



Monthly Review

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Federal Reserve Bank of Atlanta

Fluctuations of Member Bank Deposits

Bankers are always concerned about the future volume of deposits at their institutions. To the individual bank, the amount of banking resources available depends largely upon the extent of its deposit liabilities. One major problem facing commercial bankers, therefore, arises from deposit fluctuations, both those which represent normal seasonal movements and those which are associated with the business cycle. In periods when there is some concern about the possibility of a decline in business activity, bankers are particularly interested in what is likely to happen to the volume of their deposits.

Deposit fluctuations are of particular interest in the Sixth District, where the memory of the severe decline from 1919 to 1921 has long colored banking practices. From the end of 1919 until the middle of 1921, demand deposits at District member banks declined 29 percent, in comparison to only 11 percent for all United States member banks. Although the liquidation of bank credit following the post-World War I boom and the resulting decline in deposits were nation-wide, the situation was more difficult in the Southeast because bank deposits and resources actually flowed away to other sections of the country.

A brief look at banking statistics since World War I indicates that changes in the volume of deposits in the District have nearly always been in the same direction as changes in the volume of deposits in the country as a whole. Accordingly, the subject of deposit fluctuations in the District involves primarily the question of whether District deposits are relatively sensitive or relatively insensitive to movements of deposits in the nation. Will a decline of 5 percent in bank deposits in the nation be accompanied by a 7-percent decline in deposits in the District or by only a 3-percent decline? This is a question of the degree of sensitivity of the District economy and banking system to general changes in business conditions and is one which may be explored by statistical analysis.

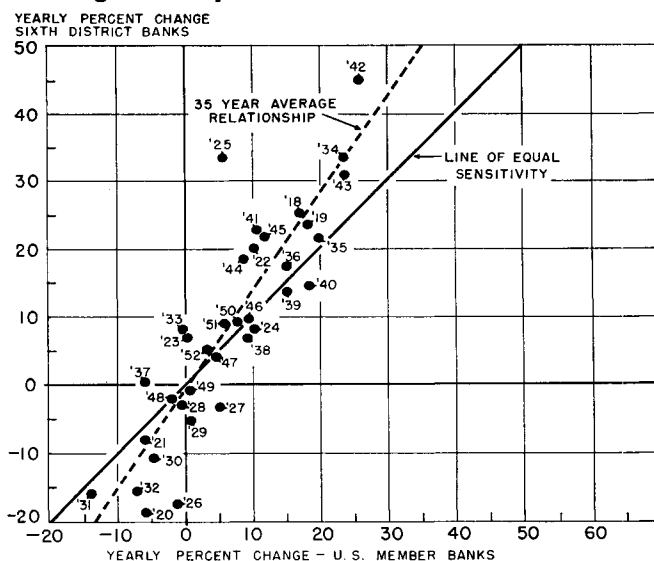
Measuring Deposit Sensitivity Chart I depicts the average degree of sensitivity of District deposits to changes in national deposits for the period 1918-52. The chart is based on the yearly percentage changes in demand deposits at District member banks and at all United States member banks. The dot representing each year is located opposite the horizontal scale, according to the percentage change in demand deposits of all United States member banks for that year. Opposite the vertical scale, placement of the dot for each year is determined by the percentage change in demand deposits of District member banks for that year. Thus, for the year 1942, the dot is located opposite plus 26 on the horizontal scale, representing the 26-percent increase in demand deposits adjusted of all United States member banks in that year, and opposite plus 45 on the vertical scale, representing the 45-percent increase in demand deposits adjusted of District member banks. The heavy 45-degree line represents the line of equal sensitivity, or the line upon which all the dots would be found if the yearly percentage changes in deposits at District banks were just

equal to those at all United States banks. The line of equal sensitivity, thus, provides a convenient reference point from which to judge the behavior during any one year or group of years.

It will be noticed that most of the dots for the years to the right of the zero point on the horizontal scale lie above the line of equal sensitivity. This indicates that in years when deposits in the nation have increased, deposits in the District have increased more than proportionately. In like fashion, most of the dots lying to the left of the zero point on the horizontal scale lie below the line of equal sensitivity, which indicates that in years when deposits have fallen in the nation, they have fallen more than proportionately in the District. The dotted line through the entire series of yearly readings expresses the average degree of sensitivity for the entire 35-year period. Based on the calculated slope of the dotted line, the percentage changes in deposits at District banks, either during a period of general deposit increase or decrease, have been significantly greater than those at United States banks. For the period as a whole, a 5-percent rise in member bank deposits throughout the country was accompanied by a 7-percent rise in the District, and a 5-percent fall in deposits throughout the country was accompanied by a 7-percent fall in the District.

Experience has confirmed that deposit fluctuations are somewhat greater in the District than in the nation. The fall in deposits in the District, both in the early twenties and the early thirties, for example, was greater proportionately than in the nation, whereas the rise was greater in 1918 and 1919 as well as during World War II. The

Chart I
Sensitivity of Deposits at District Member Banks to
Changes in Deposits at all U. S. Member Banks



(Calculations based on demand deposits other than inter-bank and United States Government, less cash items reported as in process of collection.)

greater sensitivity of deposits of District banks to changes in deposits of all United States member banks is probably largely a result of the difference between the economic structure of the District and that of the nation.

The analysis presented in Chart I, although providing a definite answer, is only a static measurement of the situation for the entire 35 years and does not allow for the possibility that important changes may be taking place in the degree of sensitivity of District deposits to fluctuations in national deposits. Such a change in the degree of sensitivity could occur as a result of fundamental changes in the economic structure of the Southeast. For this reason, an analysis of the year-to-year changes in sensitivity is necessary to determine whether the situation is becoming better or worse.

District Sensitivity Changing In Chart II, the data shown in Chart I are rearranged to reveal changes taking place from year to year in the sensitivity of bank deposits in the District to national deposit changes. The points in Chart II mark the sensitivity value for each year, or the value by which District deposit changes depart from equal sensitivity. The plotted points show only the degree of District sensitivity to United States deposit changes and thus are not affected by the size or direction of the change itself. The zero line indicates proportionate sensitivity, that is, a situation in which the proportionate change in District bank deposits was neither more nor less than those in national deposits. Values falling above the zero line indicate that in the particular year, District member bank deposits exhibited a greater percentage change than did deposits in the nation. Conversely, values falling below the zero line indicate a situation in which the percentage change in the District was less than in the United States.

During 30 of the 35 years since the beginning of 1918,

District bank deposits exhibited a greater-than-proportionate sensitivity to changes in national deposits. The year of greatest sensitivity was 1925, when there was a 27.5 percentage point discrepancy between the District and national change in deposits. This was an unusual situation, arising from the Florida real estate boom. The year 1920, when the deposit "run-off" occurred, was marked by the third highest sensitivity value, 13.0 percentage points. The violent nation-wide liquidation of bank credit at this time came on top of an unstable condition in the District and resulted in a most difficult situation there.

Although the sensitivity values in individual years are of interest, it is the long-term trend, as shown by the dotted line in Chart II, that is important. It is quite apparent that there has been a persistent decline in the degree of sensitivity of District deposits to changes in national deposits. In particular, sensitivity appears to have decreased noticeably in the period following World War II. At the present time, the degree of sensitivity of District member banks to changes in national deposits, although still positive or greater-than-proportionate to national changes, is negligible, compared with the periods of difficulty in the 1920's.

