Monthly Review

ATLANTA, GEORGIA, FEBRUARY 1957

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Federal Reserve Bank of Atlanta

DISTRICT BUSINESS HIGHLIGHTS

Manufacturing activity remains high, and nonmanufacturing employment is expanding. Rising farm prices and production are boosting the farm economy. The income generated in these important segments is being spent freely at retail establishments. Bank loans rose sharply in December, and slightly further in January. Reserve positions at member banks eased slightly, and banks reduced their borrowings from the Federal Reserve Bank.

Nonfarm employment rose further in December, but the rise was almost offset by a slight decline in manufacturing employment from its record high in November.

Average weekly earnings of production workers were up in December, but the decline in manufacturing employment caused a drop in total factory payrolls.

Construction contracts awarded in December continued below a year earlier for the fourth consecutive month. Total awards for 1956, however, exceeded those for 1955, both in residential and nonresidential construction.

Crude oil production in Mississippi and coastal Louisiana, after setting a record in November, rose substantially in December as emergency shipments increased.

Announcements of new and expanded manufacturing plants in the last quarter of 1956 continued large, but were sharply below the first two quarters.

Cotton consumption in December, seasonally adjusted, regained some of the preceding month's loss, but was still below a year earlier.

Department store sales in January, seasonally adjusted, declined from December.

Furniture store sales in December, seasonally adjusted, increased after having gone down for several months.

Spending in December, as measured by seasonally adjusted debits to demand deposits at commercial banks, declined from November but continued substantially above a year earlier.

New car registrations in 1956 were the second highest on record; they were highest in 1955.

Trade loans decreased slightly less than seasonally during the first three weeks of January as retailers continued to borrow from banks.

Personal income in the fourth quarter increased to a record high.

Consumer prices moved upward in December for the tenth consecutive month, with increases in the cost of housing and services leading the way.

Output of crops, largely winter vegetables, potatoes, and citrus, exceeds that of a year ago; **output** of milk, eggs, beef, pork, and broilers also is larger.

Farm prices are higher than a year ago for corn, rice, beef, hogs, truck crops, tobacco, and all citrus, but lower for cotton, peanuts, broilers, eggs, and milk.

Farm employment in December was well under a year earlier, as labor continued to move to nonfarm areas.

Farm debt outstanding at member banks is slightly larger than it was a year ago; most of the increase is occurring in Florida, the peanut belt in Alabama and Georgia, and the Delta of Mississippi.

Total loans at member banks rose more than seasonally in December; preliminary data indicate a slight further rise in January.

The rate of increase in loans during December was higher in Florida, Alabama, and Louisiana than in other District states; the deposit growth also tended to be larger in these states.

Interest rates on new short-term business loans by selected banks in Atlanta and New Orleans rose further between September and December to about the same level prevailing at banks throughout the country.

Deposits at member banks, after seasonal adjustment, rose somewhat during December, and they probably increased further in January.

Demand deposits and currency outside banks rose more than seasonally in December, reflecting additions to bank loans and investments and an inflow of funds from other Districts.

Borrowings from the Federal Reserve Bank were somewhat lower in January than in the previous month, and excess reserves were higher.

O, Promise Me . . .

A couple of generations ago it was customary for professors of economics to tell their students that a true understanding of our economy could be achieved only by first removing from it the "veil of money." This injunction assumed that the fabric of monetary phenomena in which the economy of an exchange society inevitably becomes draped can distort as readily as it can reveal the shape of what is underneath.

Today we seldom hear this figure of speech mentioned. There seems to be, on the contrary, a general willingness to accept monetary magnitudes as conforming roughly to underlying economic realities. Equating, thus, the symbol with the thing symbolized—the shadow with the substance—does no particular harm so long as there is a real equivalence between the two. It can be mischievous, however, when they part company. In view of this possible danger it may be worth while to look separately at the general nature of the economy and of money, even at the risk of seeming to be old-fashioned.

Everyone knows, if he stops to think about it at all, that our wealth and prosperity depend ultimately upon the availability and use of certain tangible, physical factors—natural resources of all kinds; human effort in a myriad of forms; and an infinite variety of tools and machines appropriate to the current but ever-changing technology of the times. By entrepreneurial effort these are all organized and combined in thousands of ways to produce the flow of goods and services needed to satisfy the wants of the population and to replenish and expand the economic machine itself.

These fundamental entities upon which the material edifice of society is built have one characteristic in common—they exist only in limited quantities. They may, indeed, be increased to some extent, given sufficient time and effort, but they never cease to be finite in magnitude. It is never possible, therefore, in an economic sense, for us to do at any one time everything we might like to do. We are always running up against the physical limitations on our capacity to produce all the things we need or want.

There is no similar limitation, however, on the money side of the equation. It is true, of course, that one ordinarily gets the money with which to buy someone else's goods and services in virtue of his own prior contribution of goods and services to the economic process. This natural order of events—that we must work before we can eat; that we must produce before we can consume; and that we must earn before we can spend—would seem to be enough to make the "money veil" conform reasonably well to the shape of what lies beneath it.

Such, however, is not the case. A person can acquire goods and services without having first contributed to the business of creating them and, thus, without having earned the money with which to buy them. He can do this by borrowing money from someone who has not spent all he has earned. He can also do this by borrowing from a bank that can create money in his behalf in the form of deposit credit, that is, a promise to pay on demand. In either case, however, instead of money he gives his own or a bank's promise to pay sometime in the future. The holder of goods, in turn, thus surrenders them in exchange for a token of the purchaser's debt—his promise to pay money that he has not yet earned, and which, therefore, represents economic services he has not yet rendered.

So widespread has the practice become of borrowing other people's savings or of having purchasing power created for us by the banks that the overwhelming majority of all economic exchanges are now transacted by means of credit, which means by the creation of debt, or the giving of promises to pay in the future. Everyone is doing it—governments; corporations and other businesses, large and small; families; and individuals. The financial integument of the economic body is woven, indeed, almost entirely of our mutual obligations to pay each other certain sums of money in the future.

This, then, is the miracle of the credit system—it seemingly enables us to eat before we have worked; to consume before we have produced; and to spend before we have earned. It looks this way, at least, to the individual and is actually true for some. We know, however, that it can't be true for all. We can't really eat food not yet raised, nor can we enjoy goods not yet produced.

These promises that we use for money are accepted, of course, only because they are ultimately redeemable in goods and services, and the only goods and services available for this purpose are those that exist at the time of redemption. The value of the promises depends, therefore, upon the capacity of the economy to add to the stock of existing goods. This capacity, however, is limited, as we have seen, by the available supplies of productive agents. Our ability to make promises, on the other hand, is relatively unlimited, except for such limits as are implied in the supply of available savings and the reserve position of the banking system. We can go on doing so just as long as other people are willing to accept them in exchange for goods or services. The promises we make as a society can therefore too easily outrun the ability of the economy to produce goods and services in which they must be redeemed.

It is instructive to observe the position of the United States in this respect. We do not have any good measure of the total physical output of goods and services other than the Gross National Product which states output in terms of current prices. One measure of our indebtedness is the annual estimate of total debt, public and private, on both gross and net bases made by the United States Department of Commerce. The latest estimate is for 1955.

What, then, is the relation between our national output of goods and services and the burden of debt that it must support? To make comparisons easier, all the series with which we shall deal have been converted into index numbers using the 1947-49 period as the base. The time period will be that from 1945 through 1955.

Between those two dates, the index for the Gross National Product rose by 72 points while the total net public and private debt rose by 58 points in the index.

