Monthly Review

Sixth Federal Reserve District

Atlanta, Georgia
December • 1965

Also in this issue:

Federal Reserve Bank of Atlanta

Using A Sharper Pencil?

Part II

A Study of Changes in Reserve Management at District Banks

Sixth District banks, which hold more excess reserves on average than all banks in the nation, are seeking to put their reserves to greater use. The first part of our study, in the November issue of the *Review,* briefly described the theory of reserve management and discussed our investigation of the current practices of District member banks in balancing their reserve accounts. The study revealed that large banks generally manage their reserve positions more closely than small banks. Daily reserve surpluses and deficits tend to vary within smaller limits, relative to required reserves, at large banks than at small banks. Furthermore, small banks tend to run larger surpluses and smaller deficits, relative to required reserves, than large banks. Since small banks run surpluses nearly all the time, they apparently make little attempt to use excess reserves accumulated during the statement period.

We will now take up developments in the United States during the past decade that theoretically should have induced cost-conscious bank management personnel in the Sixth District to put idle funds to work, or to cut back excess reserve balances by using sharper pencils in managing their reserves. We will then see whether they actually did change their reserve management practices, and if so, what methods they used.

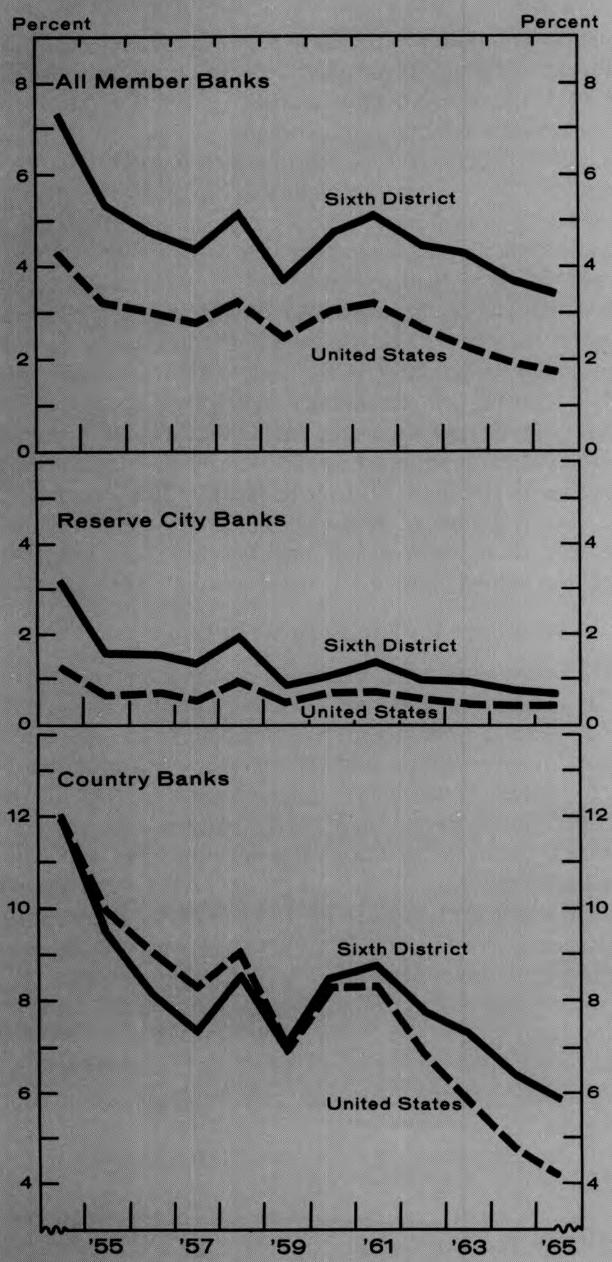
Why Put Idle Funds To Work?

Interest rates, particularly short-term rates, have risen substantially over the past decade. For example, the rate on three-month Treasury bills has increased more than 2 percentage points since 1955. As interest rates rise, it becomes more costly to hold idle balances and more profitable to put them to work. Thus, higher interest rates in recent years must have encouraged banks to use their excess reserves.