The decline in deposit sensitivity undoubtedly represents an encouraging development in District banking. If it continues, it will mean that District banks will discover their deposits fluctuating somewhat less than in prewar years. This will be a direct contribution to bank safety. In the long run, moreover, it may mean that District banks can utilize their resources somewhat more fully than would be the case if they were subject to greater deposit fluctuations.

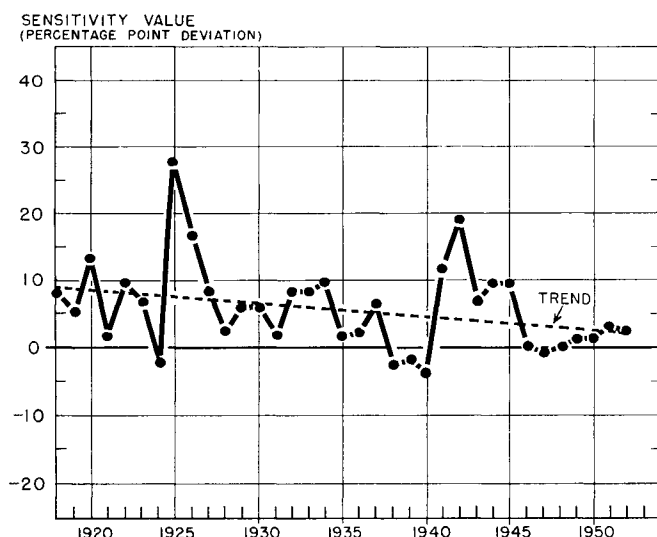
Perhaps of equal importance is the fact that the decline in the degree of sensitivity of District bank deposits to national fluctuations is a symptom of real strengthening of the economic structure of the Southeast. The causes of such a structural change in the District economy may not be easily identified because our knowledge of them is imperfect. It is probable, however, that greater industrialization of the region, together with increased diversification of agriculture, has been a major reason for the change. In recent years, relatively stable agricultural prices have probably been a contributing factor. In addition, Federal fiscal relationships have probably been relatively more favorable to the District during and since World War II than earlier. These developments would be expected to lead to some stabilization of fluctuations in the inflow and outflow of funds, and thereby reduce the greater-than-proportionate sensitivity of deposits in the District. Finally, of course, it may well be that the quality of banking has improved and sounder practices are more prevalent today than formerly.

To the individual banker the best assurance against undue deposit fluctuations remains that of maintaining high credit standards and safeguarding with all the sagacity at his command the interests of his customers, both borrowers and depositors. This analysis seems to indicate, however, that bankers, in fostering the economic development of the region, even through fairly indirect means, may be contributing to the safety of their own institutions.

THOMAS R. ATKINSON

Chart II

Trend in Degree of Sensitivity of District Member Bank Deposits



(Each sensitivity value was determined from Chart I by measuring, with appropriate sign, the vertical deviation of the point representing that year from the line of equal sensitivity.)

Structure of District Automobile Market

During the first quarter of 1953, the District automobile market continued to improve—although at a slower pace than in the latter half of 1952. New passenger car registrations in the first quarter of this year were up 12 percent from the final quarter of 1952, an increase almost double that of the average for comparable quarters in the period 1946-53. One of the strongest buttresses of our high level business activity today is the busy automobile assembly lines dotting the country. Any falling-off in automobile sales would have unfavorable repercussions throughout the economy. For this reason, the trend of registrations is being eyed closely by observers throughout the country.

As supplies of critical raw materials became more plentiful this year, passenger car production was thrust into high gear so that physical output in the first third of 1953 rolled along at a clip 50 percent higher than in the corresponding period last year. Estimates are that the industry will turn out at least 5.5 million passenger cars in 1953. If this goal materializes, it will be second only to the all-time record of 6.7 million set in 1950.

To date, as is apparent from registration figures, vigor and strength have characterized the new car market. New car prices in 1953, on the whole, have not changed appreciably from the levels set in 1952. A 100-dollar average price cut by Chrysler early this year has been the only major reduction since the new models came out. Trade reports indicate that other leading producers intend to hold the line, at least for the time being.

Used car prices, on the other hand, have been declining more or less steadily since last summer, reflecting weakness in the market. A survey by the National Used Car Dealers Association shows that sales were down in the first quarter from the year-ago mark, with the South experiencing a greater-than-national decline. Used car inventories this year are higher in relation to sales than they were a year earlier. Since more than half of the new car sales involve trade-ins, sales of the current output can only accentuate problems for used car dealers. New car inventories, on the other hand, have been short for many years. This year for the first time in over a decade, manufacturers are in a position to satisfy dealer demands.

An increasingly larger proportion of both new and used car purchases are being made on credit. In 1949, for example, 49 percent of all sales were on the cuff; in 1951, the percentage rose to 55; and probably to over 60 percent last year. From September 1950 to May 1952, controls restrained consumer credit expansion. With the termination of Regulation W last May, however, automobile credit outstanding in the nation shot up almost two billion dollars in the remainder of 1952, the largest comparable gain on record. The rise continued into the first quarter of 1953. Easier down payment and maturity requirements, coupled with an increasing supply of cars, were instrumental in the rise in consumer credit.

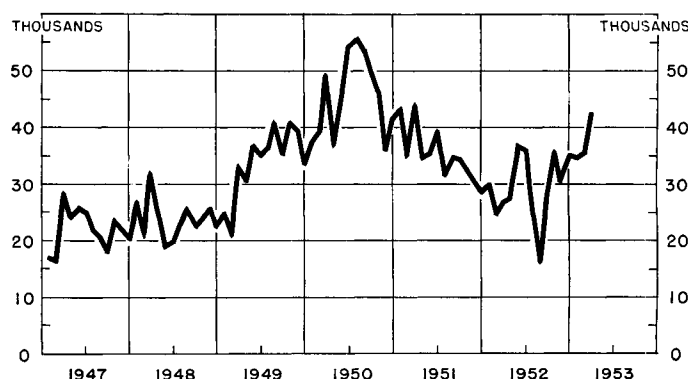
Credit today, however, is not quite as easy to get as it was a few months ago. Finance companies have raised

interest rates and have become more selective in the paper they accept.

Developments in the District automobile market today in large measure are an outgrowth of the work of secular forces. These forces, in effect, constitute the foundation upon which the current shorter-term movements are based. Since the Sixth Federal Reserve District is one of the fastest growing passenger car markets in the nation, a study of the structure of that market and of the factors contributing to its growth may cast a ray of light on the underlying strength of the current market.

A little over four million cars were on the highways and country roads in the District states in 1952, about double the number in use in 1940. Although gains were recorded in all states during this period, the rates varied from 132 percent in Florida to 80 percent in Mississippi. In all instances, the advances experienced were considerably greater than the national increase. The District rate of

**New Passenger Car Registrations
Sixth District**



growth, however, was not smoothly upward; during the war years, 1942-45, car ownership actually declined a little because production of new passenger cars for civilian use was discontinued and old, worn-out cars were junked.