This would seem to indicate ample support for the debt structure in the productivity of the economy until we remember that the increase in the Gross National Product reflects in part higher prices and does not entirely represent increased physical output. Deflating the figures by means of the consumers price index in order to eliminate the effect of price changes, we arrive at something more nearly measuring output in real terms. Debt, being payable in current dollars, need not be similarly deflated. Making this adjustment, we find that between 1945 and 1955, the deflated Gross National Product figure rose by only 20 points in the index, as against 58 points in the index of total net debt. In terms of their respective trend lines, furthermore, total net debt was increasing during the period at a rate nearly twice that of output—the trend line for debt rising by 61 index points and that for deflated Gross National Product by 32 points. If, moreover, we take into account the 26 million increase in population between 1945 and 1955, we find that in the latter year real output *per capita,* as measured by deflated Gross National Product, was up only 8 points in the index as compared with 1945, whereas total net debt *per capita* was up 36 points —over four times as much.

All types of borrowers did not, of course, contribute equally to the increase in total debt burden between 1945 and 1955. At the end of the period, for example, total net public debt stood only 2 index points higher than at the beginning, but total net private debt was 127 index points higher. Within the category of public indebtedness, the Federal Government's debt, which not so long ago frightened the wits out of some people, was actually down by 11 index points. State and local debt, however, increased by 152 points. Of private indebtedness, that of corporations rose by 97 index points in the period we are considering while the debt incurred by individuals skyrocketed to a level 165 points higher than at the beginning of the period.

Without asserting or necessarily believing that any serious danger is imminent from this source, one nevertheless cannot watch the curves of output and of debt growing farther and farther apart as they climb upward across the chart without some feeling of apprehension. If this disparity between the growth in the output of real goods and services and that of debt goes on too long, trouble seems almost inevitable. At some point there must come a breakdown in confidence in these promises which we hand about so freely and which constitute, in the form of bank credit, the major part of our money supply. At the extreme, their volume could reach such astronomical proportions as to make them practically worthless in terms of real things. This is the end result of so-called "hyper-inflation." Such a conclusion may be unthinkable in our own country, but there is plenty of historical precedent for it elsewhere.

Before that extremity is reached, however, there may, nevertheless, come about a breakdown in confidence, accompanied by a fall in prices of indeterminate severity, and for this sort of thing we have plenty of examples in our own history. When the economy is working at or near capacity, an expansion of credit, that is, in the creation of debt, at a rate in excess of savings and of any practicable growth in capacity can lead only to higher and higher prices. In the past, such a period of inflation has always ended in an economic debacle unless checked in time.

The best possible defense against such potential disaster would seem to be the exercise of the utmost prudence on the part of would-be borrowers and buyers, and of the utmost caution on the part of lenders and sellers in making and receiving promises of future payment. The present economic climate in this country, however, is not conducive to such prudence and caution. The root of the trouble lies, of course, in the physical inability of the economy to satisfy all demands for all goods and services. To any particular individual, however, the trouble seems to lie in his inability to get the money to meet the higher prices. He therefore clamors for more credit, and for easier terms, which simply means that he wants other people to surrender real things to him in exchange for his more and more tenuous promises to pay off in the future.

And, strange to say, the producers or holders of goods are anxious to accommodate him. Practically all sellers, and nearly all lenders, are uniting in chorus to sing, "O, promise me! O, promise me!" to the buying and borrowing public. It is no wonder, therefore, when a red-blooded young American says to his spouse, "What the heck! Let's buy that new car with all the power extras—it will only cost us a hundred a month for thirty months. And let's get that color TV set, and that automatic laundry and dishwasher, too, so you'll not wind up with dishpan hands. And then let's move out to that air-conditioned ranch-type house in the suburbs. The passers-by will not see the thirty-year mortgage plastered on it, and the city has sold bonds to pave the street and put in sewers, and to build new schools for all the kids we're going to have. After all, these things are all part of the American standard of living, aren't they? And haven't we as much right to them as anybody else? We're Americans, aren't we?"

Insofar as prudence and caution are still to be found in such a psychological atmosphere, they must be reinforced from the outside if the general eagerness of governments, of businesses, and of individuals to plunge head-over-heels into debt is to be brought into alignment with economic realities. It is the thankless task of the Federal Reserve System to provide this reinforcement insofar as its influence over bank reserves enables it to do so. Besides being thankless, the task is also extremely difficult and delicate. To slow down the expansion of credit until productive capacity catches up with it without precipitating the lack of confidence one intends to forestall is far from easy.

Success in bringing about a more viable relation between debt and productive capacity, however, cannot be achieved by the Federal Reserve System alone, and business and the general public would be ill-advised to think that it can. Much still depends upon the prudent behavior of business, of individuals, and of governments. Only by mutual understanding and cooperation between the public and the monetary authorities, and by a considerable measure of self-discipline throughout the economy can we have any assurance at all of stopping short of the point where economic collapse becomes inevitable.

So far we have been lucky and, possibly, we have been wise. Let us hope that in 1957 we shall be both wise and equally lucky.

EARLE L. RAUBER

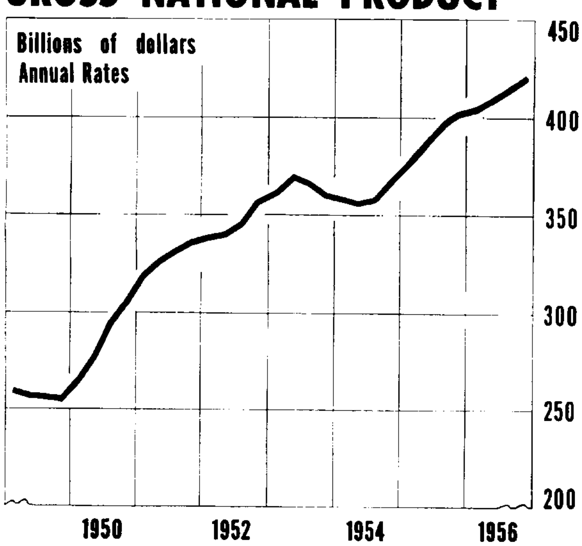
The Sixth District Economy in 1956

CONSUMER SPENDING ROSE • • • CONSTRUCTION STILL HIGH • • • INCOME EXPANDED • • • FARM PROFITS LOWER • • • DEMAND FOR CREDIT STRONG • • • BANK DEPOSITS INCREASE • • • MONETARY POLICY

The nation's economic record during 1956 illustrates very well what happens when consumers, businessmen, and governments want to buy more goods and services than the productive capacity of the economy can easily supply. It also shows what happens when they want to spend more than they can afford out of current income and savings. Both developments create pressures: the first on prices and the second on bank credit.

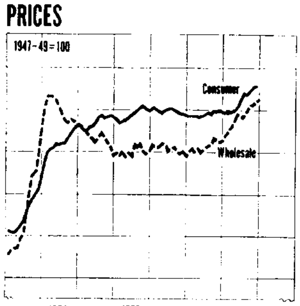
An increase in the Gross National Product in each quarter of 1956 shows how spending grew in all major sectors of the economy. In current dollars, the total was 21.5 billion dollars greater than in 1955. The pressures that this spending had on the nation's productive capacity

GROSS NATIONAL PRODUCT

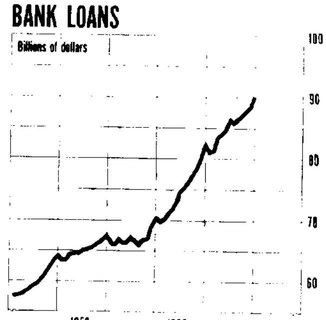


were reflected in an increase in prices; wholesale prices went up over 4 percent, and consumer prices about 3 percent. Finally, the 8.1-billion-dollar growth in bank loans during 1956 in the nation shows how the spenders supplemented their purchasing power with bank credit. This ever greater demand for credit, indeed, was the major cause of credit tightness.

