent between 1946 and 1947 and one of 5 percent between 1947 and 1948. Estimates are not yet available for 1949, but it is probable that income was less than in 1948. A more likely explanation is that income was not expanding as rapidly in Georgia as elsewhere. For the same two periods, income payments in the nation increased 10 and 9 percent, respectively.

Industrial development in Georgia since the war has been characterized by a substantial growth but not the spectacular rise that is typical in some parts of the country. Moreover, because its manufacturing is concentrated in the nondurable lines, the state's income was increased less by the postwar boom in durable goods sales than income elsewhere. At the same time, many Georgians were using their accumulated bank balances to buy the durable goods manufactured in other regions that they could not get during the war. The result was a drain on Georgia bank deposits. Finally, agricultural income declined in 1949.

TOTAL DEPOSITS AT GEORGIA MEMBER BANKS
Classified by Area

Area*	Percent Change, End of Year				
	1939-45	1945-46	1946-48	1948-49	1939-49
Atlanta Area	+224	—12	— 2	— 4	+171
Atlanta	+211	—15	— 2	— 3	+152
Outside Atlanta	+310	+ 0	+ 0	— 4	+296
Augusta	+185	— 4	— 4	+10	+188
Columbus, (Ga.) Area	+325	+ 9	— 2	+ 2	+360
Savannah	+248	—13	— 4	— 2	+183
South Georgia	+142	—16	+12	— 4	+117
Georgia Total	+231	—11	— 2	— 2	+182
Sixth District Total	+254	— 8	+ 1	+ 0	+228
United States	+163	+ 9	+ 2	+ 2	+151

*Areas include several counties surrounding each city.

Georgia farmers last year received 16 percent less from their marketings than they did in 1948. A decline at this rate thirty years ago would probably have had a much more noticeable effect on the level of Georgia bank deposits than it did last year, when total deposits declined only 2 percent. Agriculture still constitutes a very important source of income for Georgians, but its relative importance has declined considerably. Instead of accounting for almost 40 percent of the state's income as it did in 1919, it now accounts for somewhat less than 15 percent. Manufacturing pay rolls in 1919 made up only 12 percent of total income. Now the ratio is close to 20 percent. With a more diversified income base, therefore, it appears likely that in the future, deposit changes at Georgia banks will correspond to national changes more closely than during the 1920's and 1930's.

The postwar deposit decline, however, has been minor and in no way resembled that which occurred after World War I. Georgia member bank deposits at the end of last year were 182 percent higher than at the end of 1939, a considerably greater rate of growth than the 151-percent increase shown for the country as a whole. The current level of deposits at Georgia member banks reflects the growth in manufacturing income which began during the last half of 1949. At the end of May, total deposits at all Georgia member banks were 4 percent higher than last May.

CHARLES T. TAYLOR

This article is the third in a series in which deposit trends in the individual Sixth District states are being discussed.

Sixth District Statistics

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

Item	June 21 1950	May 24 1950	June 22 1949	Percent Change June 21, 1950 from	
				May 24 1950	June 22 1949
Loans and investments— Total	2,444,984	2,446,597	2,261,355	— 0	+ 8
Loans—Net	914,273	903,399	795,741	+ 1	+ 15
Loans—Gross	927,876	916,946	806,783	+ 1	+ 15
Commercial, industrial, and agricultural loans	518,673	516,663	487,342	+ 0	+ 6
Loans to brokers and dealers in securities	12,531	12,978	8,764	— 3	+ 43
Other loans for purchasing and carrying securities	34,744	35,354	39,345	— 2	— 12
Real estate loans	82,163	79,925	69,284	+ 3	+ 19
Loans to banks	6,897	5,746	5,228	+ 20	+ 32
Other loans	272,868	266,280	196,820	+ 2	+ 39
Investments—total	1,530,711	1,543,198	1,465,614	— 1	+ 4
Bills, certificates and notes	568,122	591,446	358,353	— 4	+ 59
U. S. bonds	750,523	740,069	909,851	+ 1	— 18
Other Securities	212,066	211,683	197,410	+ 0	+ 7
Reserve with F. R. Bank	393,737	409,571	451,417	— 4	— 13
Cash in vault	39,674	41,782	40,869	— 5	— 3
Balances with domestic banks	160,372	162,199	156,736	— 1	+ 2
Demand deposits adjusted	1,789,203	1,793,377	1,724,605	— 0	+ 4
Time deposits	539,184	539,973	539,597	— 0	— 0
U. S. Gov't deposits	60,377	61,353	27,225	— 2	+122
Deposits of domestic banks	454,699	463,163	425,822	— 2	+ 7
Borrowings	1,000	8,500	6,500	— 88	— 85

DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Place	May 1950	April 1950	May 1949	Percent Change		
				May 1950 from		Year-to-date 5 mos. 1950, from 1949
				April 1950	May 1949	
ALABAMA						
Anniston	21,167	20,945	17,314	+ 1	+22	+ 3
Birmingham	344,104	327,863	311,612	+ 5	+10	+ 5
Dothan	13,002	12,518	10,875	+ 4	+20	+ 5
Gadsden	21,303	19,574	16,956	+ 9	+26	+ 8
Mobile	122,493	112,166	119,793	+ 9	+ 2	— 8
Montgomery	78,502	67,358	72,413	+17	+ 8	+ 8
FLORIDA						
Jacksonville	305,780	288,828	277,116	+ 6	+10	+10
Miami	273,917	273,151	233,304	+ 0	+17	+11
Greater Miami*	411,816	410,809	335,476	+ 0	+23	+12
Orlando	64,219	60,753	50,182	+ 6	+28	+24
Pensacola	35,171	33,352	32,006	+ 5	+10	+ 5
St. Petersburg	65,649	66,541	52,258	— 1	+26	+14
Tampa	140,830	137,590	120,805	+ 2	+17	+15
GEORGIA						
Albany	24,356	23,065	20,739	+ 6	+17	+ 2
Atlanta	931,727	843,868	783,851	+10	+19	+ 9
Augusta	58,270	57,866	49,764	+ 1	+17	+ 0
Brunswick	9,643	9,142	8,541	+ 5	+13	+ 7
Columbus	64,095	58,620	47,340	+ 9	+35	+19
Elberton	4,046	3,885	3,445	+ 4	+17	+ 7
Gainesville*	14,932	13,939	13,214	+ 7	+13	+ 5
Griffin*	10,769	11,288	9,736	— 5	+11	+ 5
Macon	69,279	56,562	53,312	+22	+30	+11
Newnan	9,419	7,894	7,717	+19	+22	+10
Rome*	20,411	20,936	17,296	— 3	+18	+11
Savannah	94,362	83,555	79,669	+13	+18	+ 4
Valdosta	11,780	10,477	11,306	+12	+ 4	+ 1
LOUISIANA						
Alexandria*	32,466	32,627	29,434	— 1	+10	+11
Baton Rouge	101,473	97,515	113,437	+ 4	—11	— 9
Lake Charles	36,979	33,731	34,483	+10	+ 7	+ 1
New Orleans	769,373	633,573	697,541	+21	+10	+ 5
MISSISSIPPI						
Hattiesburg	17,439	17,339	15,913	+ 1	+10	+ 9
Jackson	137,402	136,837	124,809	+ 0	+10	+ 6
Meridian	26,503	25,773	23,861	+ 3	+11	+ 4
Vicksburg	24,309	23,176	23,818	+ 5	+ 2	+ 1
TENNESSEE						
Chattanooga	148,195	139,931	127,963	+ 6	+16	+ 7
Knoxville	108,460	109,498	96,624	— 1	+12	+ 6
Nashville	329,376	306,659	280,204	+ 7	+18	+13
SIXTH DISTRICT 32 Cities	4,462,623	4,099,605	3,918,971	+ 9	+14	+ 6
UNITED STATES 333 Cities	112,078,000	102,528,000	99,280,000	+ 9	+13	+ 6

* Not included in Sixth District total.

