MONTHLY REVIEW

FEDERAL RESERVE BANK OF ATLANTA

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Current Livestock Lending Policies

Since commercial banks are essentially community institutions, agricultural credit policies are influenced considerably by customs and traditions of farm life and rural communities. Credit policies, moreover, not only are the result of changes that take place on the farm and in town, but they shape the direction and rate of the changes themselves.

In the early days of commercial banking, decisions on individual farm loans and those regarding total farm loan volume were somewhat simpler than they are today. There was no question, for example, about a banker being interested in agriculture; there wasn't much of anything else he could be interested in. The few stores around the town square were borrowers, it is true, but their sales and collections were almost solely dependent on the ups and downs of farm income. Agriculture was the economic life of most rural communities.

Farming in most of the District was a comparatively simple operation. Even as late as the 1920's, the pattern was still similar to what it had been for almost a century—cash-crop production with mules and manpower. Neither farming nor farm lending, however, was particularly easy. Prices of commodities were erratic and the high degree of farm specialization increased risks. In most instances the banker took a calculated risk both as to production and price, and that, more than anything else, determined lending policy. If the borrower met that risk, he got his loan; otherwise he didn't.

There is, of course, a definite relationship between production patterns and bank lending policies. When tractors began to replace mules on cotton farms, the financing of them presented many new problems. The banker, for example, had to find reasonable answers to such questions as: On what size cotton farms will tractors be economical? What type and length of loan will best suit the borrower and lender? What is the collateral value of tractors and equipment? Aside from the questions raised in the financing of the tractor, however, were those that arose from changes in the production pattern of cotton. Where tractors replaced mules, croppers were usually replaced by cash-wage hands at harvest, and that change in labor supply materially affected risks and costs.

In the decade of the 1930's, the control programs and the development of new market opportunities caused farmers to start diversifying. Each time a new crop was added to cotton or other cash crop, the lender had to appraise not only cotton production and tractor power, but the entire farm program. As these programs have become increasingly complicated, moreover, with the addition of year-round grazing, livestock, and seed crops, all the problems and combination of problems associated with them have found their way to the banker's desk. Because managerial capacity is much more important to the successful operation of diversified farm programs than it is in the production of a single cash crop, the borrower's managerial ability also had to be appraised. The number and type of decisions that call for the establishment of lending policies, therefore, have increased markedly.

Why Are Policies Necessary?

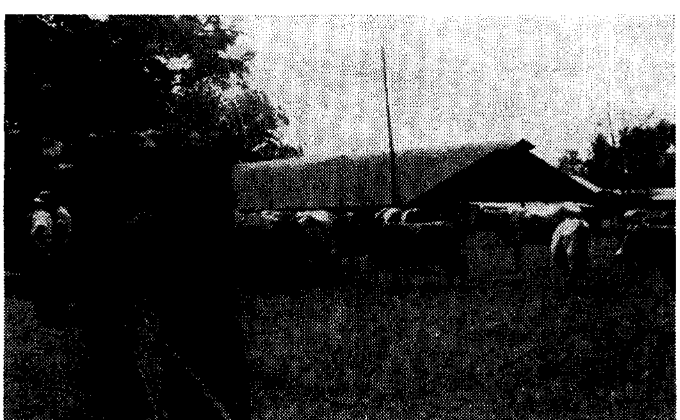
To explain what current farm lending policies are as they relate to livestock loans, it is necessary to answer the question, "What makes bankers do what they do?" Although it is difficult for anyone to explain in detail why he did or did not do something, the bankers contacted in a recent credit survey had rather definite reasons for establishing their lending policies.

Bankers make many decisions relative to farm loans, but not all of them could be termed policy decisions. When a decision has been made which applies to borrowers generally, however, that action decided upon becomes a policy. If a farmer were refused a loan for a tractor because of a lack of managerial ability, or because of his character, or some other individual consideration, such refusal might not, of course, be in accordance with a specific policy decision. On the other hand, if the bank required a 40 percent down payment and the balance in two years (as many do), that action would become a policy. If the applicant were turned down because he lacked the down payment, the refusal would be in accordance with an established policy of the bank.

The difference between the two is important. Appraisal of an applicant against a policy is impersonal, at least to the extent that the borrower feels that the same yardstick will be used on all other borrowers. There is an understandable tendency for bankers to establish both positive and negative policies and, from a public relations standpoint, it is easier to handle a request based on general qualifications than one based only on personal characteristics.

The establishment of policies can make the job of lending easier and the use of funds more effective, because once a policy is thought out, it is not necessary to repeat the process with each new application. And, by the same token, as the number of specific policies becomes larger, the area in which individual appraisal is needed becomes narrower.

There is, moreover, another important advantage that accrues from making policies generally known; it saves time in the bank. If a bank makes it known, for example, that it will finance cattle only after pastures and grazing crops are established, then a farmer is not likely to come to the bank seeking a cattle loan until he has met that requirement.



A farmer can make excellent use of the bank's lending policies in planning his farm program. It is the policy of some banks not to extend credit for pastures and grazing crops until the area to be seeded is fenced. Thus, farmers in the areas served by those banks can plan their livestock expansion accordingly—first the fence, then the feed crops, and finally the cattle.

There is one consideration in making specific policies known to the community, however, that is looked upon unfavorably by some bankers. Once policies are established, the bank is obligated, at least in the borrower's opinion, to lend to all customers who meet those standards. But it may be that the capital structure of the bank and of the community is such that all prospective borrowers simply cannot be taken care of. Where that condition exists, it puts the bank and the banker in an embarrassing position to have to turn down some customers who have met the established lending criteria. The relationship between lending policies and the capital structure of rural banks will be discussed in the next issue of the *Review*.

Who Makes Lending Policies?

Since banks do have farm lending policies, it is pertinent to ask who makes them and for what reasons. Perhaps the most important group of people who help to determine lending policies are the farmers themselves. Their attitudes, ambitions, and opportunities determine what they want to do and influence their requests for capital. That does not mean, of course, that banks do not inspire and encourage farmers to adopt better management practices. Many do so. Their attendance and participation in the various types of farm meetings and programs, particularly those of the 4-H Clubs and the FFA, have been instrumental in encouraging farmers. But whether from county agent instruction, banker stimulation, or from whatever source, the farmers themselves must first want to do those things that require credit. This was demonstrated repeatedly in the credit survey when, on inquiry as to why there were not more livestock loans, the bankers replied, "People just haven't asked for them."

Next in order, perhaps, among the determiners of policy, come the bank executives. Their interest, knowledge, and foresight may determine whether the bank has lending policies and if so whether they are positive or negative. In no instance, however, did the study reveal progressive policies where the executive officers were not genuinely interested in agriculture.