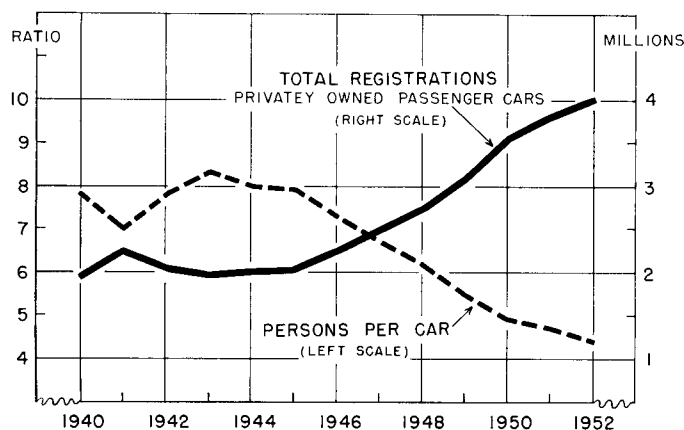
During this 13-year span, the District's share of the national market inched upward. Thus, in 1952, about 8.4 percent of the new cars sold in the United States were registered in District states, compared with 7.6 percent in 1940. The proportion for both new and used cars combined, that is total registrations, was somewhat larger in 1952, indicating that District consumers drive relatively more used cars than do their national counterparts.

This conclusion is also borne out in dollar terms by the 1948 census on retail trade. District used car dealers in that year did 9.2 percent of the nation's used car business. On the other hand, dealers selling both new and used cars accounted for 7.5 percent of the sales. One reason for the increased sales of used cars is, of course, that the demand for automobiles has been so great that it could not be satisfied out of new car production.

A commonly used measure of market saturation is the ratio of population to privately owned passenger cars. In 1940, if every man, woman, and child in the District simultaneously went on a Sunday jaunt, 7.8 persons would have crowded into each vehicle. The trip in 1952 would have been much more comfortable with only 4.5 passengers per car. The "national" traveler had more elbow-room in both years as the number of persons per car declined from 4.8 in 1940 to 3.6.

With the exception of World War II years, the number of persons per car has declined continuously in the South

Total Automobile Registrations and Persons Per Car Sixth District



as well as in the nation. Within the District, the ratios in 1952 ranged from 6.1 in Mississippi to 3.2 in Florida. There was no shift in the relative standing of the six states from their respective 1940 positions. It is apparent that the South has a long way to go before it is as well supplied with cars as other parts of the nation.

The increase in the number of people, and therefore in the number of potential drivers, is directly related to the increase in private passenger car ownership. Thus, states recording the largest gains in population tend to lead in increases in car registrations. Since the relationship of cars to income is not quite as close, it appears that the changes in car ownership in the District states between 1940 and 1950 were tied somewhat more closely to population than to income changes.

Population in the District states climbed 14 percent between 1940 and 1950 to a total of 17.4 million, a gain just about equal to that for the nation as a whole. Estimates indicate a continuation of this trend into 1952. All the District states had more people in 1950 than a decade earlier, except Mississippi where population remained static.

Where people live also influences car ownership. Almost three-fourths of the increase of 2.1 million people in the District states from 1940 to 1950 occurred in the 19 standard metropolitan areas, that is, cities with populations of 50,000 and over. Of itself, this might have reduced the demand for cars because of the highly developed and widespread public transportation systems in the larger cities. Many of these people, however, moved to

the shady suburban areas, which grew at a relatively faster pace than the central city sections. This trend, consequently, has been accompanied by a greater dependence on automobiles for transportation to and from work, for shopping, and the like. The movement to the suburbs in the District proceeded at a faster pace than that for the nation and undoubtedly contributed to the greater growth in car registrations in the District.

Despite the striking flow to the metropolis, population in the District is still predominantly rural. Here the automobile is more essential to daily life than it is for suburbanites. The Federal Reserve surveys of consumer finances show that within any given income level, a larger proportion of rural families tend to own automobiles than is the case with urban families.

Not only were there more prospective car owners in the District after the war, but there was also more money to spend. Between 1940 and 1951, per capita income payments to individuals jumped 234 percent in the District states, compared with a gain of 175 percent for the United States. All District states shared in this increase. In addition, studies show that the lower income groups benefited most from the gain; consequently, the purchasing power was spread around more evenly than previously. There is no doubt that both increases in income and broadening of the income base sparkplugged the rise in car ownership.

Despite the greater-than-national gain, District per capita incomes are still considerably below the national average. This may explain why, in 1951, an estimated 53 percent of the spending units in the South owned automobiles, compared with 60 percent throughout the nation. It may also explain why relatively more low-priced new cars are sold in this region than in the nation at large.

The dynamic industrial development in the District has been partly responsible for the increase in automobile ownership, not only because of the additional income it has brought into the area, but also because the new plants have been located so as to bring about a greater need for automobiles.

A survey made in 1948 by the National Industrial Conference Board concluded that the South and West experienced the greatest gains in the proportion of new plants built or acquired since 1940. Moreover, the study revealed that the trend in plant sites is toward cities with populations under 10,000. At least part of the labor force for these factories comes from nearby metropolises or the surrounding countrysides. Since public transportation may be inadequate or nonexistent, commuters rely heavily upon the automobiles for getting to and from work. For example, around a third of the employees at the Lockheed plant in Marietta, Georgia, commute daily from Atlanta.

It is apparent that the growing importance of the District as a market for automobiles is attributable to long-run gains in population, income, and industrialization. In spite of some signs of a slowing-down recently in this car market, there is no evidence of any weakening in the underlying forces that are tending to narrow the gap in car ownership between the District and the nation.

BASIL A. WAPENSKY

Squeezing the Orange

Orange prices rode high during the lush war years; no check-rein held back the upward surge. But in 1947-48 a resounding thud was clearly audible when orange prices were unhorsed. The season average "on-tree" price to growers started out of the saddle during the 1946-47 crop year, when grower prices for all oranges averaged 95 cents a box, compared with \$2.37—a record—the previous season. And a year later the price lay on the ground—an exhausted 63 cents. Meanwhile total production costs, exclusive of payments to the owner for his supervision, fluctuated between 60 and 68 cents.

Obviously there was pain in the 1947-48 situation; it generated talk of hard times ahead for citrus, meaning—most importantly—oranges. At the time there seemed ample cause for alarm. Florida, during the war, had become a Mecca for those with faith in the orange, and, consequently, acreage of bearing groves there increased 30 percent between 1939 and 1948, in contrast to 3 percent in the balance of the nation. Now about 71 percent of all citrus trees in Florida are orange trees.

Active interest in Florida orange groves has pushed that state to the fore; it contains 57 percent of the nation's bearing acreage in orange trees; its orange crop in 1951-52 was two-thirds of the United States total. Estimates place the Florida acreage of new non-bearing citrus trees—largely oranges—at 70,800 acres as of June 30, 1952. If this new acreage begins to bear at the rate of 17,700 acres per year, total bearing acreage may climb to 525,000 acres by 1956. Interest in Florida groves shows no signs of abating. Current reports from real estate people in that state indicate that values for all bearing citrus groves have advanced one percent over last year to \$1,220 an acre; some sales were made at \$1,500 an acre.

