



Monthly Review

ATLANTA, GEORGIA, DECEMBER 31, 1955

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Federal Reserve Bank of Atlanta

DISTRICT BUSINESS HIGHLIGHTS

Economic activity continued strong, as textile mills became more active and steel mills and petroleum producers maintained their rapid pace. Also, unemployment declined; the factory work week lengthened; and factory payrolls grew larger. People increased their buying at department stores; they made exceptionally large purchases of household appliances. Automobile sales were exceeding year-ago levels, judging from new car registrations in November. Meanwhile, total reserves of member banks increased somewhat, and bank loans showed further gains. Businessmen and consumers were using more credit. On the other hand, residential construction activity continued to decline, and net farm income was below that of last year.

Cotton consumption, seasonally adjusted, increased in October and November.

Steel operations in Birmingham, as a percent of capacity, remained about the same during the first three weeks of December.

Petroleum production, after seasonal adjustment, showed little change in November after having increased since July.

Manufacturing employment, after seasonal adjustment, rose in October. Seasonally adjusted **factory payrolls** continued to increase.

Insured employment dwindled in November, although it customarily rises in that month.

Residential construction awards fell off in November, but other-than-residential awards rose sharply.

Department store sales, seasonally adjusted, were up in December; spirited Christmas buying gave sales of household appliances a substantial boost.

Sales of new cars in October exceeded those of a year ago and, according to preliminary data on new car registrations, continued to increase in November.

Furniture store inventories in November reached their highest point since May 1954, and department store stocks were the highest on record.

Instalment sales at department stores were down from October and accounted for a smaller part of total sales.

Spending, as measured by bank debits, increased more than seasonally during November and remained well above the year-ago volume.

Excess reserves at member banks were larger in December and borrowing by member banks was smaller, leaving **free reserves** higher than in November.

Total deposits at member banks increased about seasonally during November, as gains in demand deposits more than offset declines in time deposits.

Total loans at member banks increased during November, after seasonal adjustment, and appeared to be gaining further in December.

Loans to businessmen and security brokers increased during November and contributed heavily to the gain in total loans.

1955 farm production of peanuts, corn, soybeans, and sweet potatoes exceeded last year's by large amounts; the tobacco crop is equal to last year's, but the rice, sugar cane, pecan and white potato crops are smaller.

Farm prices of hogs are down sharply from last year; prices of broilers, beef, cotton, and corn are also down, but prices of eggs, milk, oranges, and peanuts are higher.

The cotton crop is about a fourth larger than last year's, and a large portion of it is going into the loan under the price-support program.

Total cash receipts from farm marketings in September were slightly larger than a year ago, but so were costs. Net income, therefore, was lower.

Getting and Spending . . .

The Corporate Dollar

Financing their growing sales and production needs is one of the biggest tasks facing the nearly 400,000 business firms in the Sixth Federal Reserve District. Since the economic fortunes of the District depend on how well business units do in getting and spending their money, a picture of financing methods used by District firms will show how the region's economy has developed in recent years. One part of the picture is seen by looking at how a number of large local corporations financed their growth over the five years from 1950 through 1954.

A Knothole View

Peeking through a knothole is never the best way to watch a ball game. Similarly, observing the actions of a few large companies and then forming conclusions about all companies or even about all large firms leaves much to be desired. Nevertheless, the published financial accounts of

Number of Firms and Industries Represented in Sample of Large District Corporations

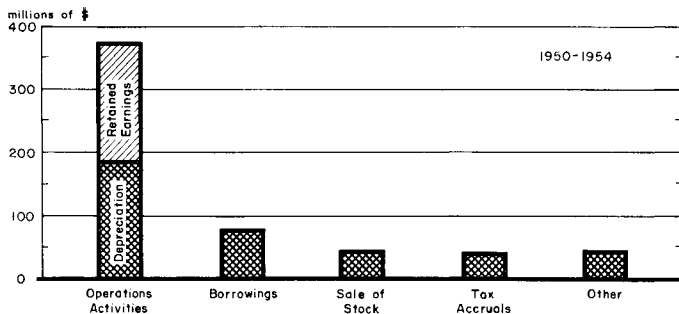
Food, liquor, and tobacco	14
Textile, apparel, and leather	9
Metals	7
Petroleum, coal, chemicals, and rubber	4
Building materials	4
Other manufacturing	4
Extractive industries	5
Trade	14
Total	61

NOTE: Sampled firms may include some with head offices in those portions of the six states outside the Sixth Federal Reserve District.

a sample of 61 large manufacturing and trade corporations with head offices in the six states served by the Federal Reserve Bank of Atlanta does give an intriguing view of how some firms are meeting their financing problems. The number of firms in each industry group in the sample is shown in the accompanying table.