Back of the officers, of course, come the directors. They are ultimately responsible for the bank policies and are instrumental in making them. Even when the officers are enthusiastic and want to try new procedures or new methods, the directors can stop them if they do not agree with them. Or, as in many banks, the policies may originate with the directors. Neither the officers nor the directors, of course, are completely free to make the rules of lending. State and national authorities prescribe the general boundaries of activity through laws and regulations and enforce them through examination.

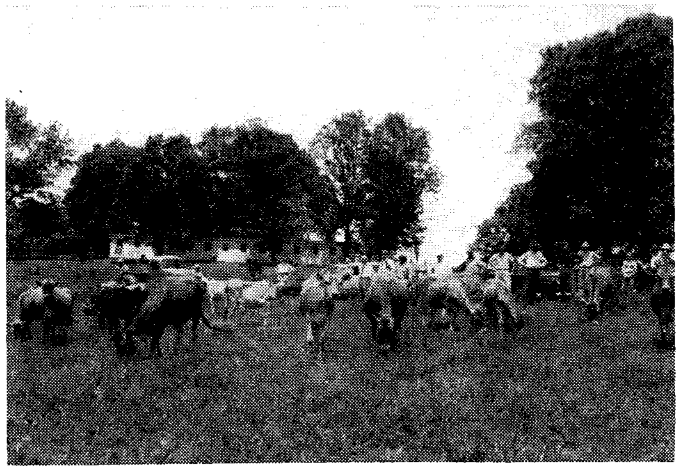
Custom also plays a part in determining policies. Where a bank has become well known for its interest in farming, that recognition is a powerful incentive to keep abreast of changes and modify lending practices whenever necessary. Then too, competition of other banks or of Government-sponsored credit agencies has a bearing on the way a particular bank handles its loans.

What Did the Survey Show?

In order to ascertain how rapidly and on what terms farmers are seeking loans for livestock in their transition toward diversified farming, information was obtained from 27 banks in sections representing the various types of farming areas in Alabama and Georgia. The banks were chosen because they had a sizable farm loan business; they are, therefore, probably above average. And for that reason their lending policies are probably a bit more tailored to the needs of financing livestock than those of the average commercial bank.

The study was not designed to obtain information on interest rates; nor is the purpose here to appraise the lending policies, but rather to explain them. And it should perhaps be emphasized that, with almost no exception, these policies are applicable only to the regular customers of the banks. The reluctance of banks to take on new borrowers, particularly for livestock loans, is due to the heavy demands of present customers, the desire to hold down the volume of loans in the present inflationary period, and the necessity of having a record of past performance on the borrower.

How Much the Farmers Asked For One of the first questions that arises in the borrower's mind



is, "How much money will the bank lend?" The answer to that question depends on many variables, some of which involve bank policies, but the one thing that determines the amount of credit, more than any other, is the borrower's request. Only in rare instances did the banks surveyed require a downward adjustment in the farmer's estimate of his credit needs.

From the records of approximately 600 borrowers in the 27 banks, it is evident that, as a rule, the farmer expanding his livestock is using credit rather sparingly. His own conservatism plus the repeated advice of his county agent and others to *grow* into the business have made the farmer cautious. Generally speaking, the borrowers for livestock expansion may be divided into two broad classes; those seeking to substitute livestock for a part of their crop operations, and those who are adding livestock while maintaining their cash crop program.

How much credit a farmer applies for to begin a livestock program or to expand an existing one depends on his choice of livestock, his experience, his own capital and collateral, and the rapidity with which he seeks to attain his goal. Apparently not many farmers who have had profitable crop operations wish to jeopardize their program or their financial position by biting off too much at once. That is evident from the amount of credit they have requested. The amount of credit sought, as measured by total acres of cropland, was roughly the same per acre whether for cash crop production or for livestock. That suggests that the farmers, particularly those who are substituting livestock for crops, have evidently set some over-all credit ceiling for their farm which they are reluctant to break through. Undoubtedly they have been influenced by bank policy.

Then too, farmers are well aware that in the initial stages of livestock development, income is low and for a period their ability to repay loans is reduced. Those farmers who are adding livestock to their normal operations by clearing and draining land while not borrowing more per acre are borrowing on more acres. Hence, their credit totals are larger. In these instances, however, the farmers have advanced substantial amounts of the capital costs and have pledged additional collateral such as bonds and additional security by the assignment of life insurance. Many of the latter group have filed financial statements showing net worth of more than adequate coverage.

Obviously, there are many farmers who have no desire to add livestock to their program. Among them are tenants who lack security, old people who do not want to undertake new enterprises, small farmers who must farm intensively, and finally those who prefer cash-crop farming.

Farmers who have been refused a loan for livestock production have been, for the most part, of unsatisfactory character, or completely inexperienced, or have presented wholly impractical plans to the banker. Banks have shown a willingness to adjust the credit conditions to fit the borrower where the operation to be financed was practical and was within his managerial capacity to carry out.

How Much the Banks Granted The amount that banks are willing to lend on livestock is variable. These variations are accounted for by bankers' attitude toward livestock, by their experience in making livestock loans, and by market opportunities. Legal limits, moreover, both as to individual loans and total loans, are at present affecting lending by some banks. In addition, the amount of check-up or attention that banks can devote to their farm borrowers, ranging from none in some banks to quite a bit in banks with special farm men, has some bearing on the amount of credit granted.

Despite the wide variations in farm experience and net worth and despite a wide range in attitude and bank experience, loans for livestock follow a fairly general pattern. In most banks the amount of money loaned for livestock, whether for animals, feed crops, or facilities, paralleled the amount loaned for crop production measured on a per-acre basis. Between banks, of course, the amounts varied widely.

The survey was not designed to determine the max-

imum amount that banks would lend, yet if the individual loans are divided by the total cropland of the borrower and reduced to a per-acre basis, a practical maximum can be determined. Using that measure, the amounts ranged from 10 dollars to a practical high of about 30 dollars. In three of the 27 banks the maximum loans for livestock were 38, 45, and 55 dollars per crop acre. These were special cases, however, each of which involved a real estate mortgage on the farm. The 55-dollar loan was for a period of four years. In most of the banks the ceiling for annual livestock loans, secured mostly by chattels, centered about 20 to 25 dollars per acre.

The policy of limiting annual loans for livestock to approximately the amount extended per acre for crop production is based on the recognition by bankers that there is little likelihood that per-acre returns from livestock will be higher than cash-crop returns. And it is that recognition of income potential that is responsible for bankers limiting credit extensions for livestock to a pay-as-you-go basis. Based on the coverage of the survey, it was only when borrowings exceeded this general limit that any real difficulties in lending practices or procedures occurred.

