



Monthly Review

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DISTRICT BUSINESS HIGHLIGHTS

As 1955 ended and 1956 got under way signs of a leveling off, rather than a continued upward movement, appeared in most economic indicators. Consumers were no longer increasing purchases in all lines—department store sales were unchanged, and furniture and automobile sales were below peak levels. Bank loans showed no further gains. On the other hand, declines in home building were offset by expanding contract awards for commercial and public construction. And both industrial activity and employment apparently continued to gain.

Department store sales in January, after adjustment for seasonal variation, continued at the high December level.

Furniture store sales, seasonally adjusted, increased slightly in December, but were considerably below the peaks reached in July and October.

Department and furniture store inventories, after adjustment for seasonal variation, declined in December.

New car sales in November were considerably larger than a year ago, and, according to preliminary data, increased slightly in December, although sales for the nation failed to show a percentage gain in that month.

Consumer instalment credit at commercial banks continued to increase in December, with automobile credit accounting for the major part of the gain.

Total loans at all member banks, seasonally adjusted, remained practically unchanged during December.

Interest rates on new business loans at banks in major cities averaged slightly higher in December than in June.

Real-estate financing in major centers tightened somewhat in recent months.

Spending, as measured by seasonally adjusted bank debits, declined during December but remained well above a year earlier.

Excess reserves of member banks increased somewhat in January despite a lower level of borrowing from the Federal Reserve Bank.

Hotel and motel occupancy in Greater Miami, according to the University of Miami Business Bureau, was higher in December 1955 than in December 1954.

Announcements of new and expanded manufacturing plants, in dollar terms, during the fourth quarter of 1955 fell short of record-breaking third quarter totals; the number of proposed plant projects, however, was larger.

Manufacturing employment and payrolls, after seasonal adjustment, continued to rise in November.

Other-than-residential construction awards in December were higher, but residential awards were lower than in December 1954.

Textile activity, measured by seasonally adjusted cotton consumption, fell somewhat in December.

Broiler placements in December and January were sharply above a year earlier. District farmers increased placements much more than growers in other areas.

Vegetable production prospects in Florida were reduced substantially by recent low temperatures; beans, corn, cucumbers and tomato crops were severely damaged; citrus crops suffered only slight damage.

Lack of rainfall in all areas except Florida has damaged pastures and cut small grain yield prospects.

Farm prices received for oranges, eggs, and beef cattle in December were above year- and month-earlier levels; chicken prices were higher than in December 1954, but in January were below a year ago; hog prices were well below year- and month-earlier levels.

The Realm of the Red Queen

"A slow sort of country," said the Queen. "Now, here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run twice as fast as that!"

LEWIS CARROLL
Through the Looking Glass

Ours is an age when everyone seems driven by an uncontrollable urge to reduce the world to a mass of figures. We count and weigh and measure everything in sight, and then we add them together, multiply and divide them, and otherwise manipulate them in many dark and devious ways in the hope of thereby achieving some deeper understanding of our world. We are especially prone to do this in economic matters. The imposing facade of statistical aggregates that emerges from this sort of business we treat as if it were a mirror reflecting the face of economic reality.

A good many years ago a little girl named Alice had some experience with mirrors when she made her now-famous journey "through the looking glass." She found that the world on the far side was very different from the one she had just left. If we were to peep behind our statistical looking glass we too might encounter a world as unfamiliar as Alice's.

The end of one year and the beginning of another is as good a time as any to try this sort of experiment, especially when the year just ended has brought to a close a decade of unprecedented prosperity as revealed in nearly every statistical measure at our disposal. Let us, then, take a brief journey through our own peculiar looking glass.

Look, for example, at the gross national product. This is our greatest aggregate. It purports to express the value of the economy's total output of goods and services in terms of current prices. It is a mirror that may be said to reflect the economy as a whole. As it increases, well-being is assumed to increase, and when it decreases, we become apprehensive and fearful of the future. In 1946, the year after World War II ended, the gross national product had been 209.2 billion dollars. An estimate for 1955 places it at 387.4 billion dollars—178.2 billion dollars more than the 1946 amount, or an increase of 85 percent.

Such a performance by the economy is certainly something to be elated about. It may occur to us, however, that economic well-being is perhaps not best represented by such an aggregate, no matter how impressively large it may be. The aggregate merely represents the total volume of goods and services available to people, but economic well-being depends upon how many people have to share the total. We remember, therefore, that between 1946 and 1955 the population sharing the gross national product increased by about 24 million persons. Taking the increase in population into account, then, gross national product per person increased from \$1,479.6 in 1946 to approximately

\$2,400.0 in 1955—an increase of 62 percent in the per-capita figure, compared with 85 percent in the aggregate.

But this is not the end of the story. The dollars in terms of which the gross national product is stated are not of uniform purchasing power. Because of changes in prices, dollars buy more or less at one time than they do at another. To get a better idea of what that 62-percent increase in gross national product per capita means, we have to get rid of the influence of changing prices. After all, prices in 1955 were a great deal higher than they were in 1946. To see what really happened we must deflate the gross national product per-capita figure by the index of consumer prices (1947-49=100). When we do this our figures rise from \$1,774.1 per capita in 1946 to \$2,038.8 in 1955—an increase of about 15 percent. A 15-percent increase in real per-capita gross national product is a far cry from the 85-percent increase in the aggregate with which we started.

Another aggregate with which we habitually deal is "personal income." This, too, must be corrected for price changes and also reduced to a per-capita basis if we are to see what it means in terms of individual economic well-being. Here, however, we must make one further adjustment. Account must be taken of the taxes that individuals pay to the government. What is left of "personal income" after taxes have been paid is called "personal disposable income." This is the amount people can spend or save at their discretion. Personal disposable income increased in the aggregate 159.2 billion dollars in 1946 to approximately 269.0 billion in 1955 (a preliminary calculation). This was an increase of 69 percent. The per-capita figure went from \$1,126.0 in 1946 to about \$1,621.0 in 1955—an increase of 44 percent and the deflated per-capita figure rose from \$1,350.1 in 1946 to \$1,415.7 in 1955—an increase of only 5 percent.

This increase of 5 percent in real per-capita disposable income seems to be a very small improvement in the level of economic well-being after a decade of Herculean effort. It also seems to belie what we see about us. People certainly seem better off than they were in 1946 by more than this figure seems to indicate.

They were, indeed, better off. Personal consumption expenditures in the aggregate in 1955 were nearly double what they had been in 1946. On a per-capita basis they were 78 percent greater in 1955, and on a deflated per-capita basis they were 8 percent greater.

The apparent miracle of being able to spend 8 percent more per capita in real terms while receiving only 5 percent more real income has two explanations. One is a decreased rate of savings. Per-capita savings in 1955 were little more than they had been in 1946 and were lower than any year since 1951. The other explanation is the great increase in consumer credit outstanding which grew from \$59.3 per-capita in 1946 to \$209.6 in 1955, and

the increase in mortgage credit from \$295.6 per capita in 1946 to \$764.2 per capita in 1955.