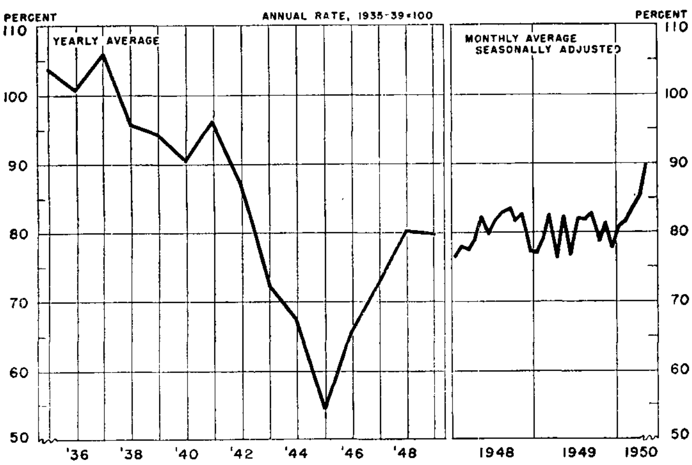
District Business Conditions

Increase in Deposit Activity

DEMAND deposits are being used more actively than before, according to data on the turnover of deposits at banks in leading cities of the Sixth District. In May, demand deposits at these banks were being used at a seasonally adjusted rate of 22.2 times a year. The rate was 20.3 times a year ago. Early reports indicate that the increased activity was maintained in June.

The turnover of demand deposits is a measure of the relationship between deposits and bank debits, consisting of checks and other withdrawals from deposit accounts. Converted to an annual basis, the turnover figure shows how many times, on an average, deposits are withdrawn and redeposited during the year. The turnover rates thus measure roughly what is sometimes called the velocity of circulation of that important part of the money supply represented by bank deposits.

TURNOVER OF DEMAND DEPOSITS
SIXTH DISTRICT MEMBER BANKS IN LEADING CITIES



An increase in the rate of deposit turnover generally means that spending is growing faster than deposits. This May, for example, the amount of demand deposits at the banks in leading cities of the District averaged only 2 percent higher than in May 1949. Debits to those deposit accounts, however, were 13 percent greater.

WARTIME DECLINE. Generally speaking, an increase in the rate of deposit turnover is characteristic of a period of expanding business activity. The war period was a notable exception. Although deposits expanded during the war, limitations on spending led to a decline in the rate of turnover and by 1945 it was only 55 percent of the 1935-39 average. The lowered rate meant that the expanded money supply was not exerting its full potential effect on increasing the price level.

POSTWAR DEVELOPMENTS. Beginning with 1946, the rate of turnover rose and the rise continued throughout 1948, when the turnover averaged 80 percent of the 1935-39 figure. During the same period demand deposits remained relatively stable. As a result of the increased rate of turnover, however, the deposits in 1946 were performing the work that would have required about 80 percent more deposits if they had been used at the rate prevailing in 1945.

So long as production is sufficient to provide the goods and services needed to offset an increased rate of spending, there need necessarily be no rise in the general price level even though the rate of deposit turnover is expanding. Although production was increasing from 1945 to 1948, the increase was insufficient to satisfy the increased demands at the old prices. The general price level as measured by the Bureau of Labor Statistics Wholesale Price Index rose 56 percent between 1945 and 1948.

During 1949, a slight decline in the rate of spending was indicated by the average rate of turnover at the District banks, reflecting the business recession and a decline in the general price level. This year, however, the seasonally adjusted rate has increased each month. In May the rate amounted to 90 percent of the 1935-39 average, an increase of 17 percent since December 1949. The May rate was highest for any month since early in 1942. This growth has been accompanied by an increase in the general price level.

SPENDING UP IN EACH STATE. A higher rate of spending this May than last is shown by all except one of the 36 District cities reporting bank debits. For the District as a whole, debits were 14 percent greater. Deposits at the reporting banks, however, expanded only 5 percent.