On What Kinds of Livestock Were Loans Made?

Because of the very rapid strides made recently in the production of forage, most of the current livestock borrowings are for grazing animals—beef cattle and dairy cows. Beef-cattle loans predominate not only because of the high interest in cattle, but also because of the availability of markets in practically every part of the District. The construction of auction markets and improvements in trucks and highways have brought the market within reach of all farmers. The wide dissemination of market information, moreover, particularly by means of the radio, has given most farmers flexibility in their choice of markets.

Loans for dairying, on the other hand, are limited because of market outlets. The market for Grade A milk, for example, cannot be expanded to all farmers and, as yet, there are few processing facilities for manufacturing milk. Therefore, farmers who are not on milk routes, either Grade A or B, obviously are not interested in obtaining loans for dairy cows. There was, however, no reluctance to lend for dairying as such. On the contrary, banks usually preferred dairy loans, which were easy to collect because of the regularity of milk payments.

Basic to cattle loans, either for beef or dairy cattle, are loans for fencing, feed crops, and equipment. Because of the variety of such products and the wide range in their costs, their financing is geared to the income potential of the livestock and is within the over-all annual credit program of the farmer.

For Beef Cattle The amount of credit for beef cattle and the policies under which it is extended depend, substantially, on the type of farm operation. Because most farmers do not have abundant carbohydrate feed for finishing cattle, the cow and calf combination is by far the most popular of the beef enterprises.

With only minor exceptions, the banks surveyed would lend for the purchase of grade cows up to the limit of the feed available on the farm, provided the cost of the cows was reasonable and they were free of Bang's disease. Although loans were readily made for the purchase of purebred herd bulls, banks were reluctant to lend for the purchase of purebred beef cows. Moreover, banks were not inclined to lend for fattening cattle or for speculative purposes. Because of their special educational value, loans for 4-H and FFA cattle are handled differently from commercial cattle loans.

For Dairy Cattle Loans for dairy cattle followed a fairly uniform pattern. Where feed was available and where farmers were expanding, banks would finance the purchase of cows up to the number the farmer already owned. If a farmer had five cows, for example, the bank would lend for the purchase of up to five more cows. The usual practice is for the bank to take a mortgage on the herd and have the loan retired through monthly amortization by deductions from milk receipts.

The production of milk, particularly Grade A milk, requires a higher capital investment in buildings and equipment than does the production of cattle or hogs. But despite that, some workable procedure for handling the milk production loan is usually made. Loans of this type, however, are usually made for a period of more than one year, or with an understanding for renewal, and are retired by applying alternate milk checks, or one-half of each, to the indebtedness.

What Are the Prerequisites for Livestock Loans?

Although the personal qualifications of a borrower are rather nebulous, there are certain general requirements which a farmer must meet. These requirements are applicable regardless of other factors that may be considered in granting a loan.

Character Always an important consideration in lending, character is unusually significant in lending for livestock expansion. In the last issue of the *Review,* it was shown that of the total loans made for livestock expansion by the 27 banks, 46 percent carried verbal understandings for renewal. Obviously, such personal and unwritten understandings require that the borrower be honest and of the highest integrity. Just how much the policies governing character requirements have limited livestock loans is not known, but they are important. A few applicants for livestock loans were turned down by the banks surveyed because of their character, but they would likely have been turned down for any kind of a loan.

Experience Some experience in the raising of livestock was a prerequisite to obtaining livestock loans in all the banks. That does not mean, of course, that the farmer must have had experience of commercial proportions, but rather that he must know how to feed, breed, and care for the type of livestock he sought to expand.

Another, and the more stringent requirement, was that the farmer must have shown successful management of his cash crops. If he had shown increasing yields and efficient use of labor and machinery and had sought to build up the productivity of his farm, then it was felt he would extend those same management qualities to livestock. Conversely, those farmers who had shown little desire to improve their farms or yields were discouraged before a formal application for credit was made.

Tenure Since the proportion of farm tenancy in the South is generally high, the question of whether the region will ever become a livestock area is sometimes raised. The mere fact that a farmer has a tenant status does not preclude him from obtaining livestock loans at the banks participating in the study. If he meets the other qualifications and has some security in his tenure, either by lease or long occupancy, then the banks have demonstrated that they will lend.

Size of Farm The size of a farm has little meaning except in terms of what it is producing and in comparison with other farms. In the previous *Review* article, it was shown that 34 percent of all the loans made to farmers with 80 acres or more of cropland were for livestock purposes, whereas on farms of less than 80 acres only 7 percent of the loans were for that purpose. If 80 acres of cropland is considered a fair general division between large and small farms, then the larger farms are expanding their livestock much more rapidly.

Size of farm and income are so closely related that it is difficult to separate them. The majority of livestock loans have gone to the larger farmers mainly because of the popularity of beef cattle, which, in most cases, is not practicable on small farms. Most of the cattle loans were obtained by farmers who operated on about a hundred acres or more.

There are some cattle enterprises that can be successful on small farms, and farmers who sought credit for them were usually accommodated. One bank in a mountainous area, for example, made about a third of its cattle loans, based on a random sample, to farmers with less than 80 acres. Because of the high labor requirements and higher returns per acre, the production of milk is more feasible on smaller farms than the raising of cattle. The loans for dairying, therefore, were made mainly to farmers on medium-size farms of around 60 to 100 acres of cropland. In a few instances, loans were made on smaller farms, but these were for the production of milk for manufacturing purposes as well as for usual crop production.

On What Basis Were the Loans Made?

In making livestock loans, bankers are much more careful to itemize the particular purposes for which the money is to be used than they are in making crop production loans. Itemization is particularly important in working out maturity and amortization and in tailoring the loan to the need for it.

When financing beef cattle, for example, the banker and borrower sought to make the loan for a period of time and with a maturity date that would coincide with an income period. Since, on many farms, cattle are sold in the fall when grass begins to die, maturity dates were usually made to coincide with that marketing period. Where no sales of livestock were contemplated within a 12-month period, the maturity date was adjusted to a crop-income period. In making dairy loans, repayment was amortized monthly or semimonthly regardless of purpose or maturity. In some instances repayment was delayed until production reached a certain level.

Maturity Although the practice of making a livestock loan mature in 12 months or less may seem an unrealistic policy when viewed from the purpose for which the loan was made, renewals have had the practical effect of extending what is usually termed "intermediate credit." Although the loan is due and callable on maturity date, the bankers said that they would not arbitrarily call them when to do so would force liquidation or sale at an inopportune time. The high percentage of renewals on livestock loans is evidence that the policy is working both for the lender and for the borrower. Annual maturities, moreover, give the banker and farmer an opportunity to review progress and perhaps head-off trouble before it becomes serious.