Those who gauge future production by only considering growth in bearing acreage overlook what is more significant—the age of the trees and, interestingly enough, their greater prolificacy with old age. Orange trees start to bear commercially when they are about five years old, reach full vigor at about 10 years, and then continue to gain in output for several years until they level off on a high plateau. Over a period of time new acreage adds tremendously to output. This explains in part the large production during the war years; groves planted in the late twenties and early thirties reached full flower in the forties. Here is a biologic process that must be reckoned in with other forces in assessing the future of the citrus industry.

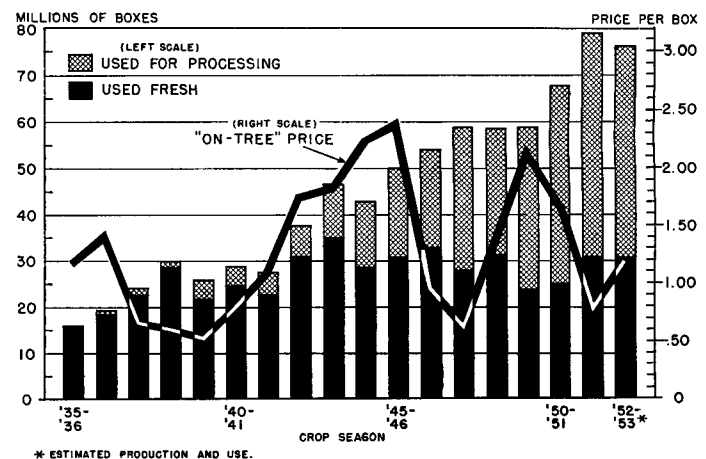
As the production of oranges increased, the pattern of their use changed quite rapidly. Approximately 85 percent of the Florida orange crop was sold fresh in the 1940-41 crop year; the balance was canned, mostly as single-strength juice. Now only about 40 percent of the crop is sold fresh.

Though the shift to using more oranges for single-strength juice—a lower priced outlet than the fresh fruit market—went on rapidly during World War II, prices did

not weaken then because demand for all citrus products was strong. But the fading away of this heavy wartime demand plus larger output, more of which had to be diverted to canning use, was the burr under the saddle. Growers, who had received as much as 132 percent of parity for their fruit late in 1945, looked glumly upon prices, which stood at only 30 percent of parity in 1947-48.

Orange prices, however, remounted and again rode high in the following three seasons. The average price in the 1949-50 season reached a peak of \$2.14 a box despite a Florida crop as large as the 58.4 million boxes in 1947-48. A record crop of 78.6 million boxes in Florida and 117.6 million in the nation in 1951-52 helped push prices down to 76 cents a box. Large carry-over stocks of processed citrus products in the fall of 1951 contributed to that drop. Currently prices have recovered and now appear to be averaging about \$1.20 a box for the season in spite of a crop only about 3 percent under last year's, and a national crop somewhat larger than that of last year.

Florida Oranges
Production, Use, and Average Price



Against this backdrop of price gyrations, production costs have held steady at about 61 cents a box since World War II, and so the cost-price pincers have squeezed the orange on two occasions. In each instance, however, growers were bailed out by events of the time—by such things as the Government export program for citrus, the hard freezes of 1949 and 1951 in Texas, the Korean War boom, and the increased consumer acceptance and use of frozen orange concentrate.

Sharply increased use of frozen concentrate indicates that perhaps the strongest influence in bringing about the relatively high orange prices of this season is the diversion of oranges from fresh use to the manufacture of concentrate. In 1949-50 frozen concentrate was taking about 31 percent of the Florida orange crop. In 1951-52 about 58 percent was processed and of that amount two-thirds was

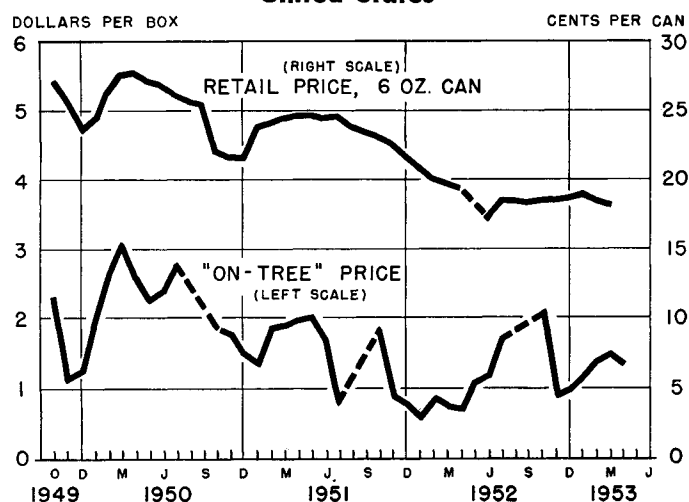
made into frozen concentrate. This season's squeezings for concentrate may take one-half of the crop.

Harking to the possible mountain of citrus that could be turned out from enlarged acreage of bearing fruit in 1956, and later years, processors will have to expand consumer acceptance and use of frozen concentrate. Consumers' reaction to the product up to now elates growers and processors. Housewives like the fresh orange flavor, the ease of preparation, and apparently the prices. In April 1953, according to a survey by the United States Department of Agriculture, about 27 percent of the homemakers in the nation used some frozen orange concentrate. The percentage was 24 a year earlier.

At this point, the crucial question is how to further enlarge this frozen concentrate market. Some seem to feel that there are profitable areas for efforts along that line. Pushing forward with the development of facilities for distributing and storing frozen concentrate in retail food stores and in homes should help. Promoting the health and taste characteristics of the product should also be worthwhile. And, of course, an effort to bring the product to rural people would be a stroke at broadening the market.

Finally, some price concession at the retail level could conceivably increase consumption by large amounts in view of the luxury characteristics of the item. These characteristics indicate that there would probably be a large response in consumption to a small change in price. A price decline from a national average of 25.5 cents per 6-ounce can in September 1950 to 22.1 cents in March 1951, for example, was partly responsible for the advance in consumer purchases from 1.5 million gallons per month to 1.9 million gallons.

**Price of Oranges in Florida and
Price of Frozen Orange Concentrate in the
United States**



With growing efficiency in production on the part of the processors, further price cuts may be possible. An inkling of the possibilities in this direction is evident from the fact that "on-tree" prices to growers have advanced

since December, whereas retail prices in the 1952-53 season have held steady at about 18.5 cents a 6-ounce can. Some of this stability in the retail price may be due to a decision on the part of processors to ride through the seasonal swings in orange prices in the hope that stable retail prices will hold consumers to the product. Some is no doubt due to efficiencies in plant operation that have been passed on to consumers. These heartening aspects of the situation to some extent counter-balance the unfavorable aspects—chiefly the large expansion in groves and the continued interest in expanding them further.