The same contrast is shown when the figures are grouped by states. At the Georgia reporting banks, debits were 20 percent greater this May than they were last year; deposits were up 4 percent. Debits at the Florida reporting banks were 18 percent greater, but deposits rose only 7 percent. At the Mississippi reporting banks, debits rose 9 percent, but deposits were at just about the same level this May as they were in May 1949. An identical rate of increase in bank debits was reported for the Alabama banks; deposits rose 4 percent. At the banks reporting from Tennessee, debits were up 16 percent, but deposits rose only 8 percent. C.T.T.

Inventory Growth and Sales Trends

Even without the stimulus provided by the National Service Life Insurance refunds during previous months, sales at Sixth District department stores in May continued at approximately the same level as in April after allowance is made for seasonal influences. During the first half of June, sales at the weekly reporting stores were 8 percent greater than those during that part of last June. If the trend continued throughout the remainder of the month, seasonally adjusted sales for June will be at about the same level as in May.

The contrast between the trends in inventories this year and those of last year is more striking than the contrast in the sales trends. At the end of May this year, total inventories of District department stores were 10 percent greater than on the corresponding date in 1949. Moreover, inventories have been increasng faster in recent months than sales.

Bank Announcement

On June 1, 1950, the St. Simons State Bank, St. Simons Island, Georgia, a newly organized nonmember bank, opened for business and began remitting at par. This bank has a capital of $25,000 and surplus and undivided profits of $15,000. The President and Cashier of the bank is J. H. Lester, Jr., and the Vice President is J. C. Strother.

Merchants were reducing their inventories during the first half of last year. Sales were below the levels of the corresponding months in 1948, and prices were declining. Inventories, however, were being cut at even greater rates than the rates at which sales were declining. Department store inventories reached their postwar peak in November 1948 when the seasonally adjusted index stood at 377 percent of the 1935-39 average. Immediately thereafter reductions began and by mid-1949 inventories were 14 percent lower on a seasonally adjusted basis than seven months earlier.

During the second half of 1949, although the general level of sales did not differ markedly from that of the first half, the stores began to build up their inventories. By the end of the year, department stores in the District reported that after adjustment was made for seasonal variation, inventories were 10 percent higher than at midyear. Although the rate of growth has slowed down since the beginning of this year, inventories were considerably higher this May than last. But they are still below the peak reached in late 1948.

An effort to restore a better balance between inventories and sales rather than a scramble to build up stocks in anticipation of price increases seems to be reflected in the current figures. The stores have added to their inventories most in those departments where sales showed the greatest rates of growth over last year. Preliminary reports from a selected group of department stores, for example, show May sales of pianos, radios, television sets, and phonographs up 88 percent from last year. The inventories of these items were up 29 percent, the greatest increase reported for any major department. On the other hand the women's coat and suit department reported sales down 5 percent from last year and inventories reduced 7 percent in value. These comparisons show no "involuntary" inventory accumulation.

SIXTH DISTRICT DEPARTMENT STORE SALES AND STOCKS
By Departments*

Selected Departments	Percent Change May 1950 from May 1949	
	Sales	Stocks
Silverware and Jewelry	−8	+14
Women's & Misses' Ready-to-Wear Accessories	+4	+10
Women's & Misses' Coats and Suits	−5	−7
Women's & Misses' Dresses	+0	+1
Men's Clothing	+10	+12
Furniture and Bedding	+21	+24
Domestic Floor Coverings	+9	+8
Major Household Appliances	+12	+46
Pianos, Radios, Television, Phonographs, etc.	+88	+29

*Preliminary, based upon sales of selected stores in leading cities.

Not only are stocks higher than they were last year, but forward commitments are greater. In January and February, outstanding orders at a selected group of District department stores were well below those of the corresponding months last year. At the end of March, however, they were 6 percent greater and at the end of April and May, they had expanded 27 and 45 percent, respectively, from 12 months previously.

C.T.T.