Collateral The differences in collateral required for livestock loans were not really the determining factors in making most of the loans. Sixty-nine percent of the total notes listing security for livestock loans were for chattels either on livestock alone or in a combination with other chattels. Only 9 percent involved a mortgage on real estate, and 12 percent were made on open note.

Appraisals Policies regarding appraisal of a farm and its equipment and livestock as a prerequisite to a cattle loan also were variable, particularly between banks. The size of the loan is, of course, very important. In some banks, particularly those which have special farm representatives, an appraisal of the farm and the farm program was customary. This was especially true where either the amount of the loan or its terms required a real estate mortgage.

Generally, the banks required no complicated forms, schedules, or appraisal for the average livestock loan to a regular customer. If the loan were for a new customer, appraisals of farm and program were made.

Supervision Since for many banks the financing of livestock is a relatively new venture, some of them maintained frequent check upon the progress of the borrower. This was particularly true of banks with special farm men. These check-ups are most important, and while every effort is made to make them appear to be a casual visit, they are part of a definite policy. In some banks a report is made on these visits and appropriately filed; in others nothing is written. The methods by which this check-up is maintained are numerous; they include personal visits, riding the country roads and observing, and contacts with neighbors of the borrower. In none of the banks, however, did the bankers report any unfavorable reactions from the borrowers because of follow-ups on the loans. On the contrary, many of the banks reported that visits by bank personnel, especially farm men, were genuinely welcomed. The fact that many of the officers in rural banks have farms of their own on which they, too, are expanding livestock put the visits on a basis of mutual interest.

Summary

The credit problems arising from the shift from highly specialized crop farming to a diversified program including livestock, have been numerous and, in a few instances, vexing. Nevertheless, progressive rural banks have devised means and adopted policies that have made credit available for this transition without imposing unreasonable requirements or changing the basic policies that have governed their farm lending in the past. The high percentage of farmers who are currently using bank credit to expand their livestock enterprises is evidence that the policies of the banks are acceptable to the borrower.

JOHN L. LILES

This article is the second in a series in which the results of a farm credit survey made recently by this bank are being discussed. The last article in the series will appear in the June issue of this REVIEW. *Extra copies of the first article which appeared in the April* REVIEW *are available upon request to this bank.*

Sixth District Statistics

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

Item	May 23 1951	April 25 1951	May 24 1950	Percent Change May 23, 1951, from April 25 1951	Percent Change May 23, 1951, from May 24 1950
Loans and investments—					
Total	2,505,431	2,514,483	2,446,597	—0	+2
Loans—Net	1,119,205	1,135,699	903,399	—1	+24
Loans—Gross	1,137,297	1,153,321	916,946	—1	+24
Commercial, industrial, and agricultural loans	661,517	683,918	516,663	—3	+28
Loans to brokers and dealers in securities	14,472	14,440	12,978	+0	+12
Other loans for purchasing and carrying securities	33,399	33,645	35,354	—1	—6
Real estate loans	92,817	93,515	79,925	—1	+16
Loans to banks	11,516	5,534	5,746	*	*
Other loans	323,576	322,269	266,280	+0	+22
Investments—Total	1,386,226	1,378,784	1,543,198	+1	—10
Bills, certificates, and notes	531,202	525,731	591,446	+1	—10
U. S. bonds	636,135	638,796	740,069	—0	—14
Other securities	218,889	214,257	211,683	+2	+3
Reserve with F. R. Bank	460,712	478,261	409,571	—4	+12
Cash in vault	45,035	45,624	41,782	—1	+8
Balances with domestic banks	175,398	188,511	162,199	—7	+8
Demand deposits adjusted	1,882,937	1,894,644	1,793,377	—1	+5
Time deposits	515,173	514,036	539,973	+0	—5
U. S. Gov t deposits	91,266	102,775	61,353	—11	+49
Deposits of domestic banks	478,915	494,518	463,163	—3	+3
Borrowings	9,900	14,000	8,500	—29	+16

*More than 100 percent.

DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Place	April 1951	March 1951	April 1950	Percent Change: April 1951 from March 1951	Percent Change: April 1951 from April 1950	Percent Change: Year-to-Date 1951 from 1950
ALABAMA						
Anniston	27,560	31,272	20,945	—12	+32	+34
Birmingham	390,160	446,483	327,863	—13	+19	+25
Dothan	17,714	20,678	12,518	—14	+41	+45
Gadsden	20,978	25,015	19,574	—16	+7	+21
Mobile	148,985	174,600	112,166	—15	+33	+32
Montgomery	93,283	97,937	67,358	—5	+38	+23
FLORIDA						
Jacksonville	344,946	396,293	288,828	—13	+19	+22
Miami	319,893	366,777	270,261	—13	+18	+20
Greater Miami*	487,649	560,853	407,919	—13	+20	+23
Orlando	69,339	88,150	60,753	—21	+14	+17
Pensacola	39,699	46,103	33,352	—14	+19	+21
St. Petersburg	78,799	94,169	66,541	—16	+18	+25
Tampa	158,310	193,771	137,590	—18	+15	+18
GEORGIA						
Albany	30,856	35,491	23,065	—13	+34	+39
Atlanta	1,053.020	1,117,185	843,868	—6	+25	+27
Augusta	78,755	83,120	57,866	—5	+36	+41
Brunswick	11,256	12,115	9,142	—7	+23	+32
Columbus	69,339	78,900	58,620	—12	+18	+29
Elberton	3,985	4,789	3,885	—17	+3	+17
Gainesville*	19,321	21,919	13,939	—12	+39	+49
Griffin*	12,551	13,609	11,288	—8	+11	+19
Macon	73,573	85,103	56,562	—14	+30	+34
Newnan	11,175	11,875	7,894	—6	+42	+40
Rome*	24,031	27,062	20,936	—11	+15	+27
Savannah	112,028	120,061	83,555	—7	+34	+30
Valdosta	12,381	13,281	10,477	—7	+18	+17
LOUISIANA						
Alexandria*	40,309	42,964	32,627	—6	+24	+29
Baton Rouge	109,798	113,832	97,515	—4	+13	+10
Lake Charles	43,469	48,885	33,731	—11	+29	+29
New Orleans	805,463	857,028	633,573	—6	+27	+18
MISSISSIPPI						
Hattiesburg	17,961	20,865	17,339	—14	+4	+13
Jackson	156,485	198,799	136,837	—21	+14	+21
Meridian	31,371	33,539	25,773	—6	+22	+24
Vicksburg	24,509	26,745	23,176	—8	+6	+3
TENNESSEE						
Chattanooga	174,999	197,843	139,931	—12	+25	+27
Knoxville	132,019	142,370	109,498	—7	+21	+28
Nashville	378,081	398,471	306,659	—5	+23	+19
SIXTH DISTRICT						
32 Cities	5,040,189	5,581,545	4,096,715	—10	+23	+23
UNITED STATES						
333 Cities	128,437,000	144,012,000	102,528,000	—11	+25	+25

*Not included in Sixth District totals.