This happy arrangement that allows one to increase his present consumption of goods without any commensurate increase in his present income simply by giving liens against income that has not yet been earned, is, under certain circumstances, a powerful and salutary stimulus and support to the economy. Under other circumstances, however, especially when the productive facilities of the country are already being used at or near capacity, reckless spending against future income can be very dangerous. It tends to raise prices without giving anyone any more real income. It discourages frugality and saving by over-stimulating the consumption of goods and the resources that go into them.

And then there is another danger: Lenders have a curious interest in being repaid. When liens against future income increase much faster than current income, the burden of making repayment becomes ever greater, even assuming that the consumer's optimism regarding the stability of his income is fully justified. If and when repayments on past borrowings overtake or exceed the extension of new credit, the stimulation that this factor has been giving to the economy ceases. The flush of spurious prosperity fades from the face of the consumer and he is lucky if he finds himself no worse off than he was before his recent jag. It would be well if the consumer himself would realize his danger before it is too late. Failing that, however, lenders would be well advised to do what they can to prevent the consumer from getting himself into such a predicament, for in saving the consumer the lender may also be saving himself from serious trouble.

When one probes behind the distortions arising from price changes, a growing population, and an excessive use of credit, the thing that strikes one most forcibly in the record of the past ten years is not how much better off the individual was in 1955 than in 1946, but rather how little improvement had been made in his position. It is evident that a nation can experience an extraordinarily high level of business activity without much improvement in the status of the individual if the fruits of that activity have to be divided out among a rapidly growing number of people.

This, of course, has been the case in recent years in the United States. The population statisticians who, before the second World War, had been looking for an early approach to a maximum population of 175 million have had their calculations completely upset by the war and postwar behavior of the population figures.

Between 1900 and 1950 the population of the United States increased at the rate of 1.4 percent a year. Between 1950 and 1955, however, the rate of increase was 1.7 percent a year. This rate of increase may not seem alarming on the face of it, but it is higher than the world average (1.3 percent) and it is even higher than that of India (1.4 percent), a country often associated in our minds with ideas of over-population. Our rate of increase, indeed, is higher than that of any western European nation. It is five times higher than that of the United Kingdom, for example, and nineteen times as high as Austria's.

Population increase includes the excess of births over deaths as well as net immigration. Looking only at the

birth rate, however, the United States has the greatest of any highly developed nation in the world. It now stands at 25 per thousand population. In comparison, Italy—a country suffering from chronic overcrowding—had a birth rate of only 23.5 in 1940 and now has an even lower rate—17.6 per thousand.

Thus it comes about that instead of leveling off at a maximum of 175 million, our population is quite likely to exceed the 250 million mark within the next forty-five or fifty years if our present explosive birth rate continues and if medical science continues to increase life expectancy.

In simple societies where it does not take much to support an individual, an increase in population is nothing to be concerned about. In a society such as ours, however, where there is a high standard of living and where that standard is supported only in virtue of a tremendous per-capita investment in capital equipment, a rapid increase in population can create serious problems. The imperious necessities of consumption will tend constantly to thwart the provision of the ever-larger savings needed to supply the growing population with at least the same complement of tools and machines per capita that had formerly been available to them. Unless we use to the utmost all the machinery at our disposal for discouraging present consumption in favor of saving and investment in new plant and equipment, we may find that our growing population is gradually impoverishing us and not enriching us, as many suppose. We may, indeed, already have entered the realm of the Red Queen that Alice discovered on her journey "through the looking glass." In this new year of 1956 it now takes all the running we can do to stay in the same place. If we are to get somewhere else—if we are to make further improvement in the economic well-being of the individual in the face of a rapidly increasing population—we shall have to run twice as fast as that.

To do so will require a revival of some ancient virtues on the part of all of us—frugality and self-denial when confronted by the blandishments of a myriad of new gadgets clamoring for our attention and our money. It will require, too, exceptional wisdom on the part of the managers of our fiscal and monetary affairs, and a large measure of good luck besides, for them to influence economic activity in such a way that it will not merely serve to expand statistical aggregates, but will result in a real and not an illusory improvement in the economic well-being of the average American.

EARLE L. RAUBER

Flow of Funds in the United States, 1939-53, published by the Board of Governors, is now available at \$2.75 per copy. Address requests to Board of Governors of the Federal Reserve System, Washington 25, D. C.

The purpose of the flow of funds accounting system described in the book is to provide a statistical framework for analyzing economic developments, a framework that encompasses financial as well as nonfinancial processes and thereby facilitates study of the interrelationships among these processes. The structure of the system consists of separate sources and uses of funds statements for the 10 major economic group or sectors in the national economy, and the statement for each sector embraces all transactions that involve transfers of credit or money.

Keeping Up or Catching Up?

District Income Developments During 1955

For sometime now, Southerners have expected each year's record of economic change to reinforce the spirit of enterprise and regional pride that pervades the South today. In 1955 they were not disappointed. Their newspapers, televisions, and radios all told them about ever-increasing employment, higher consumer spending, and other marks of prosperity. Apparently, economic indicators in 1955 moved in only one direction—upward.

Except for agriculture, all major groups of income receivers in the District as a whole had higher incomes in 1955 than in 1954. But the farm picture was not entirely gloomy. Farm income was apparently greater in Florida, Georgia, and Alabama than in 1954. The roll call by states showed total personal income up most in Florida and Georgia, followed closely by Alabama. Lesser, but substantial, growth was reported in Mississippi, Tennessee, and Louisiana, in that order. Lower agricultural income explained in general the relatively lower ranking of the three last named states.

But some students of the South's economic development want more from the economic indicators than the rosy glow that comes through a stimulus to regional pride. They hope the figures will tell them something about how near the region is to its full economic potential. They may ask, as one measure, How have economic changes helped the South to reach its long-term goal of raising its per-capita income more closely to that of the nation? As this is accomplished, they feel that most of the South's economic problems will disappear.

Catching Up with the Nation

Developments over the course of the last quarter of a century have greatly improved the economic structure of that part of the South included in the Sixth District. As a consequence, the District economy is now more productive and yields higher per-capita incomes. But the economy of the country as a whole has also become more productive, particularly in the postwar period. "Catching up" to the national level thus involves more than merely improving the income of the South. Because the American economy has also been constantly producing more goods and services, "catching up" means that the District economy has had to expand at an even greater rate. The pace set by the nation in 1955 was so fast that if the District had merely "kept up," growth would have been substantial.

Growth in Personal Income

The District went one step nearer the goal of catching up in 1955. Personal income, according to preliminary estimates made by this Bank, was from 6 to 7 percent greater in the District in 1955 than in 1954. Personal income grew from 5 to 6 percent in the nation, according to United States Department of Commerce estimates. These estimates, of course, may be revised up or down as more information becomes available.

In 1955, however, the District's income had to be shared among 292,000 more persons than in 1954. Consequently, per-capita income rose at a little lesser rate than total income—under 5 percent. Since the nation's total income expanded at a lesser rate than the District's and its population increased at a greater rate, per-capita income growth for the nation was less than for the District. Thus, the District was a little closer to the national average. District per-capita income was around 71 percent of per-capita personal income in the nation in 1955. In 1954, according to United States Department of Commerce figures, it stood at about 70 percent of the United States figure.