Because of large production, and the prices resulting from various uses of the crop, Florida orange growers as a group had, in the 1951-52 season, a gross income of about 60 million dollars. For the 1952-53 season it is likely to be about 91 million dollars, based on an estimated yield of 76 million boxes of oranges and an average price of about \$1.20 a box. With production costs now at about 61 cents a box, the average grower will fare well. Costs vary, of course, among growers and groves. Records from 191 growers obtained last year by the University of Florida Experiment Station show that the costs per box on all ages of groves, exclusive of returns to the operator for his supervision, ranged between 20 cents and \$1.80 in the 1950-51 season. About 57 percent of those growers had costs of less than 50 cents; about a third had costs of 50 to 79 cents; and costs for the balance ran to 80 cents or more a box. By and large then, the more efficient Florida growers have a successful year behind them.

Looking ahead, growers ask if income from citrus will go into an eclipse. It seems likely that prices will vary as in the past with costs holding stable; consequently, growers' net returns will shift a lot. High-level output will be troublesome over the long pull. Expanded sales of frozen concentrate can no doubt help solve this problem. The size of future output, however, may overwhelm this market if consumers' enthusiasm for this luxury food item is dampened because of falling incomes. Even so, prices to growers will have to take a major tumble to force the better-than-average operators to the wall. Before these operators become frantic, marginal growers will abandon their fruit and so contribute to a reduced supply and a recovery in prices.

In the next season it seems likely that relatively high consumer demand and, consequently, favorable prices for oranges will prevail. As a result of record income in the first quarter of this year, consumer demand has been strong and has held prices up. Few signs point to a sharp reduction in consumer income next winter and there will certainly be no fewer people to consume the added output. And processors, through their merchandising efforts, should be able to cope with the somewhat larger supplies of oranges which seem in prospect on the basis of acreage growth and normal yields. Current stocks of juice are not abnormally large. Finally, it is likely that a continued Government export payment program will be a prop under orange prices.

ARTHUR H. KANTNER

Special Loan Programs for Small Business and Agriculture

Is adequate credit available to small business and agriculture? This question, or some variation of it, has engaged the attention of national and state legislators and other interested persons almost continuously since colonial times. It is particularly pertinent in the Sixth Federal Reserve District, where small business and agriculture account for a large proportion of total economic activity.

It is a complex question with far-reaching implications. Even the words that are used mean different things to different people. "Adequate" as applied to agricultural credit, for example, may mean that enough credit is available to finance the production of all the food and fiber that domestic consumers can use or it may mean that all persons who wish to farm can obtain enough credit to enable them to engage in farming. The term "credit," as applied to small business, may mean a temporary advance of funds for operating purposes or it may mean permanent provision of virtually all funds used by the business through a system of revolving loans.

For these reasons, attempts to give a simple, unequivocal answer probably are futile. The purpose here is not to answer the question but to direct attention to some of the basic considerations that should be taken into account.

Recently the question of the adequacy of credit has been specifically brought to the forefront in two Sixth District states. Within the last two years, Georgia and Mississippi have set up authorities and given them the power to insure loans for farm improvement and expansion of livestock. The main reason given for the creation of these state-sponsored loan programs is that livestock expansion has not reached its full potential because farmers have been unable to obtain adequate credit.

Although these newly created state-sponsored agricultural loan programs are limited in scope and may not in themselves have any far-reaching effects on the extension of credit, the reasoning behind them and their implication for the future should be carefully considered. There are striking similarities between them and the credit programs designed to assist small businessmen.

Interest in all kinds of special credit programs usually has quickened during periods of economic distress and business recessions, but has subsided during periods of prosperity, as has been the case during the last three years. If business activity declines appreciably or if agriculture becomes depressed, however, the proponents of more credit or easier credit are certain to become more vocal, and efforts may be made to broaden the scope of existing legislation. There is merit, therefore, in considering the question now when controversy is at a low ebb.

The early history of special credit programs relates mainly to agriculture. Farmers began to voice their demands at the very beginning of commercial banking in this country. Bank charters granted in Maine and Massachusetts as early as 1792, for example, contained a

stipulation that the banks lend a certain percentage of their funds to farmers. Until the early 1900's, the provision of special credit facilities for farmers was left largely to the state governments and to private lenders. It was not until a few years before World War I that demands for a national system of rural credit became urgent.

These demands were partially satisfied in 1913 by the creation of the Federal Reserve System. The credit needs of agriculture were given special attention in the Federal Reserve Act. National banks, for the first time, were permitted to make loans secured by farm land. Agricultural paper was also given a preference in time of maturity for rediscounting purposes. In addition, the Federal Reserve Board was very liberal in its interpretation of this particular phase of the Act.

Even before the Federal Reserve Act became law, however, plans were underway to create a farm credit system outside the general banking system. Those plans culminated in the Farm Loan Act of 1917, which provided for Federal land banks and joint stock-land banks. These new land banks were strictly investment banks that loaned only on first mortgages on farm land and obtained funds by the sale of bonds.

Although the land banks apparently satisfied farmers' demands for special long-term credit facilities, the credit stringency beginning in 1920 brought fresh demands for other types of farm credit. Farmers' specific complaint was that loans were not available for maturities intermediate between those usually granted by commercial banks and those granted by the Federal Land Banks.

The outcome of this crisis in agricultural credit and country banking was the Agricultural Credit Act of 1923. This act provided for 12 intermediate credit banks that could discount agricultural paper held by commercial banks, co-operative credit associations, trust companies, agricultural credit corporations, and incorporated livestock loan companies.

Small business did not join agriculture as a claimant for special credit facilities until the business depression of the 1930's. At that time it was recognized that small businesses are likely to be affected more adversely than large businesses in times of general credit contraction. Two main forms of emergency credit were tried—the direct advance and loan participation authority of the Federal Reserve System and the direct lending and guaranty authority of the Reconstruction Finance Corporation. Because of the more liberal program conducted by the RFC and the efforts of the Federal Reserve System to have all loan cases handled through normal credit channels, the RFC has been the principal lender.

During World War II, small business again was given extra credit facilities in the form of the V-loan programs in which the Federal Reserve System acted as agent for the armed services in guaranteeing bank loans to war

contractors. Over 90 percent of the loans, and one-third of the amount of the guaranties, were to small and medium-sized business; that is, businesses with total assets of less than five million dollars.

Since World War II, the financing problems of small business have continued to receive special attention. In 1946 the RFC established a Small Business Division in order that loan applications of small business enterprises might be given special consideration. The 1948 amendment to the RFC Act stated that one of the main purposes of RFC loans was "to encourage small business." During 1948 and 1949, about 90 percent of all business loans authorized by RFC were for \$100,000 or less. Small business has been provided with credit during the postwar period by guaranties under the Veterans Administration program. Recently, the V-loan program was reactivated.

Many of the recent suggestions for special credit facilities for small business are contained in the proposed Small Business Act of 1950. Most notable of these are the proposals to insure commercial bank loans and to establish capital banks or national investment companies.

This brief history shows that the idea of a need for special loan programs has persisted in spite of steady progress toward a flexible and strong banking system and toward a highly organized and efficient credit market. One possible explanation is that the proponents of broader credit facilities have in mind something that goes beyond the mere provision of equal access to credit. One purpose of the proposed Small Business Act of 1950, for example, was "to help independent small enterprises compete effectively and thereby contribute positively to restraining growth of monopoly and concentration of economic power." There is also the conviction that small business is the principal source of new ideas in business enterprise. Similar ideas exist with respect to agriculture. "Agricultural fundamentalism," or the idea that farming is the most basic form of economic activity, is one example. These lines of reasoning lead to the conclusion that small business and agriculture should be encouraged because they have peculiar virtues or values. From here it is only one step to another conclusion—namely, that all obstacles to their development, including difficulties in obtaining credit, should be removed.