A general awareness of these conditions has developed in recent years — particularly at smaller banks in various parts of the country. This knowledge has been stimulated in part by a squeeze on bank profits: Average interest expense on deposits has increased with the rising interest rates and the rapid flows of funds into time deposits concurrent with widespread economizing on demand deposit accounts. Increased knowledge has also been stimulated by bond dealers and the bond departments at large banks who, in trying to build up more business for themselves, have pointed out the rationale and methods for investing excess reserve balances.

The development and refinement of the Federal funds market, through which reserve balances are bought and sold, have enabled many banks to balance their reserves more closely. In addition, many small banks that earlier had been barred from participation by the size of the minimum trading unit now have access to the Federal funds market. This has resulted from offers of various large banks to enter into Federal funds transactions with their small correspondents, not only in amounts of $500,000 and over in which trading normally occurs but in smaller amounts — as low as $100,000. Thus, excesses, or deficiencies, accumulated by small banks during the early days of the reserve settlement period may now be offset by sales or purchases of Federal funds from larger correspondents, resulting in a closer balancing of reserve averages with requirements. Many bankers feel safe in balancing reserves quite closely through purchases and sales in the Federal funds market, since they can normally cover sudden shortfalls at the discount window.

I: Ratio of Excess Reserves to Required Reserves
SIXTH DISTRICT AND U. S. MEMBER BANKS
1954-65



In the light of the foregoing developments, we would expect that District banks are balancing their reserves more closely than they did several years ago. If so, their excess reserves as a proportion of required reserves must have declined in recent years.

Have District Banks Used Sharper Pencils?

Have management personnel at District banks actually used sharper pencils in balancing their reserves? In a word, Yes. Average excess reserves per bank declined as did excess reserves, relative to required reserves. District banks reduced their excess reserve balances from 5.3 percent of required reserves in 1955 to about 3.4 percent during the first ten months of 1965. As shown in Chart I, the downward movement in this excess reserves ratio was interrupted by increases in 1958 and again in 1960-61. These interruptions partly reflect the effects of the recessions of 1957-58 and 1960-61, when the demand for loans declined as business activity contracted. At the same time, an easing of monetary policy led to an increased supply of lendable funds and a subsequent decline in interest rates. With the economic picture less optimistic and the cost of holding excess reserves somewhat lower, bankers probably decided to hold more excess reserves as a cushion against deposit losses.

One additional factor figures prominently in the rise in excess reserves in 1960-61. Beginning late in 1959, the Board of Governors allowed member banks to count, first a part and then, by the end of 1960, all their currency and coin as legal reserves. The substantial amount of reserves created by this action took the form of excess reserves, which were gradually put to work as bankers adjusted to this new component of their reserve balances.

Some economists argue that vault cash has acted as a new source of reserve instability and that member banks now must hold more excess reserves as a buffer against swings in vault cash. If so, the effect of this factor has been offset by other forces, for excess reserves, relative to required reserves, have trended downward since 1961 to points below those reached before the vault cash action.