Considered over an extended period, the record of catching up is impressive: In 1930, District per-capita income was but half of the national figure. Nevertheless, in the postwar period, the record of catching up has been one compounded of many small yearly increases. It is not that income has failed to rise, but rather that the pace set by national income has been rapid. Thus, with the District per-capita income in 1946 at 67 percent of the national figure, the year 1955 was the record "catching up" year in the postwar period.

Manufacturing's Contribution

Greater manufacturing payrolls was apparently the most important single category of the many forces expanding income in 1955. These payrolls, which were higher in each District state, accounted for about one-fourth of the total increase in income. Most of this increased income from manufacturing came about through the utilization of existing productive capacity rather than from additional jobs created by the opening of new plants. Many additions to industrial facilities were started in 1955, but comparatively few large ones were completed, reflecting the falling-off in starts of new plant construction in 1953 and 1954.

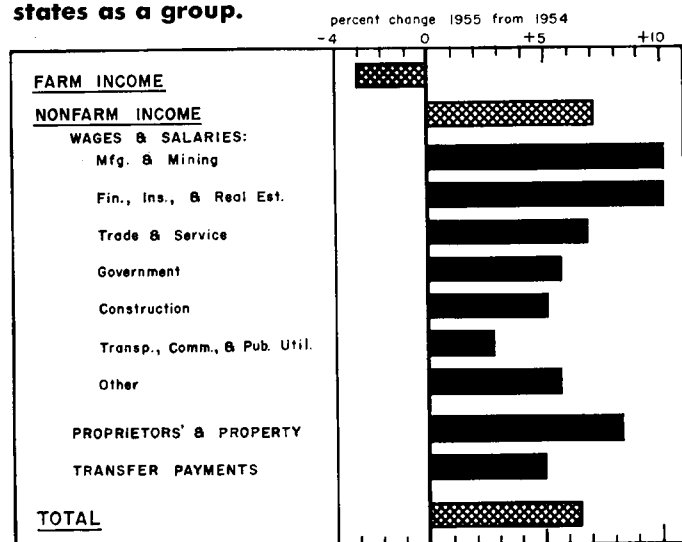
Textiles and lumber illustrate very well how employment was swelled by greater utilization of existing capacity. Both types of manufacturers reduced their work forces in 1954 in response to declining demands for their products. As the market improved in 1955, they expanded operations and added employees, so that on an average they employed 2 percent more workers than in 1954.

Even in the lusty growth industries—chemicals and pulp and paper manufacturing—employment gains were more a response to market conditions than to new facilities. Both had expanded in 1954 because of new plant additions, despite the general recession in manufacturing employment. In 1955, with little additional facility expansion, employment continued to grow. The number of workers on the payrolls of each industry averaged about 3 percent more than in 1954.

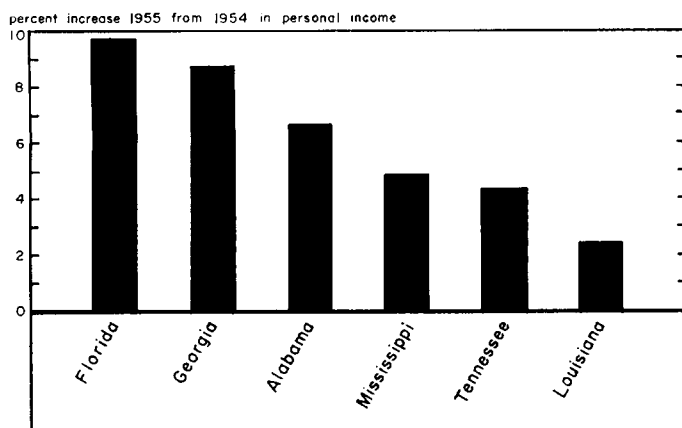
Another case is the near-capacity operations of the steel industry in the Birmingham area. In 1955, except during

PERSONAL INCOME IN SIXTH DISTRICT 1955

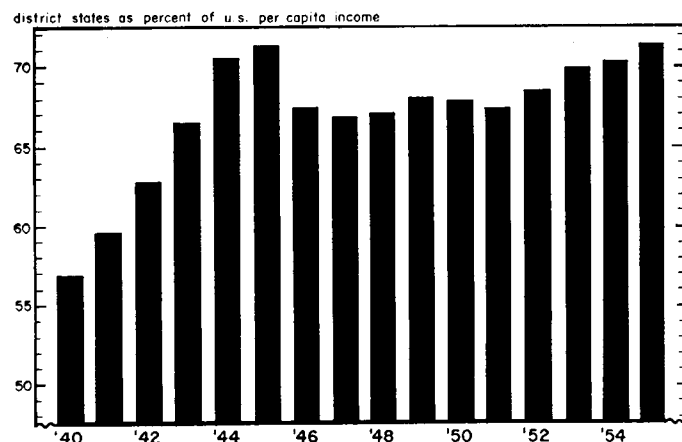
All types of personal income except farm income were greater in 1955 than in 1954 for the District states as a group.



Differences in the rate of income growth among states were effected chiefly by changes in farm income.



Income developments in 1955 brought District per-capita income one step closer to that of the United States as a whole.



Note: Charts on pages 6, 7 and 10 are based on preliminary estimates prepared by this Bank and are subject to change when more complete data become available

the first quarter and during a period of labor troubles, the mills operated above 90 percent of capacity. For the first time in history, the primary metals industry, including iron and steel and aluminum, became the most important employer in Alabama, stealing first rank from the textile industry. For the District, primary metals employment and transportation equipment employment both averaged 7 percent higher.

Plans for Further Industrial Expansion

But if 1955 did not set a record of "catching up" by completion of new industrial plants, 1956 promises much. With existing facilities strained, producers of automobiles and aluminum, for which capacity operation was the rule during 1955, plan expansions; and practically all plants producing pulp and paper or steel are enlarging their capacities. Also, many new plants are being started, such as oil refineries and those that will make cellulose, chemicals, newsprint, woodpulp, and paper cartons. The eventual total cost of major projects announced in 1955—some 675 million dollars—far exceeds that of those announced in any other year since the end of the war. At least 84 of them will cost several million dollars each.

To meet heavier demands for power, the electric power industry, whose output was about 25 percent greater in 1955 than in 1954, is also busy expanding its facilities. Practically all companies are either engaged in, or planning, new construction.

Other Nonfarm Employment Also Up

The forces that pushed manufacturing toward capacity also acted on other segments of the District's nonfarm economy. By the spring of 1955, total nonagricultural employment passed the previous peak set in 1953 and continued upward. This employment growth was reflected in greater incomes received in mining, construction, finance, trade, and other activities.

The construction industry during 1955 was busy providing new homes and new facilities to keep up with the District's expanded industrial and commercial activity. Total residential contract awards were up 20 percent for the year, the same rate of increase as that for the United States. Catching up in industrial and commercial facilities, moreover, pushed nonresidential construction up even more. Contracts for this type of construction in the District averaged 26 percent greater in 1955 than in 1954; in the United States, 22 percent.