One good way of learning about regional problems is to use the national picture as a yardstick. In this case, such a yardstick is available in the form of data on a group of

Large District firms met most cash needs from operating activities.



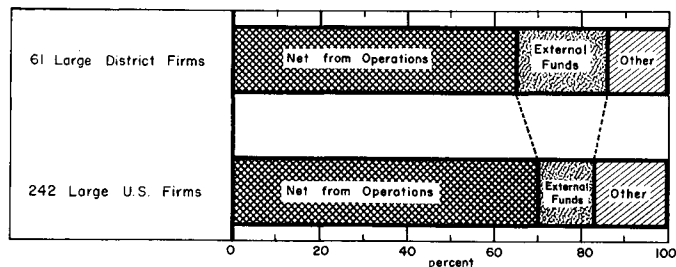
large national corporations whose accounts have been studied and published by the staff of the Board of Governors of the Federal Reserve System. Since utilities, communications, and railroad firms are omitted from the District sample, they have been taken out of the national sample. The sample for the nation contained 244 firms from 1950 through 1952, but only 242 thereafter because of mergers. As might be expected, firms in the District sample are smaller, averaging 20 million dollars in assets in 1954, compared with over 300 million dollars for the sample of large national firms. The District sample is also more heavily weighted by producers of nondurable goods, a characteristic typical of District industry.

Where the Money Came from

Funds obtained from their own operations was the most important source of financing the growth of District business firms if the experience of local large corporations is representative. Over the five-year period from the beginning of 1950 through the end of 1954, the 61 large manufacturing and trade firms located in the states of the Sixth District took in over 9 billion dollars from sales of their products. After paying for producing and distributing these goods, however, they had only about 800 million left and half of that went for income taxes. They paid out 56 percent of the remainder as dividends to stockholders, a dividend payout approximately the same in percentage terms as that of the 242 firms in the national sample. In the end, the concerns in the District sample had 187 million dollars left out of profits to add to their resources.

Retained earnings are only a part of the total cash funds arising from a firm's internal operations. Funds set aside to cover the wear and tear on equipment and to maintain

External funds were more important for District firms than for national firms (1950-1954).



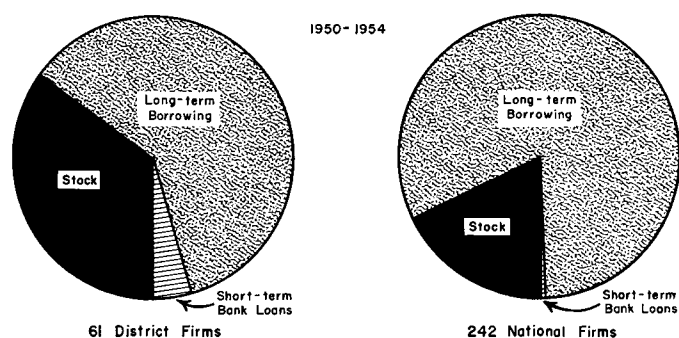
a firm's ability to produce are also a part of them. For the 61 large District corporations being studied, yearly reserves for depreciation during the 1950-54 period were running nearly as high as retained earnings. Both in the District and the nation, cash funds from internal operations were the firms' chief means of financing.

To Market, to Market, to Raise a Fat Buck

More trips to the market to raise funds for expansion were needed by District firms than national firms. Whereas 21 percent of all funds utilized by the 61 firms in the District sample came from bank borrowing, bond issues, or the sale of stocks, only 13 percent of funds used by 242 national firms came from outside sources. Altogether the 61 District firms obtained from institutions and individuals some 117 million dollars, most of it in the form of borrowed funds but a large part in new equity capital.