PRICES



BANK LOANS



Prices—U. S. BLS Indexes. Bank loans—All commercial banks, U. S.

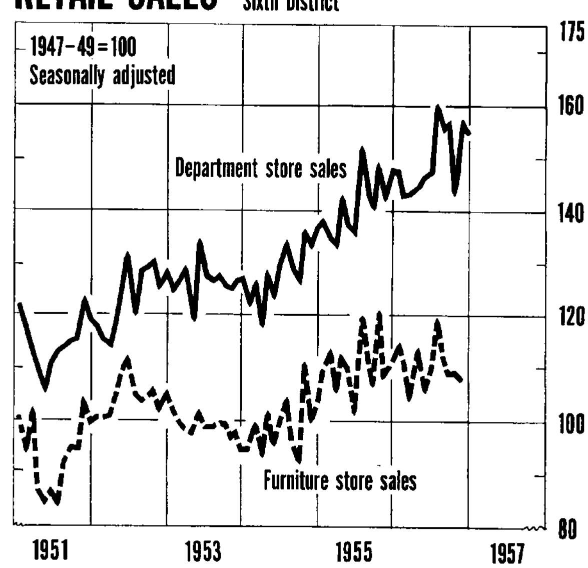
Valid as these generalizations are for the whole economy, the stresses and strains differed in different sectors. Productive capacity was ample in some sectors and severely taxed in others. Credit demands of some spenders were unusually strong; of others, particularly weak.

In broad terms, the picture of economic conditions in the Sixth Federal Reserve District is very much like the national one. In detail, it differs because the District's economic structure differs from the nation's. It also differs because of the long-range growth trend of the South's economy. In the short-run period of 1956, District income increased more than nationally, spending probably rose more, and credit may have been less tight in some areas.

Consumer Spending Rose

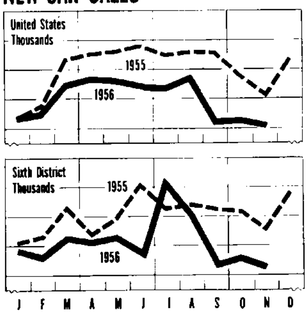
Consumers in the Sixth Federal Reserve District apparently increased their spending during 1956 more than consumers throughout the nation. Spending for nondurable goods, such as those sold at department stores, was particularly strong. Department store sales were 6 percent above those of 1955—a gain 2 percentage points greater than the 4-percent gain for the nation. In Alabama, 1956 sales were up 6 percent; in Florida, 9 percent; in Georgia, 2 percent; and in the Sixth District parts of Louisiana, Mississippi, and Tennessee, sales were up 7, 5, and 5 percent, respectively.

RETAIL SALES Sixth District



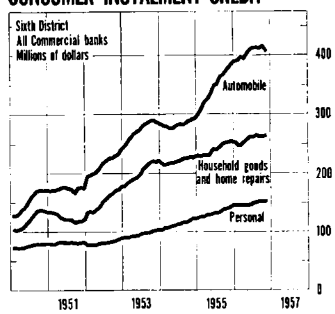
Consumer spending at department stores throughout the District was comparatively stable during the first half of the year, varying from 143 to 147 percent of the 1947-49 average on a seasonally adjusted basis. In July, spending jumped to a new high. No new records were set during the remainder of the year, but seasonally adjusted sales averaged higher than in the first half. For the year, on the other hand, sales at furniture stores, handling chiefly durable goods, rose more moderately. But again, 1956 brought somewhat better results here than in the nation.

NEW CAR SALES*



*New car registrations

CONSUMER INSTALMENT CREDIT



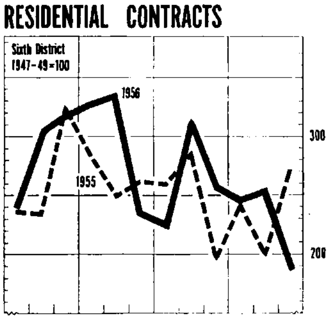
Consumers in the District states bought over 600,000 new cars during 1956, but like consumers elsewhere, they bought fewer new cars than in 1955. The rate of decrease, however, was less than national. More of the cars they bought were on a promise-to-pay basis than in 1955. Consequently, consumer credit outstanding at commercial banks rose. Individuals also used credit liberally to buy appliances and to finance home repair and modernization.

Construction Still High

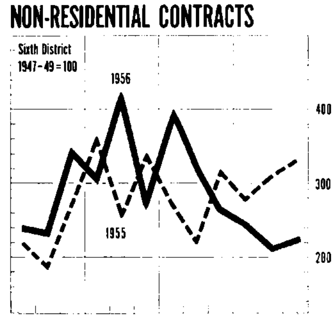
If credit tightness restricted spending for new homes in 1956, it apparently did so less in the Sixth District than throughout the nation. More money was probably spent in the District for new homes in 1956 than in the preceding year, contrary to national developments. Contract awards for residential construction totaled about 6 percent more than in 1955. During the last part of the year, awards declined from the peaks of spring and summer, but actual construction, which lags behind the letting of contracts, remained high. Gains were registered in Alabama, Florida, and Georgia. Mississippi showed little change, and perhaps less was spent for residential construction in Louisiana and Tennessee in 1956 than in 1955.

Spending by businesses for new plants, commercial structures, and equipment in the Sixth District, as elsewhere, was strong in 1956. Contract awards for nonresidential building increased sharply in the first half. Although recent months have brought sharp declines in awards for commercial, manufacturing, and public utility construction, the total for the year will still be higher than in 1955. Again, actual construction, which follows the letting of the contracts, continued high all year.

RESIDENTIAL CONTRACTS



NON-RESIDENTIAL CONTRACTS

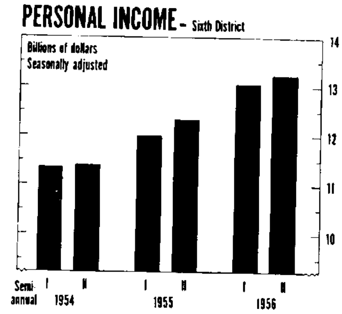


Announcements of proposed new and expanded manufacturing plants continued to be made in large volume all year. The record volume of the first part of the year, however, was followed by sharp declines. As measured by the dollar amount and number, the most important additions announced to the District's manufacturing facilities were for chemicals and allied products. Large investments were also announced for paper, primary metals, and transportation facilities as well as for additions to facilities to produce a variety of other manufactured products.