District Business Conditions

A Slackening in Consumer Buying

Many things have been blamed for the current slackening in retail sales. Congressional hearings broadcast over television, the weather, accumulated stocks of goods in the hands of consumers, and high prices are but a few of them, depending upon the part of the country to which they apply. There is general agreement, however, that the slackening has been in the rate of advance from month to month rather than in an actual decline in total consumer buying.

In this district, according to estimates based on United States Department of Commerce data, total sales at all retail stores were 18 percent higher in the first three months of 1951 than in the corresponding period of 1950. Food store sales, reflecting higher prices, were especially high, and clothing store sales were stimulated by an early Easter. New car sales were holding up well although a slackening in the demand for used cars was noted. A slowing down was also evident in the sale of furniture and household appliances.

In April, however, even after account was taken for the late date of Easter last year and other seasonal influences, total sales of the District department stores were only 4 percent greater than in March and 11 percent lower than in April 1950. Furniture store sales were running about a quarter less than a year ago and it was reported that some automobile dealers were building up stocks of both new and used cars.

Available May figures indicate about a 6 percent gain in seasonally adjusted department store sales from April and an increase of one percent from May 1950. Some understanding of these trends may be gained by a backward glance at the factors that have financed the additional consumer buying since the outbreak of the Korean War.

Financing Expanded Buying The money to pay for the increased amounts of goods consumers bought came from three principal sources. Consumers used more credit; they drew on their savings; and they got higher incomes.

The relative impacts of these three factors, however, have varied in intensity from period to period since last June when the war began in Korea. In the third quarter of 1950, credit and the use of accumulated savings added to the purchasing power provided by higher incomes. During the last quarter of 1950, the influence of credit and savings was fairly neutral, with the major part of the increased buying financed out of higher incomes. So far in 1951 the liquidation of credit has had a deflationary effect.

Greater Use of Savings and Credit In this district, as well as elsewhere in the United States, consumers drew so heavily on their accumulated savings in the third quarter of 1950 that the increase in their long-term savings built up during the first half of the year was largely canceled. With buying slowed down, additions to long-term savings and balances in many types of savings institutions were restored during the final quarter of that year. The net rate of growth in long-term saving during 1950, however, was the smallest since the start of World War II.

Long-term savings of individuals in this district, according to preliminary estimates, amounted to about 9.7 billion dollars at the end of 1950. These savings, made up of savings and loan shares, life insurance equities, commercial bank time deposits, postal savings deposits, and United States savings bonds comprise the bulk of the long-term savings held by the majority of individuals.

ESTIMATED PER CAPITA LONG-TERM SAVINGS
SIXTH DISTRICT STATES

		Percent Change, 1949-1950					
	Dollar Total Dec. 31, 1950	Total	Savings & Loan Shares	Life Insurance Equities	Commercial Bank Time Deposits	Postal Savings	U. S. Savings Bonds
Alabama	475	+5	+11	+6	—1	—9	+5
Florida	735	+5	+17	+8	+10	—9	—6
Georgia	568	+3	+13	+6	—1	—8	—2
Louisiana	591	+3	+13	+6	0	—12	—1
Mississippi	355	+1	+24	+4	—3	—20	—2
Tennessee	586	+5	+17	+7	+4	—10	0
Six States	558	+4	+14	+6	+2	—8	—1

The heavy withdrawals from savings deposits at commercial banks during the third quarter of the year and the redemptions of large amounts of savings bonds meant that these two types of savings increased but slightly during 1950. On the other hand, the high level of spending was not reflected in a decline in life insurance equities, probably because of the contractual nature of insurance policies. Most of the year's growth in long-term savings in the District, consequently, resulted from a growth in life insurance equities, and to a lesser extent, in savings and loan shares.

During the third quarter of last year, consumers also added substantially to their credit obligations with both lenders and retail merchants. The growth of instalment credit outstanding at all commercial banks in the District, amounting to 39 million dollars in the third quarter, was typical of the trend. Added to the growth that had taken place during the first half of the year, instalment credits at the banks were 91 million dollars greater by the end of September than at the first of the year.

Growth in Income Individual incomes in the District, rising an estimated 6 percent from the second to the third quarter, provided additional purchasing power. By the fourth quarter of last year, increased production and employment raised incomes in practically all segments of the economy. Manufacturing pay rolls in the District advanced an estimated 8 percent from the third to the fourth quarter. High agricultural prices were reflected in greater returns from farming. From these and all other sources, individuals received 13 percent more in the fourth than in the third quarter of 1950.

This growth in income was sufficient to keep retail sales high despite a lessened drain on savings and less reliance on credit. Member bank time deposits, for example, declined only 2 million dollars in the fourth quarter, in contrast with the 24-million-dollar drop in the third. Consumer instalment credit at District banks was practically unchanged during the period. Businessmen, rather than consumers, were the principal borrowers.

Except in October, retail trade, as measured by seasonally adjusted department store sales, stayed at a high level. The index for December exceeded that of any preceding month except for the record-breaking one of the preceding July.

Changes in Demand Deposits Although they received higher incomes, individuals added less to their demand deposits during this period than did businessmen. The high level of spending meant a transfer from individuals' bank accounts to those of retailers and wholesalers. These firms, because they were building up inventories, also experienced a relatively small increase in demand deposits.