One clue to the reason why firms in the District found it necessary to rely more on outside sources of financing than did their national counterparts is suggested by the experience of the large corporations in the samples. Taken as a group, the District firms had slightly smaller net

Stock issues were a greater source of external funds for District firms.



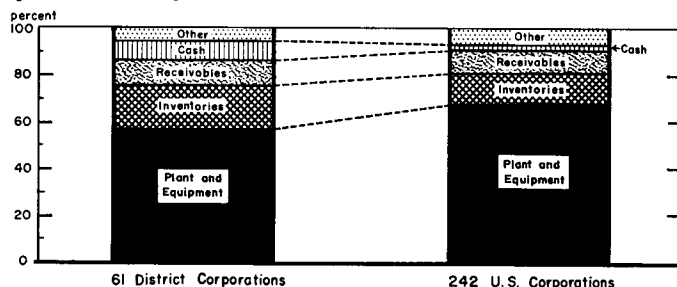
profits per dollar of sales or per dollar of assets than did the 242 corporations, and they may have found their power to generate cash for expansion purposes needed greater assistance from outside financing. The District firms did not experience greater rates of growth in either assets or sales.

Short-term credit from banks is particularly vital to Southeastern corporations because inventories and receivables, which are ordinarily financed by revolving bank loans, make up a greater proportion of the total assets of corporations in the nondurable goods industries than in the so-called heavy industries. Since short-term credit is principally relied upon to finance seasonal peak requirements, however, year-to-year comparisons frequently give misleading impressions of the importance of this type of financing. Thus its true significance in the period under study is obscured when viewed in the light of the fact that the 61 District firms obtained only one percent of their total funds from this source.

Long-term borrowing requirements are more accurately depicted by analyzing the annual financial statements of corporations; the 71-million-dollar borrowings by District firms for periods of over one year probably give a pretty good indication of the importance of long-term credit. Whereas the 242 national firms obtained only 11 percent of their funds from long-term bank loans, mortgages, private placements with insurance companies, and public issues of bonds, the 61 District firms borrowed 13 percent from these sources. Relative to the total amount of funds raised outside the firm, however, large District firms utilized

long-term borrowing substantially less than did national firms, relying somewhat more on short-term bank credit and capital stock issues.

Plant and equipment took more than half of the firms' funds in both the District and the nation (1950-1954).



Capital stock issues are three times more important as a source of outside financing for District firms than for national firms, according to the samples. All told, over the five years some 40 million dollars was raised in stock issues by the 61 District firms even though the number of such issues was relatively small. Preferred issues greatly predominated over common as a source of such funds. Greater use of capital stock issues by District corporations may reflect not only the smaller size of corporations in the six states but also the necessity of providing an equity cushion for expanded borrowing.

Among other sources of funds for the District corporations were trade payables, accrued Federal income tax liabilities, and other current liabilities. Relative to the funds generated from the firms' own operations and obtained from outside sources, however, these sources were of minor importance in both the District and the nation.

Where Does It Go?

Most of the money left after paying wages and salaries and other operating expenses goes to maintain the physical production facilities and assure the future growth of the business. Plant and equipment expenditures was the greatest single use of funds by the District sample of 61 large manufacturing corporations. Of the 568 million dollars generated within the firm and raised from outside sources, 324 million dollars, or 57 percent, went for bricks and mortar, new machinery, and upkeep on existing facilities. At that, however, the sampled District firms over the five years spent less of their incoming funds for plant and equipment purposes than did the national firms.

Why were plant and equipment requirements less for large District firms than for national firms—proportionate to the total use of funds? For one thing, it took less fixed property to turn a dollar of sales in the District, which is undoubtedly a reflection of the heavy concentration of nondurable goods production in the District. Also, since the nondurables industries have not experienced as high a rate of growth in the last five years as have durables industries, presumably the pressure on capacity has not been as great for District firms. This has been reflected in a smaller growth rate in sales of the sampled District corporations.