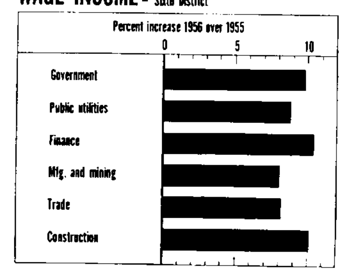
Income Expanded

In part, the greater-than-national rate of increase in spending in 1956 by consumers in the District was the result of the greater growth in income here. Personal income increased steadily during most of 1956, totaling over 13 billion dollars in the second half—about 6 percent more

PERSONAL INCOME - Sixth District

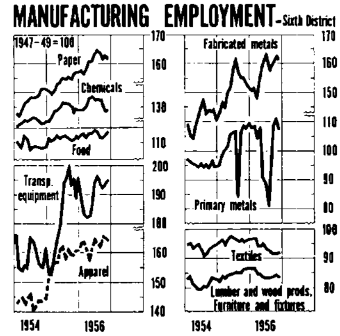


WAGE INCOME - Sixth District



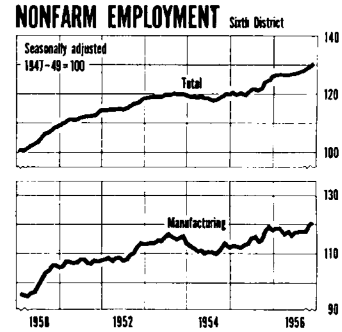
than in the corresponding period of 1955, according to preliminary estimates. For the year as a whole, the District's total personal income rose 7 percent, a slightly greater growth than the nation's. In dollar terms, income increased the most in Florida, but the percentage rates of increase in all District states, except Mississippi, were equal to or greater than the national gain.

MANUFACTURING EMPLOYMENT-Sixth District



Seasonally adjusted

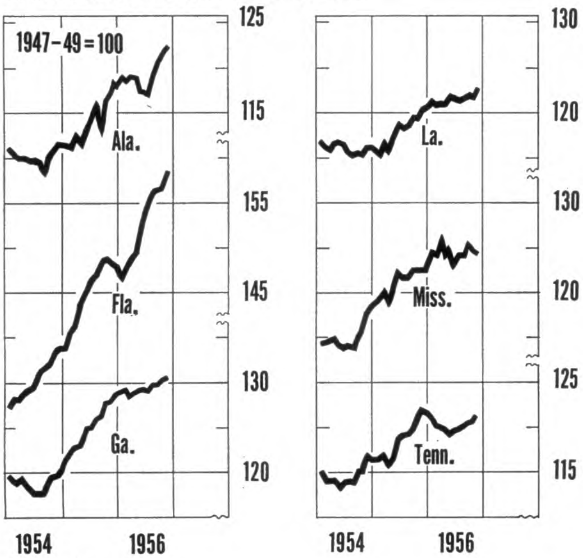
NONFARM EMPLOYMENT Sixth District



Greater wage income accounted for most of the growth in personal income in the District in 1956. Income from agriculture, lower than in 1955, depressed total income less than it would have had not nonfarm income sources become so much more important in recent years. In 1956, increased wage income from manufacturing and mining and from trade and service establishments was the most important development, in dollar terms, raising total income. On a percentage basis, income gains from construction, finance, and government payrolls were even more impressive, although these payrolls individually make up a smaller proportion of the total than manufacturing, mining, trade, and service.

More people at work was responsible for part of the income growth in 1956, but most of the growth in jobs was outside the District's factories. During the first half of the year, an increasing nonfactory employment had to contend with a declining manufacturing employment. In the second half, as more workers took nonmanufacturing jobs, factories also added to the number on their payrolls. For the year total nonfarm employment rose 3 percent.

NONFARM EMPLOYMENT



Seasonally adjusted

Two important District manufacturing industries suffered from reduced nationwide demands—textiles and lumber. The District's textile and lumber mills, normally employing about one-third of the factory workers, reduced the number of employees throughout most of the year. Factory employment was pulled down in the spring and summer of 1956 by the prolonged steel strike in the Birmingham area. Transportation equipment employment also fell because of the curtailed automobile output in the early part of 1956.

In the second half the downtrend in textiles and lumber manufacturing employment apparently slowed or came to a halt, and there was a sharp recovery from the effects of the steel strike. As a result, manufacturing employment rose. There were still cross-currents at work, however. The paper industry, for example, that had shown considerable strength in the first half of 1956, reduced the number of its workers in the latter part of the year.

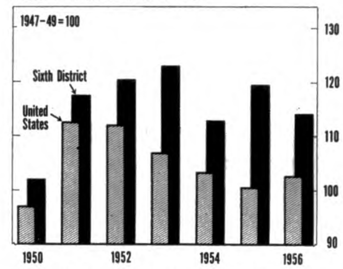
Employment, and in turn income, was differently affected by economic developments in the several states because of their different economic structures. In Alabama, where the District's steel industry is concentrated in the Birmingham area, the second quarter dip, followed by a sharp expansion, reflected largely the steel strike and its settlement. Alabama's metals processing industries, on the other hand, have been stimulated by the current boom in spending for capital goods. Despite a steady growth in manufacturing there, Florida is still less dependent on manufacturing than the other District states, and after a setback in late 1955 and early 1956, total nonmanufacturing employment resumed the steep climb of previous months.

In Tennessee, the number of workers on the payrolls was particularly affected by cutbacks in textiles and lumbering early in 1956. Later in the year, the total approached the peak of late 1955. Employment in Louisiana and Mississippi was relatively stable throughout most of 1956. In Georgia, the employment pattern resembled that of the District as a whole, with relative stability in the first half and increases in the second.

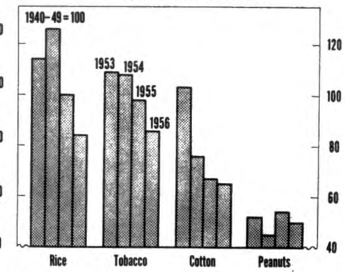
Farm Profits Lower

The less fortunate income experience of District farmers in 1956, compared with some other groups, is obscured in the over-all income figures. Farmers in Florida and Tennessee received greater cash receipts than in 1955, largely because of increased marketings of livestock and livestock products. Conversely, in the other four states, incomes were reduced by lower cotton marketings, which were not offset by increased output of crops like soybeans, hay, fruits and vegetables or by greater livestock sales.

FARM CASH RECEIPTS



HARVESTED ACREAGE—Sixth District



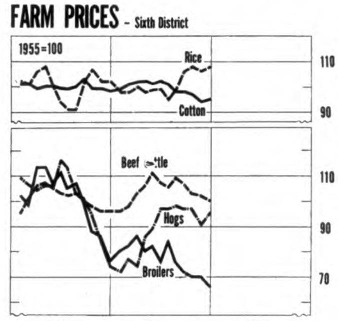
1956 data partly estimated by this bank

District farmers, as a group, were also less fortunate so far as income goes than the nation's farmers, whose cash receipts were higher than in 1955. For the nation's farmers as a group, the output of crops, livestock, and livestock products exceeded 1955 output, and the prices of those products rose slightly.

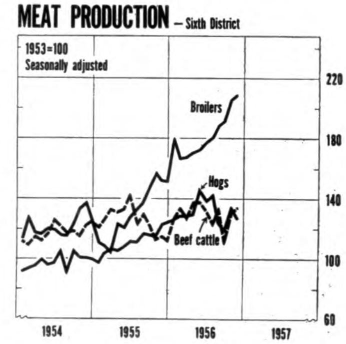
District farm output was pushed down by lower harvested acreage. Cuts in rice and tobacco acreages on District farms were greater than cuts in other crops, including cotton, but more farmers were affected by cuts in cotton acreage. The cuts in cotton acreage had the greatest effect in Alabama and Mississippi, where income from crops was off about one-fourth from 1955. Yields of cotton and most other crops were average or better, but farmers were unable to match the near record yields of 1955.

District farmers were more fortunate when it came to livestock products. Cash receipts from this source were up 10 percent in Georgia and Mississippi and about 5 percent in other District states. Output of beef was slightly above last year's, and pork production increased substantially.