New Retail Credit Survey

Copies of the *Retail Credit Survey for 1949*, recently completed by this Bank, are available free of charge. Requests should be addressed to the Research Department. The survey is a detailed analysis of changes in sales and accounts receivable in nine major lines of business in the Sixth District, tabulated by states, principal cities, and areas.

Sixth District Indexes

DEPARTMENT STORE SALES

Place	Adjusted**			Unadjusted		
	May 1950	Apr. 1950	May 1949	May 1950	Apr. 1950	May 1949
DISTRICT	390	397	376r	378	389	365
Atlanta	426	446	415r	405	428	394
Baton Rouge	423	413	441r	419	413	436
Birmingham	386	372	384r	382	354	381
Chattanooga	388	371	342r	388	371	342
Jackson	433	384	395r	398	399	364
Jacksonville	442	368	430r	415	364	404
Knoxville	378	409	371r	390	413	382
Macon	409	395	330r	384	340	310
Miami	420	392	379r	361	407	326
Montgomery	390	383	374r	370	364	356
Nashville	444	451	422r	467	446	443
New Orleans	367	367	372r	345	374	350
Tampa	521	511	485r	489	516	456

DEPARTMENT STORE STOCKS

Place	Adjusted**			Unadjusted		
	May 1950	Apr. 1950	May 1949	May 1950	Apr. 1950	May 1949
DISTRICT	370	360	336r	366	378	332
Atlanta	478	460	415r	473	474	410
Birmingham	298	281	294r	283	295	279
Montgomery	405	396	355r	413	408	362
Nashville	529	545	486r	524	566	482
New Orleans	336	347	307r	346	365	317

GASOLINE TAX COLLECTIONS***

Place	Adjusted**			Unadjusted		
	May 1950	April 1950	May 1949	May 1950	April 1950	May 1949
SIX STATES	238	232	216	241	239	218
Alabama	232	231	208	237	234	212
Florida	221	239	200	223	255	202
Georgia	249	244	192	249	252	192
Louisiana	276	231	258	271	227	253
Mississippi	241	208	234	236	212	229
Tennessee	232	233	233	232	235	233

COTTON CONSUMPTION*

Place	May 1950	April 1950	May 1949
TOTAL	135	145	109
Alabama	135	147	118
Georgia	139	148	106
Mississippi	83	86	49
Tennessee	116	121	105

ELECTRIC POWER PRODUCTION*

	April 1950	March 1950	April 1949
SIX STATES	379	409	357
Hydro-generated	287	375	317
Fuel-generated	500	454	409

MANUFACTURING EMPLOYMENT***

Place	April 1950	March 1950	April 1949
SIX STATES	140	140	139
Alabama	141	141	144
Florida	134	137	132
Georgia	141	140	138
Louisiana	130	130	135
Mississippi	134	136	133
Tennessee	148	148	145

CONSTRUCTION CONTRACTS

Place	May 1950	April 1950	May 1949
DISTRICT	795	531	508
Residential	1,254	950	724
Other	572	328	403
Alabama	777	523	508
Florida	820	546	646
Georgia	780	640	463
Louisiana	488	625	517
Mississippi	596	204	212
Tennessee	1,059	605	471

CONSUMERS PRICE INDEX

Item	May 1950	April 1950	May 1949
ALL ITEMS	171	171	172
Food	200	198	203
Clothing	191	191	196
Fuel, elec., and refrig.	137	139	135
Home furnishings	183	183	189
Misc.	155	154	154
Purchasing power of dollar	.58	.58	.58

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	May 1950	April 1950	May 1949
Unadjusted	20.4	20.8	18.7
Adjusted**	22.2	21.1	20.3
Index**	89.9	85.4	82.4

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	May 1950	April 1950	May 1949
Unadjusted	308	302	301
Adjusted**	313	296	306