The results of the survey of the ownership of demand deposits recently completed by this bank show that at all District banks, demand deposits of individuals, partnerships, and corporations on January 31 of

Sixth District Statistics

INSTALMENT CASH LOANS

Lender	No. of Lenders Report-ing	Volume: Percent Change April 1951 from March 1951	Volume: Percent Change April 1951 from April 1950	Outstandings: Percent Change April 1951 from March 1951	Outstandings: Percent Change April 1951 from April 1950
Federal credit unions	41	—19	—4	—1	+19
State credit unions	19	—12	+12	—1	+26
Industrial banks	9	—1	—11	+3	—29
Industrial loan companies	12	—5	+0	—0	+1
Small loan companies	35	—9	—7	—4	+2
Commercial banks	33	—4	+5	—0	+20

RETAIL FURNITURE STORE OPERATIONS

Item	Number of Stores Reporting	Percent Change April 1951 from March 1951	Percent Change April 1951 from April 1950
Total sales	118	—22	—20
Cash sales	104	—14	—13
Instalment and other credit sales	104	—20	—19
Accounts receivable, end of month	79	—3	+1
Collections during month	79	—11	+6
Inventories, end of month	88	+3	+33

WHOLESALE SALES AND INVENTORIES*

Type of Wholesaler	SALES: No. of Firms Report-ing	SALES: Percent Change April 1951 from March 1951	SALES: Percent Change April 1951 from April 1950	INVENTORIES: No. of Firms Report-ing	INVENTORIES: Percent Change April 30, 1951, from Mar. 31 1951	INVENTORIES: Percent Change April 30, 1951, from Apr. 30 1950
Automotive supplies	4	—12	+19	3	+6	+15
Electrical—Wiring supplies	5	—20	+23	4	—0	+21
" Appliances	6	—23	+1	5	+26	+35
General hardware	13	—12	+22	8	+7	+35
Industrial supplies	12	—4	+30	3	+2	+13
Jewelry	4	—26	+24	3	+5	+71
Lumber and building materials	6	—3	+23	5	+3	+22
Plumbing and heating supplies	4	+1	+44	3	+19	+0
Confectionery	6	—5	+5	3	—1	+46
Drugs and sundries	7	—12	+19	3	—3	+6
Dry goods	18	—23	+17	13	+3	+27
Groceries—Full-line	42	—9	+6	27	—1	+26
" Specialties	10	—10	+20	5	+6	+43
Tobacco products	10	—12	+1	7	—2	+10
Miscellaneous	13	—14	+6	9	+3	+22
Total	160	—12	+15	101	+4	+27

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

DEPARTMENT STORE SALES AND INVENTORIES*

Place	PERCENT CHANGE — SALES: April 1951 from March 1951	SALES: April 1951 from April 1950	SALES: Yr. to Date 1951-1950	STOCKS: April 30, 1951, from March 31, 1951	STOCKS: April 30, 1951, from April 30, 1950
ALABAMA	—13	—3	+9	+3	+44
Birmingham	—16	—2	+11	+0	+43
Mobile	—13	+1	+11	..	..
Montgomery	—9	—9	+4	+10	+41
FLORIDA	—18	+6	+16	+2	+26
Jacksonville	—17	+4	+14	+2	+20
Miami	—17	+7	+16	+2	+34
Orlando	—20	+4	+17	..	..
St. Petersburg	—21	+13	+20	—1	+31
Tampa	—13	—1	+10	+5	+25
GEORGIA	—33	—11	+17	+4	+41
Atlanta	—31	—12	+15	+3	+43
Augusta	—35	—3	+27	+12	+35
Columbus	—36	—13	+20	+7	+34
Macon	—40	—12	+22	+5	+30
Rome	—41	—32	+1	..	..
Savannah	—29	—9	+17	+5	+51
LOUISIANA	—9	—7	+1	+9	+34
Baton Rouge	—15	—19	—5	+5	+28
New Orleans	—8	—4	+2	+10	+38
MISSISSIPPI	—18	—12	+3	+1	+16
Jackson	—18	—11	+3	+0	+15
Meridian	—19	—13	+4	..	..
TENNESSEE	—14	—9	+7	+5	+30
Bristol	—17	—18	+3	+1	+13
Bristol-Kingsport-Johnson City	—17	—15	+5	..	..
Chattanooga	—19	—4	+13	+3	+44
Knoxville	—11	—9	+8	..	..
Nashville	—11	—10	+3	+6	+36
OTHER CITIES**	—16	—0	+12	+4	+22
DISTRICT	—19	—6	+11	+4	+34

*Includes reports from 131 stores in the Sixth Federal Reserve District.
**When fewer than three stores report in a given city, the sales or stocks are grouped together under "other cities." They are, however, included in state figures.

ESTIMATED DEMAND DEPOSITS OWNED BY INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS IN ALL COMMERCIAL BANKS IN THE SIXTH FEDERAL RESERVE DISTRICT
(In Millions of Dollars)

Type of Ownership	January 1951	Dollar Change from Jan. 1950	Percent Change Jan. 1950 Jan. 1951	Percent Distribution Jan. 1951
Manufacturing and mining	557	+81	+17	11.9
Public utilities, transportation, and communications	251	+9	+4	5.4
Retail and wholesale trade	887	+5	+1	19.0
All other nonfinancial*	302	+14	+5	6.5
Total nonfinancial	1,997	+109	+6	42.8
Insurance companies	100	+5	+5	2.1
Trust funds of banks	61	+15	+33	1.3
All other financial**	335	+50	+18	7.2
Total financial	496	+70	+16	10.6
TOTAL BUSINESS	2,493	+179	+8	53.4
Nonprofit organizations	121	+12	+11	2.6
Personal				
Farmers	386	0	0	8.2
Others	1,669	+133	+9	35.7
Foreign	3	0	0	.1
TOTAL INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS	4,672	+324	+7	100.0

*Including construction-contracting establishments, theaters, and hotels, laundries, garages, repair shops, and other service establishments.
**Including investment, loan, and insurance agencies: real-estate businesses, etc.

this year were 7 percent greater than a year earlier. Total business deposits increased 8 percent. Manufacturing and mining concerns, however, reported an increase of 17 percent, whereas retailers and wholesalers experienced an increase of only one percent. Although total personal deposits expanded 7 percent, those of farmers alone remained stable.

Credit Liquidation Most types of income in the District continued to increase in 1951. Agricultural income, because of seasonal influences, was lower, however, in the first quarter of the year than in the final quarter of last year. Consequently, total estimated income payments for the District in the first three months were down 6 percent from the last quarter of 1950. They were, however, 15 percent greater than in the first quarter of last year. Nonagricultural income payments increased 3 percent from the last quarter of 1950 to the first quarter of 1951.

Since the first of the year, consumer credit has been subtracting from, rather than adding to, purchasing power. In the four months ended April 30, for example, consumers have reduced their instalment loans with District commercial banks by 5 million dollars. Instalment contracts held by appliance and furniture stores have been declining since the first of the year. District department store instalment accounts at the end of April were 14 percent below those of a year ago. The amounts by which consumers reduced their debts exceeded what they received in new credit.

Besides reducing their debts, consumers have been more successful in keeping down withdrawals from their savings this year. In March and April they were able to increase their time deposits, in contrast with the net withdrawals of the preceding months. Their purchases of savings bonds are still lagging behind last year, but they compare more favorably with the year-ago figures than in the last half of 1950 and the rate of redemption has slowed down somewhat.