FARM PRICES—Sixth District



MEAT PRODUCTION—Sixth District



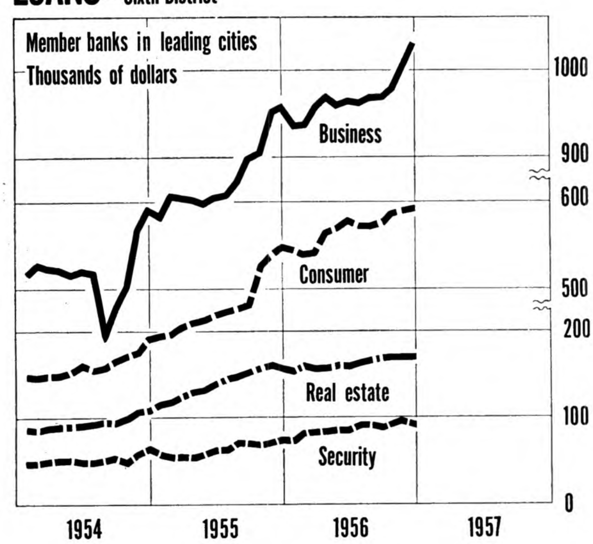
Broiler growers, comparative newcomers to the District's agriculture, continued to expand their output at a phenomenal rate. Broiler enterprises now rival cotton as the leading source of farm income in Georgia and are rapidly reaching that point in Alabama.

Price trends were less favorable for farmers in this area than for farmers throughout the nation. Prices of District farm products averaged lower, but the trend was mixed. Prices of cotton and rice and some other crops were lower than a year earlier. Prices of beef cattle and hogs, however, recovered from the lows of previous years and averaged higher than in 1955, as did prices of most fruits and vegetables. Broiler prices, on the other hand, weakened.

Demand for Credit Strong

Current income during 1956 was not high enough to finance all of the spending for consumption and capital investment. More credit from the District's commercial banks supplied part of the difference. Loan officers at the banks approved a net increase of 576 million dollars in loans during 1956, and the year ended with total loans 13.2 percent greater than at the start. This increase, 389 million dollars of which took place at member banks, was second only to the record increase of 1955. Loans at all banks throughout the country rose 10 percent.

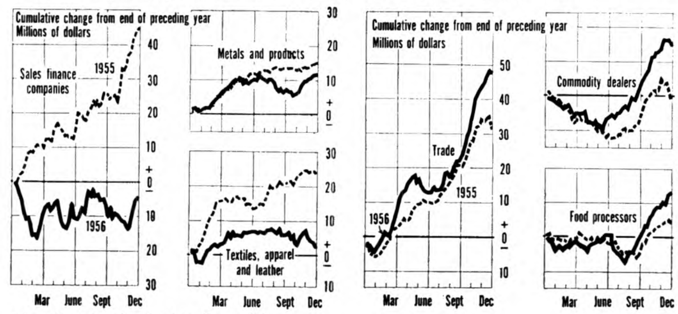
LOANS – Sixth District



Business borrowers made the heaviest demands on the banks for credit. In the first eight months of 1956, they increased their borrowing at a greater rate than during the corresponding period of 1955. After that, through October, their demand for bank credit slackened, reflecting the effects of the steel strike. Trade concerns, commodity dealers, and food processors, led the procession to the desks of loan officers; they borrowed most heavily during the latter part of the year. Greater amounts of bank loans were also outstanding to petroleum and chemical companies at the end of 1956 than at the beginning.

On the other hand, sales finance companies reduced their indebtedness to District banks, partly because they handled a smaller volume of automobile financing, but principally because they turned to nonbank sources for an increased proportion of their funds. Seasonal pressures late in the year, however, forced sales finance companies to go to banks once again, and loans to them rose. Weakness in demand reduced borrowings by textile firms.

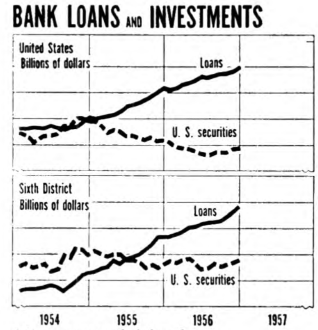
BANK LOANS TO BUSINESS – Sixth District



Member banks in leading cities

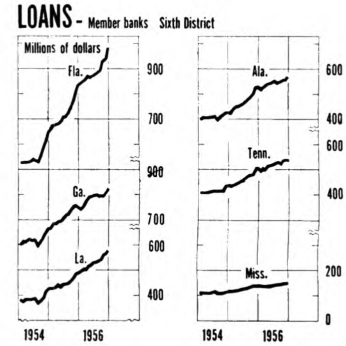
The banking statistics of each District state show the extent to which bank credit financed spending. Much of the total increase, however, centered at banks in Florida

BANK LOANS AND INVESTMENTS



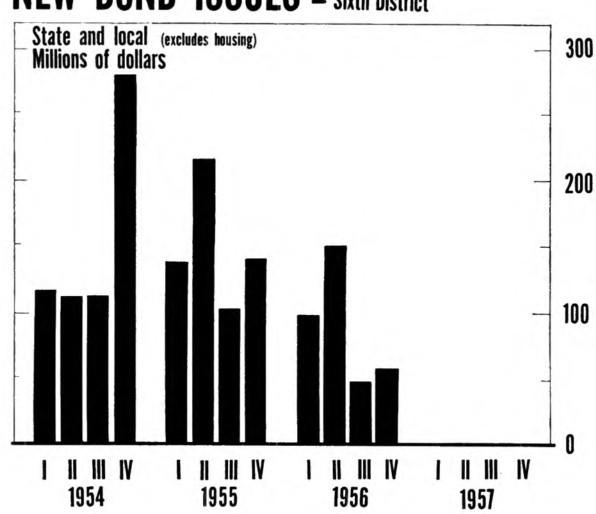
All commercial banks

LOANS – Member banks Sixth District



and Louisiana, where member bank loans shot up 18 percent during the year. Tennessee banks ended the year with loans only 6 percent greater than at the beginning—the smallest rate of increase in the District.

NEW BOND ISSUES – Sixth District



To meet the loan demand, member banks in the District did not liquidate their Government security holdings to the same extent as banks throughout the nation. On the contrary, they had almost as much in United States obligations at the end of 1956 as at the start, whereas banks in the nation reduced their holdings about 5 percent.

In the District, the liquidation of security holdings was concentrated at the banks in the reserve cities, although banks in some other cities where deposits declined also reduced their investment holdings to expand loans. Because of the large growth in loans, District banks found themselves in a less liquid position at the end of 1956 than at the start, with Governments constituting 39 percent of total earning assets instead of 42 percent.

Outside the banking system, there was also a strong demand for credit, as typified by the new security issues of the District's state and local governments. The dollar volume of new issues, principally to finance public works, during the first half of 1956 was high, although below preceding peak periods. The dip in the last half reflects in part postponements because of higher interest rates.