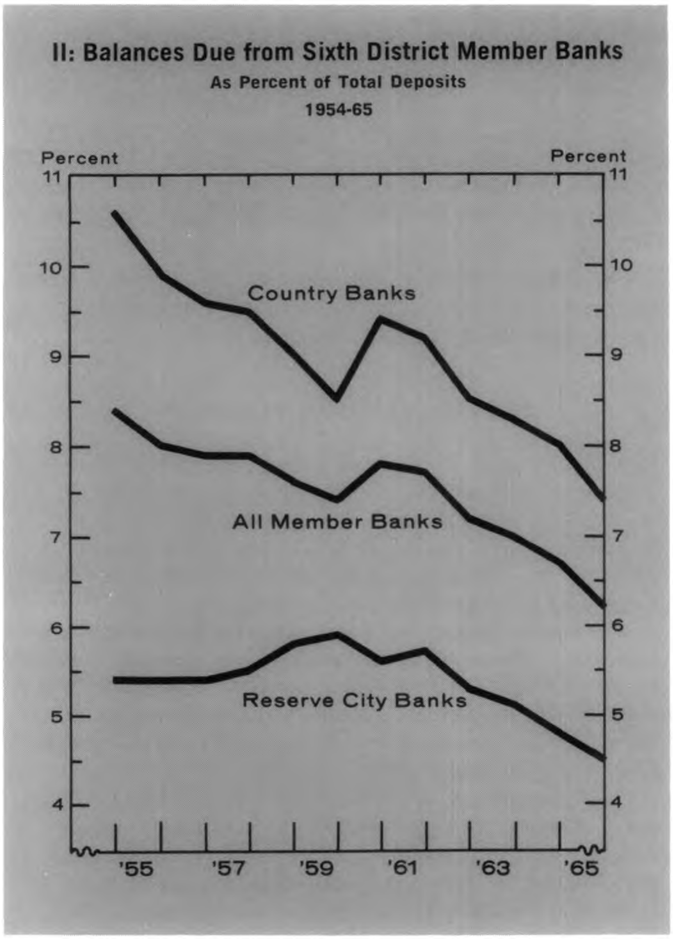
Having determined that reserve management personnel at District banks were using sharper pencils in managing their reserve balances, we wanted to know which group of banks were most active in this development. We found that all banks have reduced their excess reserve balances, relative to required reserves, but country banks have reduced theirs considerably more than reserve city banks. Excess reserves at country banks fell from 9.5 percent of required reserves in 1955 to an average of 5.9 percent in the first ten months of 1965 — a reduction of 3.6 percentage points. Reserve city banks, having managed their excess reserve positions closely for some time, cut excess reserves back over the period by 0.9 percentage points — from 1.6 percent of required reserves in 1955 to 0.7 percent thus far this year. The sizable reduction in excess reserves at country banks indicates that smaller banks in this part of the United States have taken advantage of recent developments in reserve management and money market techniques.

How do these changes in excess reserves at banks here compare with those elsewhere? In a nutshell, banks in this District may have sharpened their pencils a little faster, although not quite to the same sharp point as banks in the entire nation.

Closer inspection shows that District reserve city banks apparently have improved their reserve management techniques more rapidly than reserve city banks in the U. S., lowering their excess reserve balances nearly to the national average for reserve city banks. On the other hand, District country banks have failed to reduce excess reserves as rapidly as country banks in the nation.

In terms of improved reserve management, a cutback in excess reserves would not be very meaningful if it were accompanied by a corresponding rise in other non-earning cash assets, or balances with other commercial banks. Minimal balances in these accounts are important, of course, since banks receive services in exchange for them. However, we would expect banks to have reduced non-essential balances in these accounts for much the same reason that they reduced excess reserves, namely, to maximize earnings within an environment of rising interest rates and of increasing knowhow in putting idle funds to work.

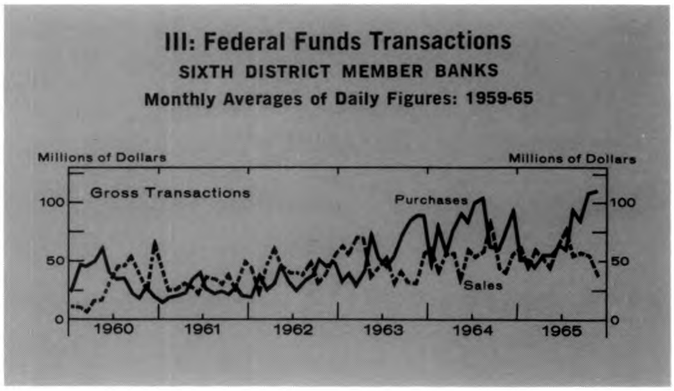
As shown in Chart II, District banks indeed did reduce their balances with other banks in relation to their total deposits. Although country banks effected the sharpest reduction, reserve city banks also reduced their balances with other banks to a point still somewhat below the country bank averages. The sizable reduction in balances with banks brings us to the conclusion that the decline in excess reserves is real, and not simply a transfer of funds from one non-earning asset to another.