To a considerable extent the use of savings and credit is discretionary on the part of consumers. The interruption in price advances and the continued availability of the many goods for which scarcities were feared last summer contributed to changed consumer attitudes. In the future the defense program will require more and more of the nation's production. Recent developments in consumer spending and saving, therefore, have contributed substantially to the fight against inflation. C.T.T.

Bank Announcement

On May 1, the Peninsula State Bank, Tampa, Florida, opened for business and will remit at par. The bank began operations with capital stock of $100,000, and surplus and undivided profits of $50,000. The officers are Lem P. Woods, President; Richard E. Knight and John M. Allison, Vice Presidents; R. W. Dulaney, Cashier; and Melbourne F. Cody, Assistant Cashier.

Industry and Employment

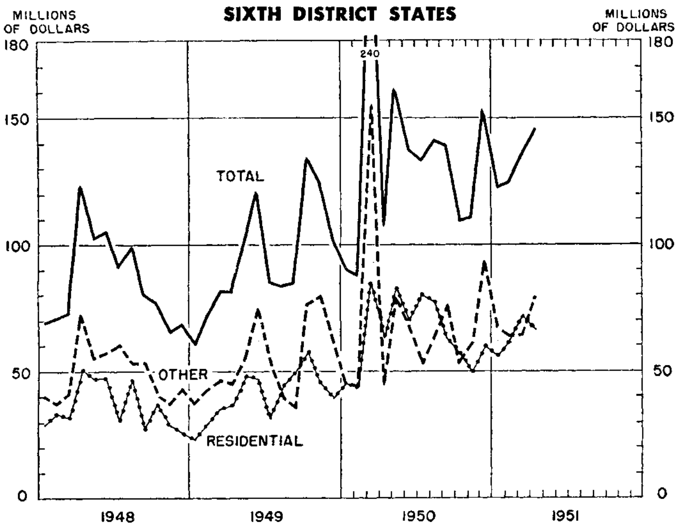
In line with the current weakness in retail buying, there are several indications of a mild reaction in industrial activity in some sections of the Sixth District. Employment in the Birmingham area, for example, was 0.6 percent less in April than in March. The Director of Industrial Relations of the Alabama State Employment Service attributed this to several factors. "Coal mining declined further," he noted, "the apparel industry had two strikes, retail trade sagged noticeably, transportation lost workers, and fabricated metal products suffered from lack of materials and completion of one defense contract."

No general downward trend in business activity, however, is apparent for the District. Activity in most lines of business is distinctly above that of early 1950. An exception may be developing in the furniture industry, according to reports of several manufacturers, as a result of the recent drop in sales of housefurnishings.

Construction The decline in home construction which began in March continues. Housing starts in Miami, as reported by the Southern Regional Office of the Bureau of Labor Statistics, dropped from 1,240 units in March to 890 in April. Nationally, April starts were the lowest for that month in four years. Metropolitan areas have felt the decrease more severely than smaller communities.

Credit problems, rather than material shortages, have been the retarding factor in home construction. A general withdrawal of insurance companies from

CONSTRUCTION CONTRACTS AWARDED
SIXTH DISTRICT STATES

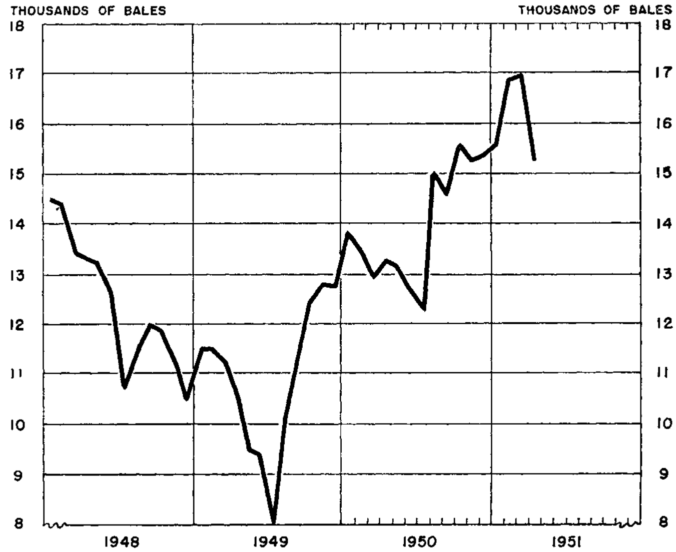


the mortgage market has occurred, and banks have tightened lending policies decidedly. Since there are no mortgage companies in the District, credit restrictions are keenly felt.

Construction contracts awarded, according to F. W. Dodge reports, continued at a high rate during April and the first two weeks in May, particularly by public utilities and governmental agencies. Effects of Regulation X and NPA restrictions on commercial building are indicated by a 25-percent drop in April from the preceding month and a 40-percent drop from April 1950. Contracts for manufacturing buildings, on the other hand, increased significantly.

Textile Mill Activity Stimulated military and civilian demand for textile products pushed activity of textile mills during the last half of 1950 and early 1951 to record levels. Bureau of the Census data show

COTTON CONSUMPTION IN THE SIXTH DISTRICT STATES
DAILY AVERAGE BASIS



that the average consumption of cotton per February working day in the Sixth District states exceeded 16,000 bales for the first time. The rate in March rose to 16,941. Effects of a decline in retail sales of soft goods began to show up by a drop in April consumption.

Defense Contracts Military agencies have followed a natural pattern of placing contracts in areas where each type of product normally is manufactured. This has been particularly true in the Sixth District. An increased market for existing industry, rather than the establishment of new types of manufacturing plants, has resulted from the defense program.

In line with the industrial activity of the region, about half of the contracts have been for textile products and clothing. Although such contracts can be expected to be large during the early period of mobilization, in the long run civilian demand must provide the principal market.

As the productive capacity of the highly industrialized sections of the country becomes more fully employed with orders for the major military items, such as tanks, airplanes, and munitions, a need for establishing new plants in the District may arise. Some development along this line, of course, already is taking place. A large aluminum plant at New Orleans has announced plans to double its output, and expansion in steel capacity is underway by several companies. Also, contracts for tank engines as well as munitions have been awarded for manufacture in several localities.

W.T.H.

National Business Conditions

Output and incomes were generally maintained in April and May, reflecting in part a further expansion in Federal defense activities. Consumer demands for most durable goods slackened further, and total value of retail sales was only moderately above year-ago levels. Wholesale commodity prices decreased slightly in May, and common stock prices showed fairly marked declines. Bank loans to business have shown little change since early April.

Industrial Production Output at factories and mines in April, as measured by preliminary figures for the Board's seasonally adjusted index, was 222 percent of the 1935-39 average, the same as March. Not much change in this level is indicated in May. The current level of industrial activity is about 15 percent higher than a year ago.