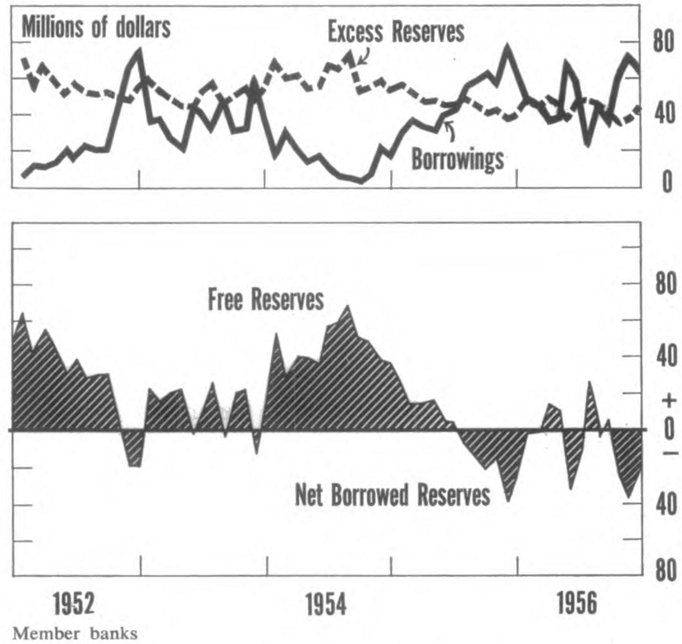
Bank Deposits Increase

The money supply in the Sixth District rose during 1956 by about 4 percent, partly because of relatively favorable income developments, but also to a considerable extent because of the credit granted by banks. The District's money supply, consisting of demand deposits and currency outside banks, increased at more than double the rate experienced in the nation.

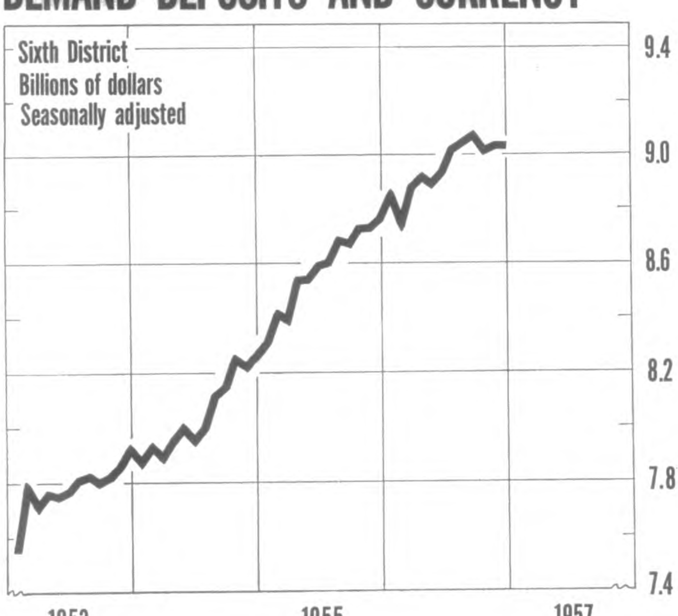
The greatest increase during 1956 in bank deposits, the most important part of the money supply, occurred in Florida. There, the seasonal decline in deposits was much less than in previous years. Deposits were also greater at the end of 1956 than at the end of 1955 in other District states except Alabama.

The impact of Federal Reserve policy is directly reflected in the District data on member bank reserves and borrowings. Taking the year as a whole, the reserves of District banks were under considerable pressure. Some banks, particularly in the larger cities, borrowed from the Federal Reserve Bank of Atlanta in order to maintain their reserves. Member bank borrowings in the District, although no greater on an average than in 1955, were higher relative to total reserves than member bank borrowings throughout the nation. In early 1956, the banks had reduced their indebtedness, and, on occasion, such as in March and April, their borrowings were less than excess

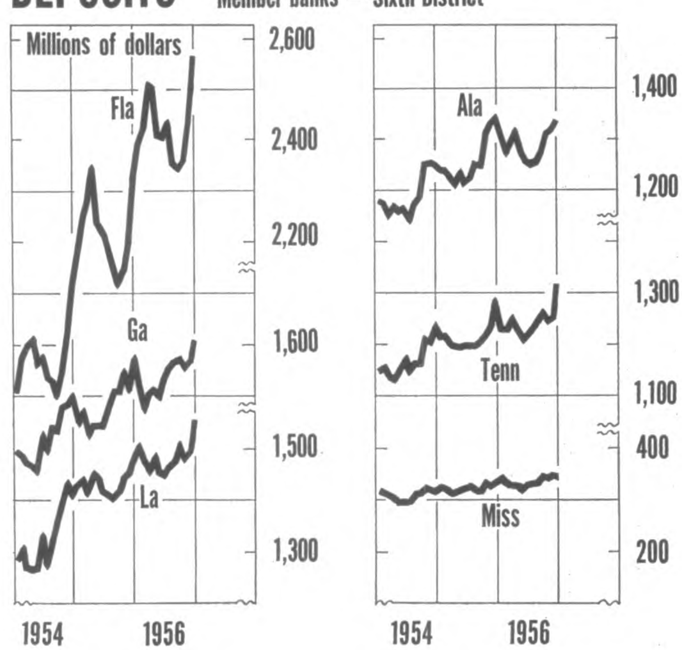
RESERVES AND BORROWINGS – Sixth District



DEMAND DEPOSITS AND CURRENCY



DEPOSITS Member banks – Sixth District



reserves. Since July, however, borrowings from the Federal Reserve Bank of Atlanta increased almost steadily, averaging 72 million dollars in November, the peak for the year.

The Federal Reserve Bank of Atlanta, together with the other Federal Reserve Banks, took steps to restrain an undue expansion of member bank borrowing by raising the discount rate twice in 1956. On April 13, the rate of interest charged by the Federal Reserve Bank of Atlanta to member banks on discounts and advances was raised from $2\frac{1}{2}$ to $2\frac{3}{4}$ percent. The rate was again raised on August 28 to 3 percent. In both instances, the raise followed a general increase in interest rates charged by bankers and investors for short-term funds in response to heavy demands for credit. Shortly before the discount rate was raised in August, for example, the "prime" rate charged business borrowers with the highest credit rating had been raised by several commercial banks to 4 percent.

The pressures on banks' reserve positions, however, were unevenly felt by different banks, depending upon how much their loans expanded and their ability to retain deposits. Few banks outside the major cities borrowed from this Federal Reserve Bank, but instead, when they increased loans without corresponding deposit increases, avoided reserve deficiencies by selling securities.

Monetary Policy and Southern Economic Development

The long-range economic development of this part of the South apparently continued in 1956. Total personal income rose at a higher-than-national rate as it has during most of the years since the beginning of World War II. High expenditures to build new plants and to equip them and announcements of more new plants in the future emphasize the area's industrial growth.

The current industrial investment boom in this part of the South, as well as elsewhere, however, is responsible for a large share of the demand for materials and labor and for a large share of the blame for any credit stringency that existed during 1956. The South's investment boom has been one part of the apparently insatiable demand for capital that has brought the nation face to face with the possibility of a shortage of savings. Savings have indeed increased, but demand for them outstripped the supply.

The economic development of a region such as the Sixth District depends in large part upon the availability of capital funds, and these funds, in turn, depend upon the growth of direct or institutional savings, not only within the area but in all parts of the country. A monetary and credit policy such as that followed in 1956, designed to keep spending within the nation's capacity to produce goods and services, is also fortunately a policy that is likely to promote that growth in savings. A stable price level, which such a policy is designed to encourage, also encourages savings. A monetary policy, furthermore, that leads to higher interest rates also tends to encourage savings for the sake of the greater return. Of equal importance, perhaps, is its tendency to attract investment funds from nonbanking financial institutions into the expansion of capital enterprises.