The idea that lack of credit is an obstacle is often reached without a careful study of the entire credit market or the competitive position of the various claimants in that market. As a result, special credit facilities often are not designed to correct imperfections in the credit market but rather to help agriculture and small business attain a preconceived position in the whole scheme of things.

This is not to imply that social objectives or social values should not be considered in the attempt to answer the question, "Is adequate credit available to small business and agriculture?" Rather it is to stress that the economic aspects of the question should not be confused with the social aspects.

Adequate credit, from an economic standpoint, does not mean that small business and agriculture are able to obtain all the credit they want. Since the supply of credit at any given time is limited, all borrowers cannot have

their demands met completely. In a perfect market with competitive bidding those concerns that can use credit most effectively would come nearest to having their needs met. Credit, in other words, is a scarce good that is rationed in the market place. Adequate credit, in the economic sense, simply means that the rationing process is working perfectly and that lenders do not discriminate against any prospective borrower because of the size of his business or the nature of his product.

At any given time it is practically impossible to determine whether the credit available to small business and agriculture is adequate in the economic sense. It is possible, however, to trace past trends in the availability of such credit. There is a great mass of evidence which indicates that small businessmen and farmers are finding it easier to obtain credit. A survey of member bank loans in 1946 showed that three-fourths of the total number of loans outstanding to business were extended to small business. In the Sixth District, loans to small business accounted for an even larger proportion of all loans.

Since that time, the number of small business firms has continued to grow. A recent informal survey of loans to small business at District member banks indicated that banks were following essentially the same policies with respect to loans to small business that they were earlier. It may be assumed, therefore, that small business loans are even more numerous than in 1946.

Not only has small business financing tended to grow in importance but there have been developments in lending practices that make it easier for such firms to borrow. These developments include an increasing use of term loans, field warehouse loans, loans secured by accounts receivable, and consumer instalment financing. The increased use of accounts receivable and consumer instalment financing makes it possible for the small business to use its own money for its own operations. Although there is no conclusive proof that credit for small business has been adequate in the economic sense, there is convincing evidence that inadequacies are being overcome.

This situation in agriculture is similar to that for small business. Private lenders have taken an increasing share of the expanding farm loan business since the end of World War II. Lending techniques have been developed that make possible the extension of credit for many enterprises formerly not considered eligible for credit.

In spite of the increased availability of credit, many small businesses and many farmers need more capital in order to operate most efficiently and make their greatest contribution. This capital shortage, however, should not be confused with a shortage of credit. It is true, of course, that the money which the businessman or farmer obtains through borrowing can perform the same function as the money he owns. The main difference is that his own money, or capital, is put into the business on a permanent basis, whereas the borrowed money must be repaid. Obligation to repay the debt must take precedence over the right of the owner of capital to withdraw his money. The investor of capital, in other words, takes a risk that goes beyond the risks associated with the granting of credit. To make credit adequate in the economic sense does not

mean that it can be substituted freely for owned capital.

Special credit programs will be effective in fostering the development of small business and agriculture only to the extent that a lack of credit is one of the main obstacles to success. For this reason, it is important to recognize that financing is not always the most acute problem of either small business or agriculture. A lack of technical and administrative know-how, for example, is much more injurious to small business generally than is a lack of credit or capital. The small businessman is seldom a specialist in all fields of business administration such as inventory control, financial planning, and marketing. Usually he cannot afford to hire specialists as the large business does.

Additional credit cannot cure such basic ills as an unwise inventory policy, the extension of too much credit to customers, a poor location, inadequate permanent capital, or incomplete financial records. Neither can it protect small business from the major hazard of violent changes in over-all business activity or against adverse economic developments in a particular locality.

In agriculture, lack of credit is probably one of the least important obstacles to expansion and development. This is true even in the Sixth District, where potential opportunities for using credit profitably are very great. These opportunities consist mainly of land improvement and an expansion of livestock production in extensive systems of farming that require a great deal of management ability. A large share of District farms, however, are too small to take advantage of these opportunities. Many farmers have enough land but lack the necessary management experience or are still in the process of acquiring it.

At present the non-financial problems of agriculture and small business seem to overshadow the financial ones. For this reason it is doubtful that additional credit facilities would be particularly effective in fostering growth and development in these parts of the economy.

Any efforts to promote a greater use of credit by a particular group of producers contain some inherent dangers. One of the most serious of these is the misuse or misallocation of resources. An attempt to provide credit for all small business concerns in a particular industry, for example, may place too much credit in the hands of the least efficient users of it. These concerns may not only fail to use the credit with a profit to themselves but they may increase output to a point that the more efficient concerns are jeopardized.

Another danger is that special loan programs may encourage borrowers simply to use more credit rather than to attack their basic and long-range problems. A dairyman, for example, may run into financial difficulty as a result of a sharp rise in grain prices such as often accompanies a drought. Additional credit may bail him out temporarily. His real problem, however, may be that he is relying too heavily upon purchased grain feeds and is not producing enough home-grown feed in the form of low-cost roughage. Additional credit does not solve his basic problem. In fact, if he comes to rely upon such credit as the normal way of settling such difficulties, he may postpone recognition and solution of his real problem.

One of the more obvious dangers is improper admini-

stration of the programs. The administrators of such special programs, unlike the managers of privately owned institutions, are not disciplined primarily by the necessity for showing a profit and for protecting the interest of depositors and stockholders. Some of the most striking examples of poor administration have occurred in state-sponsored systems for farm credit. Minnesota, South Dakota, and North Dakota, for example, have all had a costly and unsatisfactory experience with attempts to provide long-term credit to farmers. During their most active period of operation, from 1917 to 1931, the special farm credit agencies in these states made loans of about 145 million dollars and incurred deficits of over 50 million dollars. Only a part of these losses were recovered in the final liquidations. The experience with state-sponsored credit schemes for agriculture certainly has been a sobering one and contains some lessons that may well be applied today.

In view of the dangers inherent in special loan programs for agriculture and small business and the practical difficulties of determining the need for such programs, strenuous efforts should be made to use existing financing sources fully. Commercial banks, particularly, have opportunities in this direction. Bankers can become more familiar with the new lending techniques and adapt old ones to the unique financing problems of small business and agriculture. Some banks can also establish special loan departments for farmers and small businessmen.

In some areas, too, there are local shortages of credit. Banks, particularly the larger city banks, often can bring about a greater mobility of credit by better working relationships with their smaller country correspondents. Because of their position of leadership, the larger city banks may have to do most of the pioneering in developing new lending techniques and in providing the technical assistance that is often required if small business and agriculture are to use private sources of credit successfully.