How Were Excess Reserves Reduced?

One important way District banks have responded to incentives to use a sharper pencil has been to borrow or lend more frequently to banks outside the District—and to each other—through purchases or sales of Federal funds. When one bank acquires the idle excess reserves of another, both banks benefit: The borrowing bank gets reserves at a rate which until early this year was normally below the discount rate and avoids any stigma attached to continued borrowing from the discount window; the lending bank invests funds for short periods at a reasonable rate with little risk.

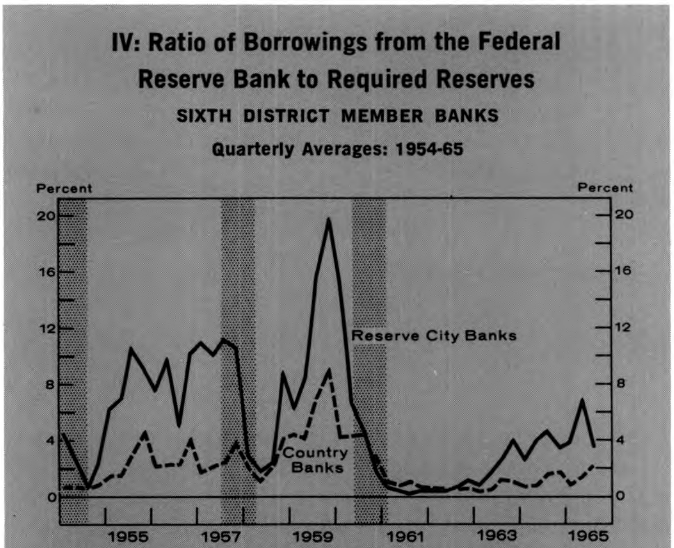
Although the data are difficult to obtain and must be interpreted with caution, they indicate clearly that reserve management methods in the 1960's have been modified to include increased trading in Federal funds. The most reliable figures, shown in Chart III, are those for a sample of large banks in the District. Increases in amounts traded by certain banks are illustrated in the chart, but the scope of Federal funds trading is not fully depicted. Special studies of District banks, conducted at irregular intervals since 1956, indicate that the number of banks trading increased more rapidly than the total volume of purchases and sales. To cite the extremes, about 15 banks were trading at the time of the 1956 and 1958 studies, and about 75 banks traded Federal funds in April of this year. Since the methods we used in these studies almost certainly underestimate both the amount of trading and the number of banks, the absolute increase is probably greater than these figures show.



The April study revealed an interesting facet of the Federal funds market: Even though transfers of $1 million or over accounted for more than 95 percent of the total dollar amount of Federal funds transfers in the District, 300 transactions were in amounts of less than $1 million. Moreover, nearly 200 transfers were less than $500,000 each. Some of these transfers were purchases of Federal funds by small District banks, which supports the notion that District bankers are becoming more sophisticated in managing their reserves. Many of the small transactions reflect larger District banks' purchases of Federal funds from small correspondents made in order to keep their accounts.

A continuing need for funds by large District banks could further increase Federal funds trading in small amounts. Some large District banks are presently attempting to establish local sources of Federal funds, which might continue to provide funds if the usual sources, the large money market banks in New York, Chicago, and the West Coast, should dry up. It seems likely that trading for periods of more than one day—not often found in larger transactions—will become more frequent as both buying and selling banks try to minimize "handling costs" of Federal funds transactions. Smaller banks, however, may increasingly enter the market on the borrowing side as their reserve management becomes more refined and their excess reserves decline. They may be looking to the larger banks in the District as sources as well as outlets for funds. These developments are minor, relative to the total amounts of trading, but they are interesting.