Long-range economic development in the South, including that in the Sixth District, was, therefore, aided by monetary and credit policies in 1956. These policies apparently helped shift financial resources into investment even while holding the expansion of the nation's money supply to very modest proportions. If monetary policy had been such as to finance the investment boom, including that of this part of the South, entirely by additions to the money supply, there is little doubt that in the resulting competition for goods and services prices would have taken a disastrously upward course. The inevitable consequence would have been to discourage the savings required for the capital formation that is needed so much for the South's long-range economic development.

Charles T. Taylor

Bank Announcements

On January 3, the newly organized Fidelity National Bank of West Fort Lauderdale, Fort Lauderdale, Florida, opened for business as a member of the Federal Reserve System. Officers are Charles L. Pierce, President; Harry A. Judge, Executive Vice President; G. Frederick Silvester, Cashier; and Thomas M. Horman, Assistant Cashier. The new Bank began operations with capital stock of $300,000 and surplus of $75,000.

On January 25, the newly organized Peoples Bank and Trust Company, Montgomery, Alabama, opened for business and began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Milton L. Campbell is President and Harold O. Glass is Vice President and Cashier. Capital amounts to $300,000 and surplus and undivided profits to $210,000.

The newly organized Dade National Bank of Miami, Miami, Florida, opened for business January 30. Its officers are Will M. Preston, President and Chairman of the Board; S. M. Davis, Executive Vice President; Wm. Emmet Jones, Cashier; and J. C. Brawner, Assistant Cashier. The bank began operations with capital of $1,200,000 and surplus of $300,000.

Special Study Available

Changing Fortunes of Bituminous Coal, a study appearing in four issues of the Monthly Business Review of the Federal Reserve Bank of Cleveland, is available for distribution.

Address requests to Federal Reserve Bank of Cleveland, Cleveland, Ohio.

Sixth District Statistics

Instalment Cash Loans

Lender	No. of Lenders	Percent Change Volume Dec. 1956 from Nov. 1956	Dec. 1955	Outstandings Dec. 1956 from Nov. 1956	Dec. 1955
Federal credit unions	38	—9	—12	+1	+15
State credit unions	17	—13	—16	+1	+12
Industrial banks	8	+2	—7	—0	—4
Industrial loan companies	10	+12	—5	+1	+7
Small loan companies	24	+25	+18	+3	+8
Comercial banks	38	+3	—4	+1	+10

Retail Furniture Store Operations

Item	Percent Change Dec. 1956 from Nov. 1956	Dec. 1955
Total sales	+36	—3
Cash sales	+66	—7
Instalment and other credit sales	+33	—3
Accounts receivable, end of month	+6	+3
Collections during month	—3	—5
Inventories, end of month	—7	+8

Wholesale Sales and Inventories*

Type of Wholesaler	Sales No. of Firms	Sales Dec. 1956 from Nov. 1956	Dec. 1955	Inventories No. of Firms	Inventories Dec. 1956 from Nov. 1956	Dec. 1955
Grocery, confectionery, meats	62	—8	—2	59	—4	—11
Edible farm products	6	+11	+1	6	—23	+37
Drugs, chems., allied prods.	7	+9	+7	..	..	..
Tobacco	8	—7	—9	7	—18	+14
Dry goods, apparel	11	—41	—27	8	—9	+52
Automotive	49	—6	+10	48	—1	+30
Hardware	6	—28	—50	..	..	..
Plumbing and heating goods	11	—5	+16	11	+3	+12
Lumber, construction materials	14	—20	—4	..	..	..
Machinery: equip. and supplies						
Industrial	25	—5	+8	21	+0	+2

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

Department Store Sales and Inventories*

Place	Sales Dec. 1956 from Nov. 1956	Dec. 1955	12 Months 1956 from 1955	Inventories Dec. 31, 1956, from Nov. 30, 1956	Dec. 31, 1955
ALABAMA	+52	+3	+6	—26	+8
Birmingham	+51	+3	+5	—26	+6
Mobile	+52	+5	+8	..	..
Montgomery	+56	—3	+2	..	..
FLORIDA	+55	+8	+9	—18	+13
Jacksonville	+61	—2	+5	—34	—3
Orlando	+41	—2	+3	..	..
St. Ptrsbg-Tampa Area	+45	+1	+5	..	..
St. Petersburg	+43	+5	+8	—18	+9
Tampa	+47	—3	+2	..	..
GEORGIA	+43	—5	+2	—26	+2
Atlanta**	+37	—5	+2	—26	+2
Augusta	+62	—2	—1	..	..
Columbus	+51	—7	—2	—22	+1
Macon	+58	—2	+5	—33	+8
Rome**	+78	—4	+11	..	..
Savannah**	+52	—1	+3	..	..
LOUISIANA	+30	—1	+7	—22	+21
Baton Rouge	+32	+6	+13	—17	+35
New Orleans	+30	—3	+5	—24	+19
MISSISSIPPI	+44	—1	+5	—22	+3
Jackson	+34	+0	+6	—22	+3
Meridian**	+62	—5	+4	..	..
TENNESSEE	+57	+1	+5	—28	+1
Bristol (Tenn. & Va.)**	+69	+2	+4	—30	+4
Bristol-Kingsport-Johnson City**	+76	+2	+4	..	..
Chattanooga	+55	—4	+3	..	..
Knoxville	+54	—4	+2	—28	—11
Nashville	+56	+10	+9	—28	+2
DISTRICT	+47	+1	+6	—24	+7

*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.

Conditon of 27 Member Banks in Leading Cities

(In Thousands of Dollars)

Item	Jan. 23, 1957	Dec. 26, 1956	Jan. 25, 1956	Percent Change Jan. 23, 1957 from Dec. 26, 1956	Jan. 25, 1956
Loans and investments—					
Total	3,394,630	3,424,595	3,282,930	—0.9	+3.4
Loans—Net	1,871,489	1,901,073	1,688,003	—1.6	+10.9
Loans—Gross	1,905,454	1,929,220	1,713,744	—1.2	+11.2
Commercial, industrial and agricultural loans	1,021,240	1,045,715	935,585	—2.3	+9.2
Loans to brokers and dealers in securities	40,675	41,613	29,805	—2.3	+36.5
Other loans for purchasing or carrying securities	50,653	50,088	42,087	+1.1	+20.4
Real estate loans	168,191	168,374	153,428	—0.1	+9.6
Loans to banks	36,426	32,154	8,514	+13.3	*
Other loans	588,269	591,276	544,325	—0.5	+8.1
Investments—Total	1,523,141	1,523,522	1,594,927	—0.0	—4.5
Bills, certificates, and notes	470,395	464,099	563,009	+1.4	—16.5
U. S. bonds	755,125	756,686	721,445	—0.2	+4.7
Other securities	297,621	302,737	310,473	—1.7	—4.1
Reserve with F. R. Bank	495,403	539,805	506,186	—8.2	—2.1
Cash in vault	51,939	60,798	51,521	—14.6	+0.8
Balances with domestic banks	269,471	268,134	263,686	+0.5	+2.2
Demand deposits adjusted	2,385,290	2,370,651	2,412,937	+0.6	—1.1
Time deposits	695,760	669,855	613,303	+3.9	+13.4
U. S. Gov't deposits	29,868	79,364	36,608	—62.4	—18.4
Deposits of domestic banks	738,711	804,005	713,838	—8.1	+3.5
Borrowings	36,897	33,207	30,403	+11.1	+21.4

*Over 100 percent.