*Daily average basis
**Adjusted for seasonal variation
***1939 monthly average=100; other indexes, 1935-39=100

r Revised

Sixth District Statistics

INSTALMENT CASH LOANS

Lender	No. of Lenders Reporting	Volume: Percent Change May 1950, from April 1950	Volume: Percent Change May 1950, from May 1949	Outstandings: Percent Change May 1950, from April 1950	Outstandings: Percent Change May 1950, from May 1949
Federal credit unions	39	+41	+40	+ 6	+37
State credit unions	17	+83	+35	+ 7	+44
Industrial banks	10	+18	+16	+ 2	+ 7
Industrial loan companies	16	+12	— 5	+ 2	— 3
Small loan companies	41	+ 7	+ 1	+ 1	+ 6
Commercial banks	33	+17	+22	+ 4	+36

RETAIL FURNITURE STORE OPERATIONS

Item	Number of Stores Reporting	Percent Change May 1950, from April 1950	Percent Change May 1950, from May 1949
Total sales	118	+19	+ 6
Cash sales	104	+21	+ 6
Instalment and other credit sales	104	+21	+ 7
Accounts receivable, end of month	115	+ 3	+23
Collections during month	115	+ 3	+ 2
Inventories, end of month	91	— 1	+ 9

WHOLESALE SALES AND INVENTORIES*

Type of Wholesaler	Sales: No. of Firms Reporting	Sales: Percent Change May 1950 from Apr. 1950	Sales: Percent Change May 1950 from May 1949	Inventories: No. of Firms Reporting	Inventories: Percent Change May 31, 1950, from Apr. 30, 1950	Inventories: Percent Change May 31, 1950, from May 31, 1949
Automotive supplies	4	+ 5	—11	3	+ 7	— 4
Electrical group						
Full-line	3	+52	+52	3	— 1	— 7
Appliances	6	— 4	+17	5	— 1	+ 6
General hardware	8	+12	+10	4	— 5	+14
Industrial supplies	5	— 5	—23	3	— 3	+ 5
Jewelry	4	+ 5	+ 2	3	— 1	—20
Lumber and building supplies	3	+18	+54	.	....	....
Plumbing and heating supplies	4	+ 7	+25	3	+ 5	+ 1
Confectionery	5	+10	+ 3	.	....	....
Drugs and sundries	13	+ 5	+ 5	6	— 2	+10
Dry goods	18	+13	+ 3	13	— 4	+16
Grocery group						
Full-line	38	+11	+14	26	+ 3	+13
Specialty lines	12	+18	+11	6	+17	— 6
Shoes and other footwear	3	— 3	+34	....	....	...
Tobacco products	9	+ 7	+18	6	+ 5	+ 6
Miscellaneous	16	— 1	+16	14	+11	+ 2
Total	151	+ 7	+ 9	95	+ 2	+ 7

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

DEPARTMENT STORE SALES AND INVENTORIES

Place	Sales—Percent Change: May 1950 from Apr. 1950	Sales—Percent Change: May 1950 from May 1949	Sales—Percent Change: Year to Date 1950-1949	Number of Stores Reporting: Sales	Number of Stores Reporting: Stocks	Stocks Percent Change May 31, 1950, from Apr. 30, 1950	Stocks Percent Change May 31, 1950, from May 31, 1949
ALABAMA							
Birmingham	+17	+ 4	— 3	4	3	— 4	+ 1
Mobile	+13	+ 9	+ 1	5	.	..	..
Montgomery	+10	+ 8	— 0	3	3	+ 1	+14
FLORIDA							
Jacksonville	+23	+ 7	— 1	4	3	— 9	+18
Miami	— 4	+15	+ 4	4	3	— 0	+22
Orlando	+ 9	+ 8	+ 0	3	.	..	..
Tampa	+ 2	+11	+ 4	5	3	— 4	+18
GEORGIA							
Atlanta	+ 2	+ 7	+ 5	6	5	— 0	+15
Augusta	+ 6	+ 1	— 3	4	3	— 5	+33
Columbus	+16	+32	+13	4	.	..	.
Macon	+22	+16	+ 8	6	4	— 5	+ 2
Rome	— 9	— 3	— 1	4	.	..	..
Savannah	+ 4	+ 8	+ 6	6	4	+ 3	+12
LOUISIANA							
Baton Rouge	+ 9	— 0	— 7	4	4	— 5	+ 7
New Orleans	— 0	+ 3	— 1	5	4	— 5	+ 9
MISSISSIPPI							
Jackson	+ 8	+14	+ 4	4	4	— 6	+18
Meridian	+14	+ 4	— 5	3	.	..	..
TENNESSEE							
Bristol	— 5	+ 4	— 2	3	3	+ 0	—11
Chattanooga	+13	+18	+11	4	3	— 3	— 2
Knoxville	+ 2	+ 6	+ 1	4	.	..	..
Nashville	+13	+ 9	+ 3	6	5	— 7	+ 9
OTHER CITIES*	— 7	+ 9	+ 4	22	22	— 1	+ 1
DISTRICT	+ 5	+ 8	+ 2	113	76	— 3	+10