On the other hand, between 1949 and 1954, District

COMPOSITE SOURCES AND USES OF FUNDS, BALANCE SHEET AND INCOME STATEMENT

61 Large Corporations with Head Offices in District States

(In Millions of Dollars)

Sources and Uses of Funds

	1950	1951	1952	1953	1954
Sources of Funds	138.9	158.1	79.3	94.1	97.5
Net from operations	71.7	69.1	64.9	81.4	84.4
Trade payables	9.0	8.1	1.2	- 1.7	- 2.7
Bank loans, short-term	10.9	7.6	9.2	-16.4	- 6.2
Bank loans, long-term	10.7	- 3.2	18.2	9.4	4.3
Accrued Federal income taxes	21.9	37.4	-22.9	2.8	- .6
Other current liabilities	4.8	3.4	1.6	1.8	6.7
Mortgages, bonds, other liabilities	7.7	25.8	- 3.3	7.5	- 6.2
Capital stock .....	.5	8.1	8.3	8.1	16.1
Other sources	1.7	1.8	2.1	1.2	1.7
Uses of Funds	138.9	158.1	79.3	94.1	97.5
Plant and equipment expenditures	53.0	77.1	65.9	62.3	65.6
Inventories	36.7	54.6	12.9	- 9.4	13.7
Receivables	26.6	12.6	10.7	- 2	10.6
Cash	5.9	1.9	1.0	25.6	11.7
Government securities	2.8	3.6	-13.0	15.2	- 6.6
Other assets	13.9	8.3	1.8	.6	2.5
Other uses	0	0	0	0	0
Gross uses (sources)	138.9	161.3	118.5	121.6	119.7

NOTE—Figures for the sources and uses analysis were derived from income data and year-to-year changes in balance sheet accounts. Asset write-ups and write-downs, stock dividends, and other nonfund bookkeeping transfers are not shown separately, but are eliminated from the income data and changes in balance sheet accounts. Negative figures in the Sources of Funds section represent uses of funds; negative figures in the Uses of Funds section represent sources of funds. Gross uses include negative sources; gross sources, negative uses. Details may not add to totals because of rounding. A more precise

Balance Sheet and Income Statement

	1950	1951	1952	1953	1954
Total assets (end of year)	950.7	1070.3	1112.3	1161.0	1222.9
Cash	110.9	112.8	113.8	139.4	152.8
Government securities	46.8	50.4	37.4	52.6	47.7
Receivables, net	146.8	159.8	171.0	171.1	184.7
Inventories	217.3	271.6	284.4	274.9	294.4
Plant and equipment	376.1	420.5	448.8	465.7	481.6
Other assets	52.8	55.2	56.9	57.3	61.7
Total liabilities and equity	950.7	1070.3	1112.3	1161.0	1222.9
Notes payable to banks, short-term	22.9	30.8	40.0	25.1	19.3
Trade notes and accounts payable	56.7	64.8	67.3	65.7	65.0
Accrued Federal income taxes	68.9	107.3	84.9	88.0	86.7
Other current liabilities	28.1	34.0	35.0	37.1	42.7
Notes payable to banks, long-term	37.7	34.1	51.9	60.1	73.9
Mortgages, bonds, other liabilities	80.3	103.9	89.0	96.0	84.4
Surplus reserves	15.8	13.3	14.1	11.6	14.7
Capital stock	216.3	232.3	241.2	250.6	263.9
Surplus	424.0	449.8	488.9	526.8	572.3
Income statement:					
Sales (1950-52, 58 Cos.;					
1953-54, 59 Cos.)	1561.6	1857.4	1930.0	2111.3	1727.5
Depreciation	26.2	31.5	36.5	42.8	47.5
Profit before income taxes	155.8	184.3	151.4	168.7	173.1
Net profit	92.0	86.8	75.3	86.6	91.5
Dividends	46.7	48.9	46.8	48.5	52.1

explanation of techniques and definition of accounts are given in "Financing of Large Corporations in 1954," *Federal Reserve Bulletin*, June, 1955.

firms expanded their inventories of raw materials, goods in process, and finished goods at a substantially higher rate than did large national corporations (63 percent against 50 percent). Thus, more of the District firms' incoming funds, proportionate to the total, were required for this purpose. Some part of the increase in inventories in 1954, of course, was undoubtedly the result of depressed conditions in that year which perhaps resulted in more goods in stock at the year's end than had been anticipated.