Debits to Individual Demand Deposit Accounts

(In Thousands of Dollars)

	Dec. 1956	Nov. 1956	Dec. 1955	Percent Change Dec. 1956 from Nov. 1956	Dec. 1955	12 Months 1956 from 1955
ALABAMA						
Anniston	38,814	36,170	38,338	+7	+1	+10
Birmingham	706,219	672,906	674,749	+5	+5	+15
Dothan	25,039	23,981	24,946	+4	+0	+10
Gadsden	33,839	32,169	34,612	+5	—2	+4
Mobile	261,367	253,300	236,992	+3	+10	+12
Montgomery	126,276	131,404	138,294	—4	—9	+5
Tuscaloosa*	41,635	40,788	45,109	+2	—8	+4
FLORIDA						
Jacksonville	623,281	559,599	638,213	+11	—2	+8
Miami	665,640	635,149	587,524	+5	+13	+15
Greater Miami*	1,128,000	1,020,171	896,094	+11	+26	+16
Orlando	156,057	145,586	135,688	+7	+15	+14
Pensacola	78,360	79,951	73,729	—2	+6	+17
St. Petersburg	153,609	143,381	135,915	+7	+13	+10
Tampa	314,894	282,833	276,677	+11	+14	+15
West Palm Beach*	97,965	86,924	84,847	+13	+15	+13
GEORGIA						
Albany	59,530	54,067	56,110	+10	+6	+7
Atlanta	1,645,350	1,506,475	1,598,140	+9	+3	+7
Augusta	93,007	91,614	101,135	+2	—8	—1
Brunswick	20,026	17,914	18,258	+12	+10	+19
Columbus	104,065	96,949	110,016	+7	—5	+4
Elberton	7,461	7,170	6,564	+4	+14	+33
Gainesville*	46,808	46,410	44,011	+1	+6	+17
Griffin*	17,805	15,910	18,662	+12	—5	+4
Macon	107,103	103,552	112,924	+3	—5	+5
Newnan	15,585	14,606	14,059	+7	+11	+5
Rome*	41,505	39,994	43,059	+4	—4	+3
Savannah	171,885	163,374	161,325	+5	+7	+11
Valdosta	26,701	23,396	28,287	+14	—6	+2
LOUISIANA						
Alexandria*	64,696	62,203	62,767	+4	+3	+15
Baton Rouge	173,986	165,398	156,542	+5	+11	+8
Lake Charles	78,826	76,708	82,070	+3	—4	+10
New Orleans	1,258,054	1,214,390	1,134,276	+4	+11	+10
MISSISSIPPI						
Hattiesburg	28,260	27,463	27,185	+3	+4	+13
Jackson	194,381	191,813	192,840	+1	+1	+7
Meridian	33,868	34,104	33,103	—1	+2	+10
Vicksburg	18,056	20,546	17,930	—12	+1	+6
TENNESSEE						
Bristol*	38,692	35,001	34,904	+11	+11	+13
Chattanooga	268,953	256,321	259,045	+5	+4	+10
Johnson City*	39,882	35,867	38,802	+11	+3	+7
Kingsport*	68,374	68,348	66,214	+0	+3	+6
Knoxville	187,998	160,816	211,056	+17	—11	—6
Nashville	595,917	578,766	556,691	+3	+7	+8
SIXTH DISTRICT 32 cities	8,272,407	7,801,871	7,873,233	+6	+5	+9
UNITED STATES 345 cities	201,875,000	185,223,000	200,523,000	+9	+1	+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. 1956	Oct. 1956	Nov. 1955	Nov. 1956	Oct. 1956	Nov. 1955	Nov. 1956	Oct. 1956	Nov. 1955	Dec. 1956	Nov. 1956	Dec. 1955	Dec. 1956	Nov. 1956	Dec. 1955
SEASONALLY ADJUSTED															
District Total	130	129	127r	120	119	120r	190	186r	180r	..	..	..	112p	108r	111
Alabama	123	122	118r	115	114	114r	184	183	171r	..	..	..	118p	121r	126
Florida	157	157	148	159	155	153	242	244	214	..	..	..	117p	107r	118
Georgia	130	130	128r	123	121	124	202	194r	192	..	..	..	111p	116r	114
Louisiana	123	122	120r	99	100	101	163	161r	154r	..	..	..	139p	135	121
Mississippi	125	125	123r	124	124	122r	204	202r	186r	..	..	..	112p	89r	98
Tennessee	121	120	122r	117	117	120r	182	180r	179r	..	..	..	91p	81r	90
UNADJUSTED															
District Total	131	130	128r	120	119	120r	192	189	181r	..	..	..	161p	118r	160
Alabama	122	123	118r	113	113	111r	179	181	166r	279	176	271	179p	124r	191
Florida	158	152	149	159	149	152	244	232	216	240	301	379	158p	121r	159
Georgia	131	131	129r	124	124	125	204	198r	194	172	207	326	159p	123r	163
Louisiana	124	123	122r	103	101	105	171	166r	162r	268	188	274	190p	155	166
Mississippi	126	127	124r	125	126	124r	210	210r	191r	68	196	164	145p	98r	127
Tennessee	121	121	122r	117	118	120r	183	183	180r	90	146	151	132p	86	130

Department Store Sales and Stocks**

	Adjusted			Unadjusted		
	Dec. 1956	Nov. 1956	Dec. 1955	Dec. 1956	Nov. 1956	Dec. 1955
DISTRICT SALES*	155p	157	147r	268p	182	254r
Atlanta[1]	147	156	150r	255	186	259r
Baton Rouge	141	157	127r	232	176	210r
Birmingham	133	140	125r	239	159	224r
Chattanooga	135	140	134	246	159	246
Jackson	124	132	118r	205	153	197r
Jacksonville	135	137r	133	246	153r	241
Knoxville	154	164	154	275	179	275
Macon	149	144	147r	269	168	264r
Nashville	153	147	134	273	175	239
New Orleans	140	145	139	231	178	229
St. Ptrsbg-Tampa Area	161	161	154r	274	189	261r
Tampa	135	134	133r	229	156	226r
DISTRICT STOCKS*	169p	173	157r	148p	195	138r

[1]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 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. All indexes calculated by this Bank.

Other District Indexes

	Adjusted			Unadjusted		
	Dec. 1956	Nov. 1956	Dec. 1955	Dec. 1956	Nov. 1956	Dec. 1955
Construction contracts*	..	..	..	211	229	304
Residential	..	..	..	176	253	271
Other	..	..	..	238	211	329
Petrol. prod. in Coastal Louisiana and Mississippi**	205	168r	167r	198	171r	161r
Cotton consumption**	94	93	101r	89	97	96r
Furniture store stocks*	117p	116r	108	112p	121r	104
Turnover of demand deposits*	22.3	21.9	20.6	23.4	22.8	21.6
10 leading cities	23.6	22.9	21.4	25.3	24.5	22.9
Outside 10 leading cities	18.3	16.7	17.9	18.7	18.4	18.3
	Nov. 1956	Oct. 1956	Nov. 1955	Nov. 1956	Oct. 1956	Nov. 1955
Elec. power prod., total**	..	..	..	292	281	272
Mfg. emp. by type						
Apparel	164	165	166r	168	168r	169r
Chemicals	129	129	129	131	133	131
Fabricated metals	161	163	155r	165	165	158r
Food	114	112	111r	119	113	117r
Lbr., wood prod., furn. & fix.	83	84	86r	83	84	86r
Paper and allied prod.	162	163	157	163	163	158r
Primary metals	107	111	107	108	110	108
Textiles	92	92	97r	93	93	97
Trans equip.	195	193	189r	201	191	195r

r Revised p Preliminary