*When fewer than three stores report in a given city, the sales or stocks are grouped together under "other cities."

Industry and Employment

May was another near-record month in the volume of construction contracts awarded in the Sixth District. Steel mills have been operating at well above rated capacity since the middle of March. Coal output has declined somewhat, however, from the level of March and April and is less than it was a year ago. Textile mill operations were also off somewhat further in May.

THE VALUE OF CONSTRUCTION CONTRACTS awarded in the District in May was up 50 percent from April, and was 53 percent greater than in last May. The gain in each instance was shared by five of the District states, Louisiana having the only decreases. Residential contracts awarded in May were 32 percent larger than in April and 72 percent greater than in May 1949. Other awards were up 74 percent for the month and were 37 percent greater than a year ago. Total awards in the District for the first five months of 1950 amounted to 688 million dollars, 72 percent more than the total for the same part of 1949. Residential awards amounted to 321 million dollars, 86 percent more than a year ago. Other awards increased 61 percent.

In the value of residential awards Florida continues to lead the other District states. In percentage gains over last year, however, residential awards in Florida in the January-May period this year were up only 66 percent. In Alabama the increase was 87 percent. In Georgia, residential awards were double the amount for the first five months of last year, and in Louisiana, Mississippi, and Tennessee the five-month total was about two-and-a-half times that of a year ago.

MANUFACTURING EMPLOYMENT in the District continued in April at about the March level. For the first time in many months, the District index was slightly higher than in the corresponding month a year earlier. Slight gains over March in Georgia and Louisiana were offset in the District total by decreases in the other four states. Decreases from April 1949 in Alabama and Louisiana were almost large enough to offset increases in the other four states.

In Alabama, employment in shipbuilding and repair was off more than one-half from April last year, and in Louisiana also the largest decrease was in shipbuilding and repair. In the other four states, the April index is above that for April 1949 — by 1.4 percent in Tennessee, 1.6 percent in Florida, 2.5 percent in Georgia, and 5.2 percent in Mississippi.

ELECTRIC POWER PRODUCTION by District public utilities declined 7 percent in April, after a small decrease in March. It was, however, 6 percent larger than in April last year. The April decrease was caused by a drop of 23 percent in current produced by hydro-generated plants, offset only in part by an increase of 10 percent at plants using fuels. Hydro-generated power accounted for 43 percent of the total in April, 52 percent in March, and 50 percent in April last year. April output at hydro-generated plants was 9 percent less than in April 1949, but at plants using fuels it was 22 percent higher.

COTTON TEXTILE mill activity, on the basis of daily average rate of cotton consumption, was off about 7 percent for May, but was 24 percent above the rate for May 1949. From April to May, consumption declined 8 percent in Alabama, 6.6 percent in Georgia, 4.5 percent in Tennessee, and 2.5 percent in Mississippi. In the ten months of the current cotton year, August through May, mills in these four states consumed 2,660,767 bales of cotton, a gain of 11.5 percent over the previous cotton year. The increase for the entire country was 10 percent.

D.E.M.