With more jobs opening up, the labor market improved in practically all areas of the District. Insured unemployment averaged 28 percent less in 1955 than in 1954 and constituted about 3.3 percent of the labor force, compared with 5.1 percent for the year earlier. Labor shortages were not acute, however. No major labor areas had less than 1.5 percent unemployment, and in over four-fifths of the areas, unemployment ranged from 3 percent to 6 percent.

Greater Consumer Spending

By their spending, consumers in the District as elsewhere helped push up the demands not only for the

products manufactured in the District but the products of other areas as well. With a greater rate of income growth, they apparently increased their spending at a greater rate than did their counterparts in other areas. The trend of department store sales is typical, although department stores cover only a small part of retail trade. For the year as a whole, the rate of sales growth at all District department stores was 10 percent, compared with a national increase of 7 percent.

The automobile market, booming everywhere in 1955, was even stronger in this District than throughout the country. There were approximately 36 percent more automobiles registered in the District states last year than in 1954. In the nation, registrations increased 30 percent.

Agriculture Picture Mixed

Agriculture in 1955, for the District as a whole, presented one of the minus signs that had to be offset by pluses in other sectors. Nevertheless, agricultural developments were not as great a drag on income growth as in preceding years. The relatively favorable comparisons for Alabama, Florida, and Georgia, where personal income of farmers and agricultural workers was higher in 1955 than in 1954, reflect in part the depressed conditions resulting from the drought in 1954.

With favorable growing and harvesting weather in 1955, yields of cotton, peanuts, and corn set records. Peanut yields were double those of 1954, and tobacco yields and quality were better in many parts of Florida and Georgia. Citrus yielded higher incomes in Florida.

Prices were sustained by supports, in the case of cotton, peanuts, and tobacco. On top of that, beef-cattle prices averaged as high or higher than in 1954, and marketings were greater. Broiler prices also averaged higher and marketings were larger. Feed prices declined.

Even in those states where income was apparently larger in 1955 than in 1954, not all farmers were better off. Commercial growers of sweet potatoes suffered from sharply lower prices. And although hog growers sold more in 1955 than in 1954, prices fell so much that net income declined. Moreover, the peach and pecan crops were severely damaged by the freeze in the early spring.

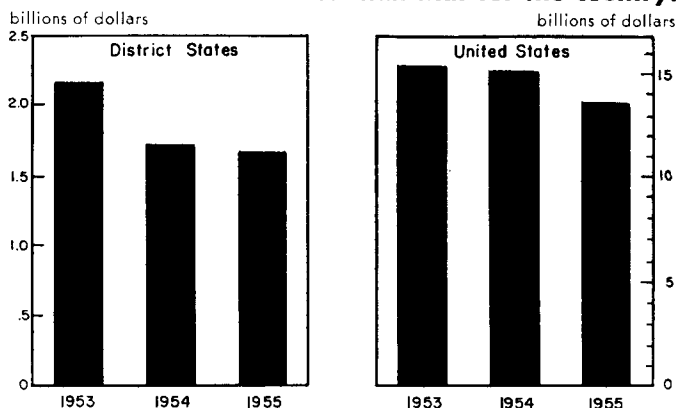
Farm income in both Louisiana and Mississippi was reduced by lower income from rice. Growers had to cut their rice acreage. Per-acre yields did not increase enough to offset the reduction, so total output was off 50 percent in Louisiana and 32 percent in Mississippi.

Thus, markets, weather, and Government agricultural programs were apparently responsible for farm income changes in 1955. These developments, of course, helped in the process of keeping income up. However, if agriculture is to help solve the problem of bringing income in the District up to the national level, adjustments in its basic structure must be made.

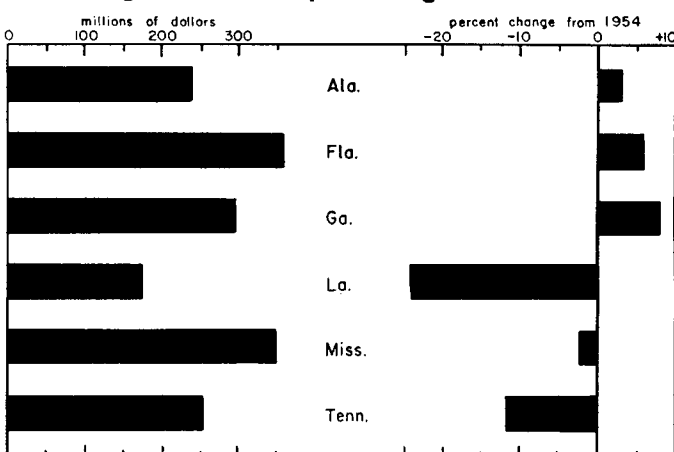
There are still many problems in the path of District agriculture, not the least of which is cotton. Cotton exports dropped significantly in 1955; cotton carry-over mounted further; foreign production continued to grow. Also of concern is the prospect of drought in parts of the District. Fall and early winter rainfall has been below normal up

FARM INCOME IN SIXTH DISTRICT, 1955

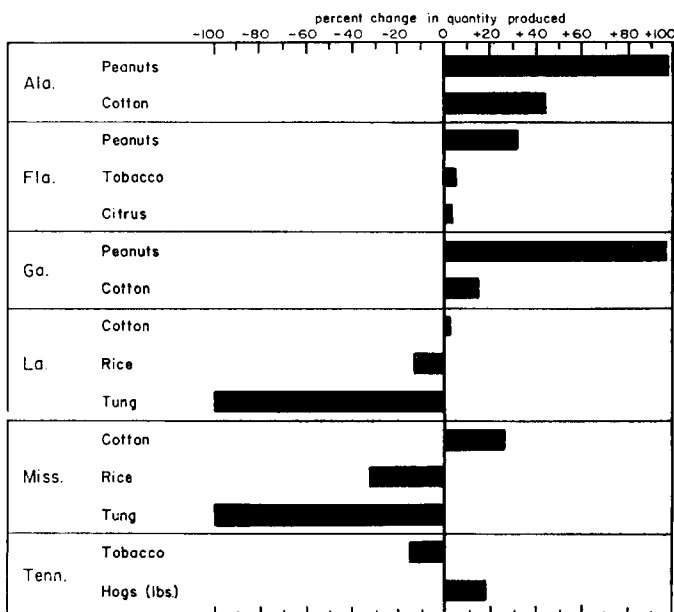
Personal income to farmers in 1955 was slightly below that for 1954, but the rate of decline in District states was much less than that for the country.



In three District states, personal income to farmers was greater in 1955 reflecting in part recovery from the drought conditions prevailing in 1954.



Greater output at fairly stable prices brought farmers more income except for hog products. Reduced hog prices more than offset increased production.



to this point in Alabama, Georgia, and Mississippi. A shortage of subsoil moisture can impair crop growth in this spring and summer.

Slowing Down?

As the year progressed, some of the greater-than-national exuberance of economic indicators in the District began to disappear. Manufacturing employment in the first quarter showed gains over a year earlier, whereas the nation's showed losses. In the second quarter, District employment showed increasing gains over that period of 1954, but slightly below those for the nation. But since August, manufacturing employment in the District increased less than in the nation over a year earlier.