Another reason for the under-utilization of existing credit facilities by credit-worthy borrowers is that prospective borrowers do not always know just what facilities are available. This is primarily an educational problem. Banks can contribute to its solution by publicizing the services they have to offer and by expounding their lending policies clearly so prospective borrowers will know what to expect of them. Still another difficulty is that many farmers and small businessmen often do not maintain adequate financial records, with the result that the credit must be granted on a personal basis. This not only limits the borrower to strictly local sources of credit but it makes it difficult for him to present his financial situation and prospects clearly and convincingly to prospective lenders. Banks can also do an effective educational job in this field.

The most important step toward a more complete utilization of existing credit facilities, of course, is the maintenance of a stable and growing national economy. The credit problems of small business and agriculture, and other problems that are often erroneously labeled credit problems, become more urgent or less urgent as business activity fluctuates.

BROWN R. RAWLINGS

Sixth District Statistics

Instalment Cash Loans

Lender	No. of Lenders Reporting	Volume		Outstandings	
		Percent Change Apr. 1953 from		Percent Change Apr. 1953 from	
		Mar. 1953	Apr. 1952	Mar. 1953	Apr. 1952
Federal credit unions	38	-2	+24	+3	+38
State credit unions	18	+49	+52	+6	+40
Industrial banks	8	-3	+7	+3	+11
Industrial loan companies	8	-12	+13	+4	+13
Small loan companies	33	-13	-12	-1	+3
Commercial banks	33	-7	+13	+2	+31

Retail Furniture Store Operations

Item	Number of Stores Reporting	Percent Change April 1953 from	
		Mar. 1953	Apr. 1952
Total sales	145	+3	-6
Cash sales	130	+10	-10
Instalment and other credit sales	130	+1	-6
Accounts receivable, end of month	138	-1	+27
Collections during month	138	-3	+12
Inventories, end of month	103	+4	+3

Wholesale Sales and Inventories*

Type of Wholesaler	Sales			Inventories		
	No. of Firms Reporting	Percent Change Apr. 1953 from		No. of Firms Reporting	Percent Change Apr. 30, 1953, from	
		Mar. 1953	Apr. 1952		Mar. 31 1953	Apr. 30 1952
Automotive supplies	6	0	+14	5	+4	-7
Electrical appliances	5	-12	+14	4	+17	+43
Hardware	9	+3	+7	4	+2	+9
Industrial supplies	17	+4	+13	4	-0	-4
Jewelry	3	-6	+2	.	..	..
Lumber and bldg. mat'ls	4	+7	+6	.	..	..
Plumbing & heating supplies	4	-2	+2	3	+6	+27
Refrigeration equipment	6	+30	+36	6	+4	-7
Confectionery	6	+2	+6	3	+35	+59
Drugs and sundries	9	-4	-2	.	..	..
Dry goods	17	-16	+1	11	+2	+14
Groceries—Full-line	46	-0	+2	35	-3	-1
“ Specialty lines	9	-12	-3	4	-8	+13
Tobacco products	9	+4	+1	6	-6	-0
Miscellaneous	15	-3	+3	12	+4	-3
Total	165	-2	+6	97	+2	+6

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

Department Store Sales and Inventories*

Place	Percent Change			
	Sales		Inventories	
	Apr. 1953 from 1953	Apr. 1952	Yr-to-Date 1953-1952	Apr. 30, 1953, from 1953
ALABAMA	-5	-0	+8	+4
Birmingham	-9	-3	+5	+5
Mobile	-11	+0	+18	.
Montgomery	+6	+2	+8	.
FLORIDA	-8	-0	+6	+1
Jacksonville	-4	-10	-0	+3
Miami	-6	+1	+7	-0
Orlando	-8	+2	+8	.
St. Petersburg-Tampa Area	-7	+2	+6	.
Tampa—City	-2	-0	+5	.
St. Petersburg—City	-12	+5	+6	-1
GEORGIA	-5	+3	+2	-1
Atlanta**	-7	-2	+3	-1
Augusta	+3	-8	+0	.
Columbus	-2	-9	-2	+0
Macon	-4	-3	+1	-1
Rome**	-3	-6	+8	.
Savannah**	+5	+1	+9	.
LOUISIANA	-5	+1	+8	+4
Baton Rouge	+2	+10	+16	+4
New Orleans	-8	+1	+8	+5
MISSISSIPPI	-0	-2	+5	-0
Jackson	-3	-8	-3	-1
Meridian**	-1	-3	+10	.
TENNESSEE	-5	-2	+9	+4
Bristol**	-8	-4	+0	+6
Bristol-Kingsport-Johnson City**	-6	-3	+4	.
Chattanooga	-11	-2	+9	.
Knoxville	-3	-3	+9	+15
Nashville	-2	-3	+9	+11
DISTRICT	-6	-0	+6	+12

*Includes reports from 124 stores throughout the Sixth Federal Reserve District.

**In order to permit publication of figures for this city, a special sample has been constructed which is not confined exclusively to department stores. Figures for non-department stores, however, are not used in computing the District percent changes.

Condition of 27 Member Banks in Leading Cities

(In Thousands of Dollars)

Item	May 27 1953	Apr. 22 1953	May 28 1952	Percent Change May 27, 1953, from	
				Apr. 22 1953	May 28 1952
Loans and investments—					
Total	2,846,012	2,870,493	2,744,434	-1	+4
Loans—Net	1,227,845	1,239,729	1,088,220	-1	+13
Loans—Gross	1,249,620	1,261,470	1,108,043	-1	+13
Commercial, industrial, and agricultural loans	701,576	713,839	637,888	-2	+10
Loans to brokers and dealers in securities	16,036	15,093	10,830	+6	+48
Other loans for purchasing or carrying securities	38,245	35,200	32,969	+9	+16
Real estate loans	89,990	93,503	90,464	-4	-1
Loans to banks	7,140	13,518	2,656	-47	*
Other loans	396,633	390,317	333,236	+2	+19
Investments—Total	1,618,167	1,630,764	1,656,214	-1	-2
Bills, certificates, and notes	638,664	663,865	762,718	-4	-16
U. S. bonds	720,119	714,880	644,159	+1	+12
Other securities	259,384	252,019	249,337	+3	+4
Reserve with F. R. banks	513,586	505,214	512,688	+2	+0
Cash in vault	48,419	45,766	48,482	+6	-0
Balances with domestic banks	215,000	222,151	204,275	-3	+5
Demand deposits adjusted	2,175,985	2,178,290	2,081,726	-0	-5
Time deposits	566,363	564,256	546,634	+0	+4
U. S. Gov't deposits	39,736	54,322	83,289	-27	-52
Deposits of domestic banks	540,375	586,763	530,865	-8	+2
Borrowings	58,900	19,000	42,000	*	+40

*Over 100 Percent

Debits to Individual Demand Deposit Accounts

(In Thousands of Dollars)