Most larger corporations do a substantial business financing their customers. Over the five-year period, 62 million dollars, or 11 percent of corporate funds for the 61 Southeastern firms, went for increases in trade receivables held by these firms. At that, though, the District companies expanded their receivables by only 54 percent, in comparison with 89 percent for large United States companies. District firms, of course, by the nature of their business, have always financed a greater proportion of their customers than have national firms.

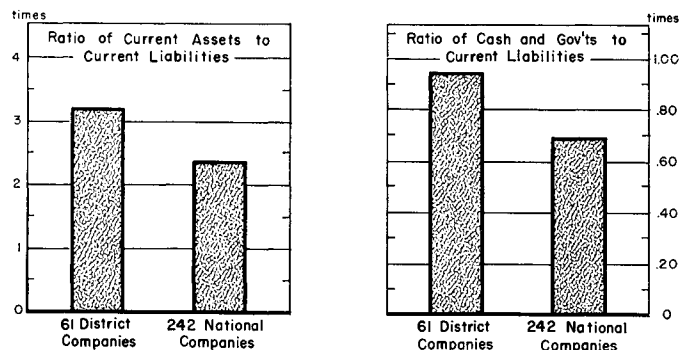
For a Rainy Day

District businesses also set aside part of their incoming funds to increase their savings and working balances. Thus, the 61 corporations whose accounts were analyzed used about 8 percent of their incoming funds after payment of operating expenses and taxes to increase their liquid balances. Although the national corporations devoted slightly less of their inflowing funds to this purpose, they also increased their balances. Most of the increase in liquid balances for the large Southern corporations, however, was in their cash, but in the case of the national firms most of the increase came in holdings of Governments.

At the end of 1954 District businesses were probably in a more liquid position than firms in the nation. Although both held about 16 percent of their assets in cash or

Governments, the 61 District firms' holdings of cash and Governments covered a higher proportion of current indebtedness for short-term loans and trade payables than

In 1954 the short-term liquidity position of District firms was better than that of national firms.



the national firms' did. And District firms were more successful in increasing net working capital—their current assets expanded at a greater rate and their current liabilities at a slower rate.

The 61 local firms whose accounts were studied did not include (1) companies with head offices outside of District states but with branch operations here, (2) local corporations that do not make public their financial accounts, and (3) unincorporated enterprises. Even so, the experience of the 61 District firms suggests a few conclusions about how District businesses have raised money since the Korean War. Cash supplied by the firms themselves was the most important source of money used for expansion purposes. More than national companies though, local businesses were dependent upon money raised from outside sources. They had to borrow more of their required cash and had to sell more stock. These facts indicate the heavy dependence of continued District development on properly functioning financial markets.

THOMAS R. ATKINSON

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Bank Announcements

The First National Bank of Clinton, Clinton, Tennessee, which opened for business December 10, is welcomed as a member of the Federal Reserve System. J. E. Jones is President and James L. McDonald is Executive Vice President and Cashier. It has capital of \$150,000 and surplus of \$50,000.

On December 12, the Bank of Brewton, Brewton, Alabama, began to remit at par for checks drawn on it when received from the Federal Reserve Bank. J. F. Smith is President of this bank. J. A. Hargett is Vice President, and David O. Allen is Cashier. Capital amounts to \$50,000 and surplus and undivided profits to \$136,243.