Figures on consumer spending showed the same general pattern. At the end of the first quarter, sales at District department stores, for example, were 13 percent greater than a year earlier, whereas throughout the United States sales increased 8 percent. In the second quarter, the score stood: the District, plus 8; the nation, plus 6. For the quarter ending in September, the comparisons for sales at District department stores were plus 12 percent against an increase of 9 percent for the United States. But when the year ended, the District's gain for the last quarter was 7 percent, compared with one of 6 percent for the nation. Other economic indicators showed similar trends. The process of catching up was apparently slowing down.

A good many explanations can be offered for the lessening of the favorable comparisons as the year progressed. For one thing, having been only mildly affected by the recession of 1953-54, the District economy did not have so far to recover. But toward the end of 1955 this became a less important factor. Perhaps of more importance was the tendency for the boom to build up dynamic demands in the durable goods section of the economy. With the District economy still heavily concentrated in nondurable goods production, the response of the economy to boom conditions became less striking than in many parts of the nation.

But of compelling interest is what the figures for 1955 mean toward the long-run economic development of the area. What do they forecast for 1956 so far as the catching up process is concerned? Can the District equal its 1955 record of greater-than-national income growth and thus go one step further toward raising per-capita income to the national level?

The answer, of course, depends in part upon what happens in the national economy this year. Aside from that, whether or not the boom widens more into non-durable production, particularly in textiles, and how much the planned plant expansion contributes to industrial growth will be two of the most important developments affecting the outcome. If these developments are favorable and the agricultural situation improves, the District's economic record in 1956 can well be one not only of keeping up with the nation's economic expansion but of catching up with the national income level as well.

CHARLES T. TAYLOR

Bank Announcements

The Federal Reserve Bank of Atlanta is pleased to welcome to membership in the Federal Reserve System on January 3, the Guaranty Bank & Trust Company, Hammond, Louisiana. Officers of the bank are L. A. Loustalot, President; F. E. Patenotte, Vice President; E. J. Gaspard, Jr., Auditor; A. J. Marmillion and F. A. Sheffield, Assistant Vice Presidents; and P. C. Gabriel, V. L. Moulliet, and C. W. Sanders, Assistant Cashiers. It has capital of \$250,000 and surplus of \$375,000.

On January 1, the Bank of Sewanee, Sewanee, Tennessee, a nonmember bank, began to remit at par for checks drawn on it when received from the Federal Reserve Bank. H. E. Clark is President; Ross Sewell, Vice President; J. F. Merritt, Jr., Cashier; and Lee Porter, Assistant Cashier. Capital amounts to \$25,000 and surplus and undivided profits to \$54,838.

Another nonmember bank going on the par list January 1 was McMillan & Co. Bankers, Livingston, Alabama. Officers of this bank are T. M. Tartt, Jr., President; Allen M. Tartt, Vice President; and Ted Tartt, Cashier. It has capital of \$50,000 and surplus and undivided profits of \$216,351.

On January 4, a newly organized, nonmember bank, Delta Bank & Trust Company, Port Sulphur, Louisiana, opened for business and began to remit at par. Its officers are K. T. Price, President; Felix J. Elston, Vice President; and A. E. Zevely, Vice President and Cashier. Capital stock amounts to \$260,000 and surplus and undivided profits to \$130,000.

On January 23, The Citizens Bank, Wetumpka, Alabama, opened for business as a nonmember, par-remitting bank. Its officers are W. B. Reneau, President; W. B. Joiner, Executive Vice President and Cashier; John W. Macon, Vice President; and William H. Hall, Assistant Cashier. Capital stock amounts to \$100,000 and surplus and undivided profits to \$40,000.

On January 7, the newly organized, nonmember Bank of Lenoir City, Lenoir City, Tennessee, opened for business and began to remit at par. W. J. Hamilton is President; J. W. Wilburn, Sr., Vice President; C. H. Everett, Cashier; and Jack E. Lee, Assistant Cashier. The bank has capital of \$100,000 and surplus and undivided profits of \$100,000.

Also, to open on February 6 is the new, nonmember, par-remitting American Bank & Trust Company, Lafayette, Louisiana. Paul J. Blanchet is President, and J. B. Hutchison is Executive Vice President and Cashier. The bank has capital stock of \$500,000 and surplus and undivided profits of \$250,000.

Loans and Liquidity at Member Banks

Reaching a new peak in 1955 and reflecting the increased economic activity in the area, total loans at member banks in the Sixth District rose more than those at member banks in the United States. Furthermore, the rate of gain in bank loans during 1955 far surpassed that of any other postwar year. Bankers secured funds for the expansion chiefly in two ways: They sold many of their short-term securities; and their deposits increased because of an inflow of funds from other areas. The shift from investments to loans, together with other changes in assets, however, considerably reduced their liquidity positions—the ratio of liquid assets to total deposits.

All Types of Loans Increased

The rate of gain in loans to all types of bank customers during 1955 was greater than that for the average postwar year. Judging by loan changes at banks in leading cities, it is apparent that business and real-estate firms and consumers contributed heavily to expansion in the economy.

Consumer credit, as measured by loans to consumers at all commercial banks, increased some 100 million dollars during 1955, with more than three-fourths of the increase in volume being used for automobile purchases. Banks also assisted consumers in financing about 6 million dollars of other durable goods, such as household appliances, furniture, and the like. In addition, consumers borrowed 19 million dollars to meet living expenses and to pay off such debts as doctor bills and taxes.

Real-estate firms and mortgage brokers also raised their borrowing substantially, partly by getting direct loans to finance construction and purchases of property and partly by borrowing on indirect, temporary terms. The latter type of advance, often called a warehousing loan, represents short-term financing of mortgage lenders. Although warehousing loans have been made before, they took on a new importance during 1955.

Total real-estate loans at commercial banks increased about 50 million dollars during the year, compared with an average gain of only 8 million for other postwar years. The dollar gain in warehousing loans is not available, but according to a special survey conducted by this Bank, such loans at banks in leading cities increased 97 percent during the year ended August 10, and they gained another 14 percent between August 10 and November 16.

Business firms had the largest dollar gain during the year, but on a percentage basis the gain was less significant than that in real-estate and consumer loans. Manufacturing and mining firms and sales finance companies borrowed more than any other types of business, and of these concerns, sales finance companies had the largest percentage increase. These companies, in turn, lend to consumers, and the large gain in their loans again reflects the importance of consumer credit in the 1955 loan expansion at banks.

Loan Funds Obtained by Selling Investments

Of more interest, perhaps, than the gain by type of borrower is the manner in which banks obtained funds for the

loan expansion. The expansion took place in the face of a monetary policy that allowed for only a moderate increase in the money supply. The Reserve System throughout most of 1955 maintained pressure on bank reserves through open market operations. These operations tended to increase yields and lower prices of Government securities and raise interest rates charged bank borrowers. Furthermore, when member banks borrowed to replenish their reserves, they paid higher rates. The Federal Reserve Bank of Atlanta, paralleling actions at the other Reserve Banks, raised its discount rate in April from 1½ percent to 1¾ percent. The rate was subsequently raised twice in August and again in November, and at the end of the year stood at 2½ percent.