Place	Apr. 1953	Mar. 1953	Apr. 1952	Percent Change		
				Apr. 1953 from		Yr.-to-Date Apr. 4 Mos. 1953 from 1952
				Mar. 1953	Apr. 1952	
ALABAMA						
Anniston	29,273	31,705	27,379	-8	+7	+5
Birmingham	416,067	449,270	443,983	-7	-6	-3
Dothan	17,879	18,689	16,751	-4	+7	-1
Gadsden	24,406	24,468	22,026	-0	+11	+7
Mobile	161,090	174,576	150,260	-8	+7	+7
Montgomery	98,061	91,915	92,595	+7	+6	+2
Tuscaloosa*	34,093	36,404	28,123	-6	+21	+4
FLORIDA						
Jacksonville	424,893	477,288	368,863	-11	+15	+12
Miami	418,873	442,973	349,924	-5	+20	+15
Greater Miami*	636,829	683,892	553,148	-7	+15	+12
Orlando	94,898	93,808	84,154	+1	+13	+17
Pensacola	53,417	54,549	47,444	-2	+13	+14
St. Petersburg	102,061	101,026	87,415	+1	+17	+14
Tampa	193,544	208,158	171,904	-7	+13	+15
W. Palm Beach*	67,356	78,596	62,360	-14	+8	+10
GEORGIA						
Albany	39,187	41,889	33,346	-6	+18	+14
Atlanta	1,233,077	1,282,892	1,112,301	-4	+11	+8
Augusta	86,700	90,324	89,079	-4	-3	+3
Brunswick	12,258	12,064	12,774	+2	-4	+3
Columbus	77,162	79,108	77,493	-2	-0	-1
Elberton	4,823	4,746	4,636	+2	+4	+11
Gainesville*	25,545	25,875	23,257	-1	+10	+2
Griffin*	13,459	14,340	12,707	-6	+6	+7
Macon	77,548	81,118	79,414	-4	-2	-2
Newnan	11,352	10,273	10,850	+10	+5	-15
Rome*	27,695	27,864	22,268	-1	+24	+14
Savannah	124,849	126,771	112,275	-2	+11	+11
Valdosta	15,619	16,212	15,609	-4	+0	+9
LOUISIANA						
Alexandria*	42,927	43,346	46,734	-1	-8	-0
Baton Rouge	130,281	143,226	119,511	-9	+9	+15
Lake Charles	54,590	56,078	50,656	-3	+8	+12
New Orleans	915,140	956,727	860,958	-4	+6	+8
MISSISSIPPI						
Hattiesburg	21,143	21,577	18,986	-2	+11	+4
Jackson	159,288	155,685	161,503	+2	-1	+0
Meridian	31,607	32,975	29,341	-4	+8	+3
Vicksburg	16,739	15,086	12,948	+11	+29	+8
TENNESSEE						
Chattanooga	214,403	213,018	172,288	+1	+24	+20
Knoxville	144,953	159,668	119,107	-9	+22	+21
Nashville	428,124	438,994	402,340	-2	+6	+4
SIXTH DISTRICT	5,833,305	6,106,856	5,358,113	-4	+9	+8
UNITED STATES						
345 Cities	145,641,000	153,511,000	134,145,000	-5	+9	+8

*Not included in Sixth District totals.

Sixth District Indexes

1947-49 = 100

	Manufacturing Employment			Cotton Consumption**			Construction Contracts			Gasoline Tax Collections			Furniture Store Sales*/**		
	Mar. 1953	Feb. 1953	Mar. 1952	Apr. 1953	Mar. 1953	Apr. 1952	Apr. 1953	Mar. 1953	Apr. 1952	Apr. 1953	Mar. 1953	Apr. 1952	Apr. 1953	Mar. 1953	Apr. 1952
UNADJUSTED															
District Total	114	114	108	106	110	101	..	..	..	156	140	150	86	86	92r
Alabama	108	108	104	105	109	95	166	123	134	154	132	141	88	92	107
Florida	138	139	129	..	..	..	186	151	191	182	170	166	89	93	88r
Georgia	114	113	112	105	110	105	171	180	226	154	133	143	90	87	93
Louisiana	103	103	97	..	..	..	176	164	147	132	115	146	82	88	98
Mississippi	114	114	107	135	142	98	101	200	129	161	152	165	..	..	..
Tennessee	116	115	107	108	107	103	162	114	342	147	131	142	77	71	78
SEASONALLY ADJUSTED															
District Total	113	114	107	106	105	101	..	..	..	152	150	146	94	97	101r
Alabama	106	107	103	..	..	..	..	..	..	152	143	139	91	106	111
Florida	132	131	124	..	..	..	..	..	..	170	162	155	98	103	98r
Georgia	114	113	112	..	..	..	..	..	..	150	146	139	96	98	100
Louisiana	105	107r	99	..	..	..	..	..	..	134	125	148	87	103	104
Mississippi	115	115	108	..	..	..	..	..	..	158	169	162	..	..	..
Tennessee	115	114	106	..	..	..	..	..	..	145	148	140	76	80	78

Department Store Sales and Stocks**

	Adjusted			Unadjusted		
	Apr. 1953	Mar. 1953	Apr. 1952	Apr. 1953	Mar. 1953	Apr. 1952
DISTRICT SALES*						
Atlanta	116p	128	115r	117	124	118r
Baton Rouge	115	122	110r	110	118	112r
Birmingham	113	106	93	108	106	98
Chattanooga	112	118	112r	106	118	109r
Jackson	122	134	116	116	130	116
Jacksonville	104	111	110r	104	107	114r
Knoxville	103	107	108	100	104	111
Macon	116	119	105r	115	118	113r
Miami	129	130	121r	118	123	122
Nashville	126	120	116	126	134	120
New Orleans	115	124	112	116	117	118
Tampa	114	128	103	114	124	109
DISTRICT STOCKS*	117	129	117	119	122	119
	141p	138	125r	148p	145	132r

*To permit publication of figures for this city, a sample has been constructed that is not confined to department stores. Such non-department stores are not included in the District index.

**Does not include data for all of La., Miss., and Tenn. Other totals for entire six states.

**Daily average basis.

Sources: Mfg. emp., state depts. of labor; cotton consumption, U. S. Bureau Census; construction contracts, F. W. Dodge Corp.; gas. tax, state depts. of rev.; furn. sales, dept. store sales, turnover of dem. dep., FRB Atlanta; petrol. prod., U. S. Bureau of Mines; elec. power prod., Fed. Power Comm. Indexes calculated by this Bank.

Other District Indexes

	Adjusted			Unadjusted		
	Apr. 1953	Mar. 1953	Apr. 1952	Apr. 1953	Mar. 1953	Apr. 1952
Construction contracts*						
Residential	..	..	..	169	153r	212
Other	..	..	..	157	176r	196
Petrol. prod. in Coastal Louisiana and Mississippi**	138	145r	130	141	146r	132
Turnover of demand deposits*	24.7	23.8	23.1	24.1	24.4	22.5
Index	128.3	123.5	119.9	..	..	..
Mfg. emp. by type						
Apparel	1953	1953	1952	1953	1953	1952
Chemicals	138	138	123	138	137	123
Fabricated metals	119	118	112	122	119	115
Food	161	164	139	165	166	143
Lbr., wood prod., furn. & fix.	104	105	104	103	104	103
Paper and allied prod.	92	94	93	93	94	94
Primary metals	138	135r	127	138	136	127
Textiles	105	104r	99	106	105r	100
Trans. equip.	100	101	99	101	101	100
Elec. power prod.**	154	159	130	160	164	135
Hydro-gen.	..	..	..	184	185	157
Fuel-gen.	..	..	..	151	143	153
	..	..	..	214	224	160

r Revised

p Preliminary