Sixth District Indexes

1947-49 = 100

	Nonfarm Employment			Manufacturing Employment			Manufacturing Payrolls			Construction Contracts			Furniture Store Sales**/**		
	Oct. 1955	Sept. 1955	Oct. 1954	Oct. 1955	Sept. 1955	Oct. 1954	Oct. 1955	Sept. 1955	Oct. 1954	Nov. 1955	Oct. 1955	Nov. 1954	Nov. 1955	Oct. 1955	Nov. 1954
SEASONALLY ADJUSTED															
District Total	123	122	119	116	114	112	171	169r	153r	..	..	..	108p	120	100
Alabama	115	115r	111	111	107r	105	165	160r	144r	..	..	..	120p	131r	107
Florida	140	140	135	143	142	140	208	201	194	..	..	..	108	129	109
Georgia	125	125	120	120	119	113	180	176r	155	..	..	..	115	127r	105
Louisiana	117	116	115	99	99	104r	148	152	142r	..	..	..	109	124	100
Mississippi	118	118	116	114	114	111	171	175r	160	..	..	..	..	..	..
Tennessee	118	117	115	115	114	108r	169	165r	152	..	..	..	92	101r	83
UNADJUSTED															
District Total	123	122	119	116	115	112	173	171	155r	..	..	..	118p	120	109
Alabama	116	115r	111	110	110r	104	164	165r	142r	248	197	135	122p	129r	109
Florida	137	134	131	138	135	135	198	189	184	335	235	192	122	125	123
Georgia	126	125	121	120	121	115	184	181	158	156	222r	186	122	123r	112
Louisiana	118	117	117	100	101	105r	153	155	147r	196	359	241	125	120	115
Mississippi	120	119	117	116	116	113	177	180	166	81	174	168	..	..	..
Tennessee	119	118	116	116	115	109r	172	169r	155	288	276	142	97	97r	87

Department Store Sales and Stocks**

	Adjusted			Unadjusted		
	Nov. 1955	Oct. 1955	Nov. 1954	Nov. 1955	Oct. 1955	Nov. 1954
DISTRICT SALES*	142p	148	133r	165p	154	155r
Atlanta ¹	148	141	138r	176	151	165r
Baton Rouge	114	119	113	127	122	127
Birmingham	130	134	122r	147	134	138r
Chattanooga	130	140	126r	148	142	144r
Jackson	115	114	111r	133	125	129r
Jacksonville	126	128	117r	140	152	130r
Knoxville	146	160	149r	160	165	155r
Macon	133	144	130r	156	151	152r
Nashville	127	133	127r	151	134	151r
New Orleans	138	142	133r	170	145	164r
St. Ptsrbg-Tampa Area	154	157	141r	180	157	165r
Tampa	136	138	122r	158	141	141r
DISTRICT STOCKS*	159p	156	143r	180p	170	161r

¹To permit publication of figures for this city, a special sample has been constructed that is not confined exclusively to department stores. Figures for nondepartment stores, however, are not used in computing the District index.

*For Sixth District area only. Other totals for entire six states.

**Daily average basis.

Sources: Nonfarm and mfg. emp. and payrolls, state depts. of labor; cotton consumption, U. S. Bureau Census; construction contracts, F. W. Dodge Corp.; 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		
	Nov. 1955	Oct. 1955	Nov. 1954	Nov. 1955	Oct. 1955	Nov. 1954
Construction contracts*	..	..	..	261	262r	184
Residential	..	..	..	195	242r	214
Other	..	..	..	311	278r	161
Petrol. prod. in Coastal Louisiana and Mississippi**	155	155	129	157	155	131
Cotton consumption**	101	99	97r	104	102	100r
Furniture store stocks*	114p	109r	113	120p	114	119
Turnover of demand deposits*	21.0	20.0	20.7	21.8	20.0	21.5
10 leading cities	21.7	20.4	21.2	23.2	21.2	22.7
Outside 10 leading cities	16.5	16.0	16.6	18.1	16.8	18.3
	Oct. 1955	Sept. 1955	Oct. 1954	Oct. 1955	Sept. 1955	Oct. 1954
Elec. power prod., total**	..	..	..	265	273	206
Mfg. emp. by type						
Apparel	154	154r	143	157	156r	145r
Chemicals	129	130	125r	133	131r	130r
Fabricated metals	164	163r	155r	166	164r	157r
Food	106	106	113	107	108r	114
Lbr., wood prod., furn. & fix.	84	83	84r	83	83	83r
Paper and allied prod.	153	151r	150r	153	153	150r
Primary metals	107	106	96r	106	106	95r
Textiles	95	95	94	96	96r	94r
Trans. equip.	189	189	164r	187	187	163r

r Revised p Preliminary