Under the conditions that characterized 1955, a bank wishing to increase its loans had four major alternatives: First, it could draw upon its cash assets such as cash on hand or deposits in other banks. Generally, banks do not maintain large idle balances, and this source, therefore, offered only limited amounts. Second, it could sell Government securities, but under the market conditions of most of 1955, such sales would probably have resulted in some losses. Third, it could secure lending assets by attracting deposits, but the flow of deposits is determined more by broad economic forces than by the action of any bank. Finally, it could borrow temporarily from the Federal Reserve Bank or other sources, but the higher discount rates in 1955 meant that this method added to banks' costs.

Thus, although credit controls did not prevent member banks from making loans, they did increase the cost and difficulty of lending. The higher costs of lending were passed on to borrowers and acted as a deterrent to loan demand. Moreover, some banks did not wish to incur the losses involved in the sale of securities and others were reluctant to remain in debt to the Federal Reserve Bank. By maintaining pressure on reserves, monetary policy probably kept loan expansion smaller than would have been the case otherwise.

During 1955 member banks in the District increased their loans more than 500 million dollars, and their loans reached a peak of 3,242 million. As a group, they were able to expand their loans with the 160 million dollars they received from selling securities and because of a 362 million dollar increase in deposits.

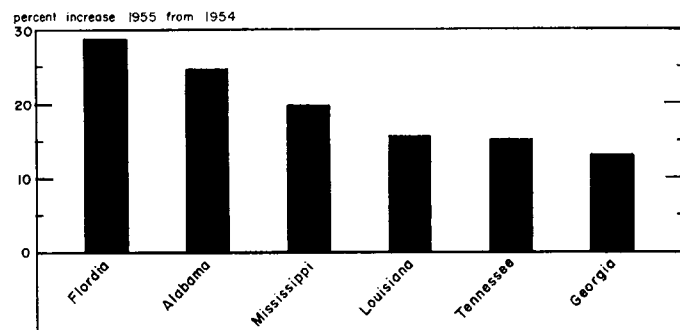
At the end of 1954, member banks held 3,591 million dollars in total investments, but by the end of 1955 this figure was down to 3,431 million. Most of the decline took place during the last half of the year when banks sold many of their short-term securities.

On the other hand, total deposits of member banks, amounting to 7,970 million dollars at the end of 1954, increased to a record 8,332 million dollars at the end of 1955, with demand deposits accounting for most of the rise. Time deposits increased only 67 million dollars.

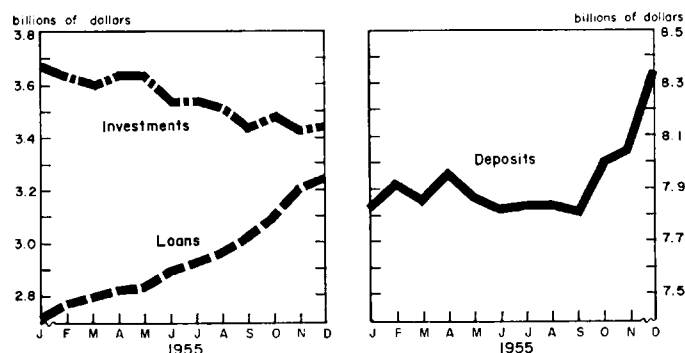
At various times during the year, member banks borrowed substantially from the Federal Reserve Bank of Atlanta. Their borrowings reached the unprecedented level

DISTRICT MEMBER BANK LOANS IN 1955

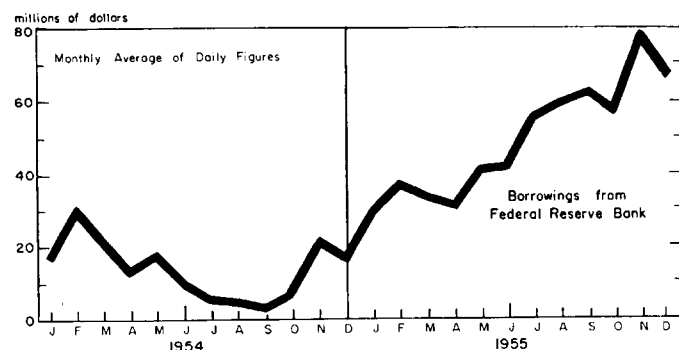
Member bank loans in 1955 rose in each District state.



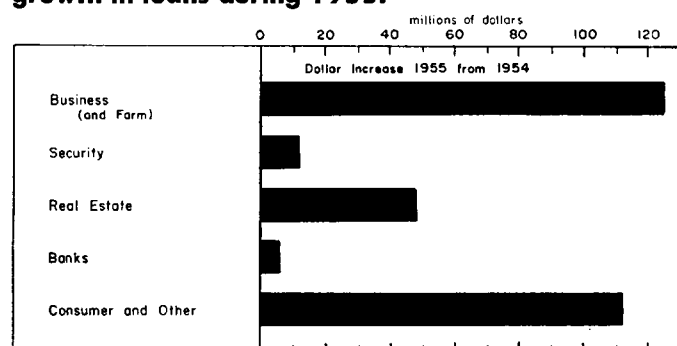
Taking member banks in the District as a whole, reduced investments and greater deposits at most banks made the loan expansion possible.



Some banks, however, borrowed from the Federal Reserve Bank to maintain reserves in the face of heavy loan demands.



At banks in leading District cities, business and consumer loans accounted for the greater part of the growth in loans during 1955.



of 103 million dollars during December, and in the last quarter the weekly average was 65 million dollars. At the end of the year, however, borrowings were at a low point, only 38 million dollars more than they had been at the end of 1954.

Large Banks Obtained Funds by Selling Securities

The reliance of individual banks or classes of banks for loanable funds on these sources, however, differed by size of bank. Reserve city banks (banks in Atlanta, Birmingham, Jacksonville, Nashville, and New Orleans) secured funds primarily by selling short-term securities, whereas banks in smaller cities obtained funds from a gain in deposits.

At reserve city banks, loans increased 240 million dollars. To take care of this increase, these banks sold 187 million dollars' worth of securities and attracted 26 million in new deposits. Some of the banks borrowed heavily from the Federal Reserve Bank. These large banks, because they are more fully invested and tend to hold lower excess reserves, are frequently more sensitive to monetary and credit policy than are small banks. Actually, their total loans and investments increased by less than one percent in 1955 and therefore created little additional credit.

Small Banks Attract Deposits

At country banks where deposits increased, it was possible to expand loans without reducing investment holdings. At these banks, total loans increased 289 million dollars and investments increased an additional 27 million. Although banks reduced their holdings of Government securities, they increased their municipal and corporate holdings. Increases in loans and investments were made possible primarily by a gain of 336 million dollars in deposits.