Production of durable goods showed little change in April as output of industrial equipment increased somewhat less than in other recent months; passenger car assemblies decreased 15 percent; and production of furniture, television sets, and most other household durable goods was reduced. Output of metals and most building materials was maintained at or above earlier advanced rates. Activity in the aircraft industry showed a further marked expansion.

Output of most nondurable goods was maintained in April. Production of chemicals expanded further reflecting mainly increased output of synthetic rubber and other industrial chemicals. Activity in the cotton textile industry decreased owing in part to a labor dispute which was terminated in early May.

Crude petroleum output expanded to new record levels in April and early May, and production of anthracite rose substantially from the reduced March rate. Metal mining increased as iron ore production rose more than seasonally.

Employment Total employment in nonagricultural establishments in April, seasonally adjusted, showed a smaller gain than in other recent months. Employment in defense and related activities continued to increase, while employment in consumer goods industries showed moderate declines. Average wage rates in manufacturing plants rose further. Unemployment declined to 1.7 million, one of the lowest levels reached in the last decade except for the war years.

Construction Value of construction contract awards increased seasonally in April, reflecting chiefly gains in most types of private nonresidential awards. Total awards in May are likely to increase further because of a very large contract issued by the Atomic Energy Commission. The number of housing units started in April showed a contra-seasonal decline to 88,000, as compared with 93,000 in March and 133,000 in April 1950.

Distribution Total retail sales decreased further in April. In the early part of May, department store sales of durable goods slackened somewhat further, while sales of apparel and most other nondurable goods were maintained. Department store stocks at the end of April continued at the advanced level reached at the end of March and were nearly one-third above the corresponding period in 1950.

Commodity Prices Prices of 28 basic commodities have declined further since the end of April and on May 25 were 7 percent below the February peak but 38 percent higher than a year ago. Reflecting mainly declines in basic materials, the general level of wholesale commodity prices has decreased slightly since the end of April. Prices of finished goods have generally changed little.

Consumer prices in mid-April were maintained at the March level. Prices of foods declined slightly but apparel, housefurnishings, and rents increased somewhat further.

Bank Credit and the Money Supply Bank loans to business in leading cities showed little change from mid-April to the third week of May, although there is usually a decline at this season. Credit extended for defense purposes continued to be substantial. Wholesalers and retailers also borrowed substantial amounts, while commodity dealers made large repayments on loans.

Deposits and currency held by businesses and individuals increased substantially in April, reflecting largely a shift of funds to private accounts as Treasury balances were reduced following the heavy inflow of tax receipts in March. At selected banks in leading cities outside New York, the rate of use of demand deposits rose somewhat further.

Member bank reserve balances declined between early April and mid-May, reflecting gold and currency outflows, cash redemption of part of Federal Reserve holdings of the weekly maturing Treasury bills, and increases in Treasury deposits at the Reserve Banks.

THE BOARD OF GOVERNORS

Sixth District Indexes

DEPARTMENT STORE SALES*

Place	Adjusted** April 1951	Adjusted** March 1951	Adjusted** April 1950	Unadjusted April 1951	Unadjusted March 1951	Unadjusted April 1950
DISTRICT	399	413	397	367	422	389
Atlanta	411	508	446	379	508	428
Baton Rouge	357	352	413	336	363	413
Birmingham	375	375	372	345	378	354
Chattanooga	367	430	371	356	405	371
Jackson	334	398	384	338	394	399
Jacksonville	390	428	368	378	423	364
Knoxville	384	409	409	376	393	413
Macon	318	462	395	299	462	340
Miami	457	429	392	439	489	407
Montgomery	347	338	383	319	331	364
Nashville	438	409	451	403	417	446
New Orleans	369	355	367	357	358	374
Tampa	508	528	511	503	533	516

DEPARTMENT STORE STOCKS

Place	Adjusted** April 1951	Adjusted** March 1951	Adjusted** April 1950	Unadjusted April 1951	Unadjusted March 1951	Unadjusted April 1950
DISTRICT	483	462	360	507	485	378
Atlanta	656	619	460	675	656	474
Birmingham	402	396	281	422	420	295
Montgomery	559	522	396	575	522	408
Nashville	740	702	545	770	723	566
New Orleans	478	428	347	502	458	365

GASOLINE TAX COLLECTIONS***

Place	Adjusted** April 1951	Adjusted** March 1951	Adjusted** April 1950	Unadjusted April 1951	Unadjusted March 1951	Unadjusted April 1950
SIX STATES	267	251	232	275	233	239
Alabama	255	242	231	259	222	234
Florida	264	244	239	282	256	256
Georgia	276	268	244	284	245	252
Louisiana	282	259	231	278	238	227
Mississippi	254	231	208	259	208	212
Tennessee	272	240	233	275	211	235

COTTON CONSUMPTION*

Place	April 1951	March 1951	April 1950
TOTAL	176	196	153r
Alabama	159	196	156r
Georgia	192	205	157r
Mississippi	113	109	90r
Tennessee	149	149	128r

ELECTRIC POWER PRODUCTION*

Place	March 1951	February 1951	March 1950
SIX STATES	462	475	409
Hydro-generated	356	361	375
Fuel-generated	601	624	454

MANUFACTURING EMPLOYMENT***

Place	March 1951	February 1951	March 1950
SIX STATES	154	153	142
Alabama	155	155	142r
Florida	155	155	142r
Georgia	153	153	143r
Louisiana	140	138	132r
Mississippi	149	148	137r
Tennessee	161	161	148

CONSTRUCTION CONTRACTS

Place	April 1951	March 1951	April 1950
DISTRICT	708	670	531
Residential	1007	1086	950
Other	563	469	329
Alabama	721	500	523
Florida	744	940	546
Georgia	906	747	640
Louisiana	546	391	625
Mississippi	667	286	204
Tennessee	503	614	605

CONSUMERS PRICE INDEX

Item	April 1951	March 1951	April 1950
ALL ITEMS	189	189	173r
Food	231	231	197r
Clothing	209	209	191
Fuel, elec., and refrig.	142	142	141r
Home furnishings	206	206	184r
Misc.	165	164	155r
Purchasing power of dollar	.53	.53	.58

*Daily average basis
**Adjusted for seasonal variation
***1939 monthly average = 100
Other indexes, 1935-39 = 100
r Revised

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	April 1951	March 1951	April 1950
Unadjusted	24.4	24.8	20.8
Adjusted**	24.7	24.8	21.1
Index**	100.0	100.6	85.4

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	April 1951	March 1951	April 1950
Unadjusted	368	368	293r
Adjusted**	361	368	288r