Bank Liquidity Reduced

That many banks found it necessary to borrow this past year is an indication of the loss of liquidity; they were either unable or unwilling to draw down their liquid assets to maintain their reserve positions. Still another indication of the lower liquidity position is the change in their asset ratios. The ratio of loans to total assets increased from 31.9 percent to 35.7 percent. Although the ratio of investments to total assets declined somewhat, earning assets in relation to total assets increased, and as a result the ratio of total assets to cash on hand and balances with other banks declined.

Banks reduced their liquidity positions in still another way. Since short-term securities are generally more liquid than long-term securities because their prices are less subject to fluctuations, banks often use them to meet large cash withdrawals or a large loan demand. During 1955, banks sold many short-term securities; total holdings of bills, notes, and certificates dropped 52 million dollars during the year ended October 5, 1955. Liquidity was also reduced by a shift to short-term bonds, which, although higher yielding, are nevertheless less liquid than United States notes, bills and certificates.

CHARLES S. OVERMILLER

Sixth District Statistics

Instalment Cash Loans

Lender	No. of Lenders	Volume		Outstandings	
		Percent Change Dec. 1955 from		Percent Change Dec. 1955 from	
		Nov. 1955	Dec. 1954	Nov. 1955	Dec. 1954
Federal credit unions	40	+10	+14	+1	+22
State credit unions	15	+30	+37	+3	+18
Industrial banks	8	+11	+9	-2	+13
Industrial loan companies	10	+24	+13	+3	+8
Small loan companies	23	+33	+0	+1	+8
Commercial banks	32	+5	+12	+1	+17

Condition of 27 Member Banks in Leading Cities (In Thousands of Dollars)

Item	Jan. 18 1956	Dec. 21 1955	Jan. 19 1955	Percent Change Jan. 18, 1956, from	
				Dec. 21 1955	Jan. 19 1955
Loans and investments—					
Total	3,309,907	3,365,808	3,247,739	-2	+2
Loans—Net	1,700,853	1,734,609	1,426,777	-2	+19
Loans—Gross	1,726,585	1,758,904	1,450,181	-2	+19
Commercial, industrial, and agricultural loans	942,621	961,841	832,838	-2	+13
Loans to brokers and dealers in securities	30,904	32,207	21,839	-4	+42
Other loans for purchasing or carrying securities	41,841	42,255	37,508	-1	+12
Real estate loans	152,382	155,811	110,743	-2	+38
Loans to banks	13,534	17,938	4,692	-25	*
Other loans	545,303	548,852	442,561	-1	+23
Investments—Total	1,609,054	1,631,199	1,820,962	-1	-12
Bills, certificates, and notes	578,334	567,447	688,576	+2	-16
U. S. bonds	722,312	743,180	836,744	-3	-14
Other securities	308,408	320,572	295,642	-4	+4
Reserve with F. R. Bank	482,815	516,508	530,386	-7	-9
Cash in vault	51,535	56,633	47,311	-9	+9
Balances with domestic banks	268,382	279,545	253,409	-4	+6
Demand deposits adjusted	2,385,837	2,411,285	2,333,334	-1	+2
Time deposits	613,650	623,335	604,197	-2	+2
U. S. Gov't deposits	32,825	77,075	58,286	-57	-44
Deposits of domestic banks	751,190	757,192	767,266	-1	-2
Borrowings	32,950	44,200	35,475	-25	-7

*100 Percent or over.

Department Store Sales and Inventories*

Place	Sales			Inventories	
	Percent Change			Percent Change	
	Dec. 1955 from Nov. 1955	Dec. 1954	12 Months 1955 from 1954	Dec. 31, 1955, from Nov. 30, 1955	Dec. 31, 1954
ALABAMA	+61	+6	+9	-23	+7
Birmingham	+58	+3	+8	-20	+5
Mobile	+63	+11	+11	..	..
Montgomery	+68	+4	+6	..	..
FLORIDA	+65	+13	+15	-18	+10
Jacksonville	+79	+12	+7	-29	+10
Orlando	+57	+11	+9	..	..
St. Ptsbg-Tampa Area	+49	+9	+6	..	..
St. Petersburg	+53	+10	+9	-12	+8
Tampa	+46	+8	+4	..	..
GEORGIA	+60	+7	+10	-26	+4
Atlanta**	+57	+7	+11	-26	+4
Augusta	+68	-1	+1	..	..
Columbus	+64	+6	+15	-22	+12
Macon	+75	+10	+7	-36	-3
Rome**	+99	+30	+14	..	..
Savannah**	+62	+9	+9	..	..
LOUISIANA	+47	+7	+6	-25	+5
Baton Rouge	+77	+16	+6	-22	+24
New Orleans	+40	+6	+6	-26	+1
MISSISSIPPI	+63	+5	+4	-21	+14
Jackson	+51	+2	+2	-20	+17
Meridian**	+84	+16	+11	..	..
TENNESSEE	+74	+6	+7	-27	+15
Bristol (Tenn. & Va.)**	+89	+7	+0	-29	+12
Bristol-Kingsport-Johnson City**	+84	+6	+2	..	..
Chattanooga	+73	+3	+1	..	..
Knoxville	+79	+8	+12	-25	+54
Nashville	+65	+5	+7	-26	+6
DISTRICT	+61	+8	+10	-24	+8

*Reporting stores account for over 90 percent of total District department store sales.

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

Retail Furniture Store Operations

Item	Percent Change December 1955 from	
	November 1955	December 1954
Total sales	+40	+7
Cash sales	+63	+11
Instalment and other credit sales	+38	+7
Accounts receivable, end of month	+7	+9
Collections during month	+6	+11
Inventories, end of month	-12	-3

Wholesale Sales and Inventories*

Type of Wholesaler	Sales			Inventories		
	No. of Firms Reporting	Percent Change Dec. 1955 from		No. of Firms Reporting	Percent Change Dec. 1955 from	
		Nov. 1955	Dec. 1954		Nov. 1955	Dec. 1954
Grocery, confectionery, meats	35	-5	-2	28	-15	+11
Drugs, chems., allied prods. .	8	+22	+11	..	..	..
Automotive	6	-6	-1	..	..	..
Electrical, electronic and appliance goods	10	+9	-2	..	..	..
Plumbing & heating goods .	11	-14	-2	9	-5	+15
Machinery: equip. & supplies	18	-4	+28	15	-0	+22
Industrial	8	-1	+20	8	-2	+21

*Based on information submitted by wholesalers participating in the Monthly Wholesale Trade Report issued by the Bureau of the Census.

Debits to Individual Demand Deposit Accounts

	(In Thousands of Dollars)			Percent Change	
				Percent Change	
	Dec. 1955	Nov. 1955	Dec. 1954	Dec. 1955 from Nov. 1955	Year-to-date 12 Mos. 1955 from 1954
ALABAMA					
Anniston	38,338	34,601	33,627	+11	+14
Birmingham	674,749	636,233	524,686	+6	+29
Dothan	24,946	23,042	19,763	+8	+26
Gadsden	34,612	32,435	27,618	+7	+25
Mobile	232,842	216,460	201,502	+8	+16
Montgomery	138,294	123,070	120,470	+12	+15
Tuscaloosa*	45,109	44,276	39,358	+2	+15
FLORIDA					
Jacksonville	638,213	532,880	585,525	+20	+9
Miami	571,567	506,898	544,682	+13	+5
Greater Miami*	863,979	780,882	834,859	+11	+3
Orlando	135,688	114,426	128,556	+19	+6
Pensacola	73,729	68,743	63,285	+7	+17
St. Petersburg	135,915	126,884	125,979	+7	+8
Tampa	276,677	234,483	254,247	+18	+9
West Palm Beach*	84,847	75,113	75,669	+13	+12
GEORGIA					
Albany	56,110	51,494	51,095	+9	+10
Atlanta	1,598,140	1,460,570	1,501,558	+9	+6
Augusta	101,135	92,320	96,536	+10	+5
Brunswick	18,258	16,331	15,867	+12	+15
Columbus	110,016	93,723	95,349	+17	+15
Elberton	6,564	5,747	5,359	+14	+22
Gainesville*	44,011	40,000	34,066	+10	+29
Griffin*	18,662	15,854	16,979	+18	+10
Macon	112,924	106,444	103,205	+6	+9
Newnan	14,059	13,806	12,088	+2	+16
Rome*	43,059	41,301	37,599	+4	+15
Savannah	161,325	131,657	146,707	+23	+10
Valdosta	28,287	22,886	23,280	+24	+22
LOUISIANA					
Alexandria*	62,767	69,198	52,615	-9	+19
Baton Rouge	156,542	146,421	154,990	+7	+1
Lake Charles	82,070	69,945	67,532	+17	+22
New Orleans	1,134,276	1,131,830	1,099,793	+0	+3
MISSISSIPPI					
Hattiesburg	27,185	25,355	23,043	+7	+18
Jackson	192,840	189,597	172,591	+2	+12
Meridian	33,103	31,747	30,300	+4	+9
Vicksburg	17,930	17,663	18,190	+2	-1
TENNESSEE					
Bristol*	34,904	31,904	32,331	+9	+8
Chattanooga	259,045	249,110	241,002	+4	+7
Johnson City*	38,802	34,744	36,433	+12	+7
Kingsport*	66,214	58,884	57,431	+12	+15
Knoxville	211,056	168,511	208,958	+25	+1
Nashville	556,691	538,631	538,561	+3	+3
SIXTH DISTRICT					
32 Cities	7,853,126	7,213,943	7,235,944	+9	+9
UNITED STATES					
345 Cities	200,523,000	173,190,000	186,317,000	+16	+8

*Not included in Sixth District totals.

Sixth District Indexes

1947-49 = 100

	Nonfarm Employment			Manufacturing Employment			Manufacturing Payrolls			Construction Contracts			Furniture Store Sales **/**		
	Nov. 1955	Oct. 1955	Nov. 1954	Nov. 1955	Oct. 1955	Nov. 1954	Nov. 1955	Oct. 1955	Nov. 1954	Dec. 1955	Nov. 1955	Dec. 1954	Dec. 1955	Nov. 1955	Dec. 1954
SEASONALLY ADJUSTED															
District Total	125	124r	120	119	117r	113r	177	173r	157r	..	..	..	110p	108	103
Alabama	116	115	112	113	111	106	170	165	148	..	..	..	124p	123r	109
Florida	148	149r	138	153	148r	146	215	216r	199	..	..	..	118p	108	114
Georgia	126	126r	120	124	122r	115	192	182r	164r	..	..	..	114p	115	108
Louisiana	117	116r	116	100	100r	103r	153	150r	143r	..	..	..	120p	109	107
Mississippi	121	121r	118	120	120r	111	181	180r	162r	..	..	..	..	..	..
Tennessee	119	118	117	115	116r	109r	172	171r	152r	..	..	..	90p	92	87
UNADJUSTED															
District Total	126	125r	121	119	117r	113r	179	175r	159r	..	..	..	159p	118	148r
Alabama	116	116	111	110	110	103	165	164	144r	271	248	204	189p	125r	166
Florida	149	145r	139	152	143r	145	217	205r	201	379	334r	344	159p	122	154
Georgia	127	126	121	125	124r	116	194	185r	166r	326	156	249	163p	122	154
Louisiana	119	118	118	104	101r	107r	161	155r	150r	274	196	262	164p	125	146
Mississippi	123	123r	119	121	121r	112	186	187r	167r	164	81	130	..	..	..
Tennessee	119	119	116	116	116	109r	174	175r	154	151	288	249	130p	97	126

Department Store Sales and Stocks**

	Adjusted			Unadjusted			
	Dec. 1955	Nov. 1955	Dec. 1954	Dec. 1955	Nov. 1955	Dec. 1954	Year 1955
DISTRICT SALES*	147p	142	136r	255p	165	236r	142
Atlanta ¹	154	148	144r	266	176	249r	147
Baton Rouge	132	114	116r	217	127	191r	118
Birmingham	124	130	120r	223	147	217r	123
Chattanooga	134	130	131r	246	148	239r	130
Jackson	117	115	114r	194	133	189r	113
Jacksonville	133	126	119r	241	140	216r	123
Knoxville	154	146	142r	275	160	254r	148
Macon	146p	133	133r	262p	156	239r	138
Nashville	134	127	127r	239	151	228r	128
New Orleans	139	138	131r	229	170	216r	135
St. Ptsbg-Tampa Area	152	154	140r	259	180	237r	147
Tampa	131	136	121r	222	158	206r	128
DISTRICT STOCKS*	156p	159	144r	137p	180	127r	152

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., Federal Power Comm. Indexes calculated by this Bank.

Other District Indexes

	Adjusted			Unadjusted		
	Dec. 1955	Nov. 1955	Dec. 1954	Dec. 1955	Nov. 1955	Dec. 1954
Construction contracts*	..	..	..	300	261	279
Residential	..	..	..	268	200r	314
Other	..	..	..	324	308r	253
Petrol. prod. in Coastal	..	..	..	..	..	..
Louisiana and Mississippi**	166	155	139r	160	157	134r
Cotton consumption**	96	101	92	95	104	91
Furniture store stocks*	109p	113r	112	104p	118r	107
Turnover of demand deposits*	20.6	21.0	20.0	21.6	21.8	21.0
10 leading cities	21.4	21.7	20.7	22.9	23.2	22.2
Outside 10 leading cities	17.9	16.5	17.2	18.3	18.1	17.5
	Nov. 1955	Oct. 1955	Nov. 1954	Nov. 1955	Oct. 1955	Nov. 1954
Elec. power prod., total**	..	..	..	272	265	207
Mfg. emp. by type						
Apparel	158	157r	144r	161	160r	146r
Chemicals	129	128r	125r	131	132r	127r
Fabricated metals	164	166r	155r	167	168r	158r
Food	112	109r	109r	117	110r	115r
Lbr., wood prod., furn. & fix.	85	85r	82r	85	84r	82r
Paper and allied prod.	157	156r	152r	158	156r	153r
Primary metals	107	108r	94	108	107r	95r
Textiles	96	96r	94	97	97r	95
Trans. equip.	187	193r	165r	193	191r	170r

r Revised

p Preliminary