Trading in Federal funds, though important, must be viewed as but one of several important developments in the evolution of reserve management. As Chart IV shows, during the past ten years borrowing from the System by District banks increased as the economy expanded and borrowing receded as it contracted. Also, the ratio of ex-



Shaded areas represent periods of recession.

cess reserves, although exhibiting a general downward trend, rose in periods of contraction. We can infer from this that bankers responded to credit expansion squeezes on their reserve positions by trimming their excess reserves and borrowing more frequently from the System. Part of the pressure to borrow at the discount window was alleviated by the development of the Federal funds market, which would help explain the delay in the upturn in borrowing during the present expansion. The increased borrowings in 1964 and 1965 may partly reflect a return to the discount window now that the possibilities of interbank borrowing have been more fully exploited. A Federal funds rate generally above the discount rate, which has prevailed most of this year, supports this contention.

The discussion of reserve management methods is incomplete without a consideration of factors other than the manipulation of reserve accounts by borrowing and lending reserve balances. Clearly, the nature of the loan and investment portfolio and the structure of deposits affect the need for the manipulations discussed so far. True, excess reserves, relative to required reserves, have been reduced in the past ten years, indicating improvements in reserve management methods, but it is equally true that the nature of deposits has changed radically over the same time span. With the growth in deposits, required reserves have increased more rapidly than the need for a cushion of excess reserves. Larger banks can afford to devote more time to reserve management, and more deposits per bank generally reduce the likelihood of wide variations in deposits. Also, since a large percentage of the growth in total deposits has been in time deposits, total deposits should be more stable and, consequently, changes in reserve positions more moderate.

The growth in deposits has also altered the flexibility of the Government securities portfolio. Reserve managers have less freedom to use portfolio changes to adjust their reserve positions now that the Government securities portfolio is much smaller, relative to total deposits, and a greater portion of these securities is pledged as collateral for deposits. As the ability to change the Government portfolio has decreased, however, the possibilities of acquiring funds from other sources have increased. Bankers can vary the rate of acquisition of funds by changing the rates and amounts of promotional efforts for certificates of deposits, savings certificates, and short-term unsecured notes. Although some District banks have been active in promoting savings certificates and certificates of deposits and a few have issued short-term unsecured notes, these methods have not yet been widely utilized in this District.

PAUL A. CROWE
ROBERT R. WYAND II

This completes a two-part series on a study of reserve management at District banks during the past decade. Part I of "Using a Sharper Pencil?" appeared in the November 1965 REVIEW. *Copies of both articles are available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.*

Bank Announcements

The COHUTTA BANKING COMPANY, *Chatsworth, Georgia, a nonmember bank, began to remit at par for checks drawn on it when received from the Federal Reserve Bank on November 1. Officers are R. E. Chambers, President; L. P. Huff, R. K. Richardson, and Jack Greeson, Vice Presidents; and Frances Heartsell, Cashier.*

Also on November 1, the BROOKHAVEN BANK AND TRUST COMPANY, *Brookhaven, Mississippi, a nonmember bank, began to remit at par. Officers are S. E. Babington, President; F. F. Becker II, Executive Vice President; R. L. Davis, Senior Vice President; T. E. Applewhite, Vice President; and F. J. Rein, Cashier.*

On November 4, the UNIVERSITY NATIONAL BANK OF BOCA RATON, *Boca Raton, Florida, a newly organized member bank, opened for business and began to remit at par. William M. Stowe is President, and Kenneth N. Bradshaw is Executive Vice President and Cashier. Capital is $250,000; surplus and other capital funds, $250,000.*

The REPUBLIC NATIONAL BANK OF MIAMI, *Miami, Florida, a newly organized member bank, opened for business on November 8 and began to remit at par. Officers are Ernest Janis, President; R. J. Grazier, Executive Vice President; William A. Rushton, Vice President and Cashier; Bernard Janis and Simeon D. Spear, Vice Presidents. Capital is $250,000; surplus and other capital funds, $375,000.*

Index for the Year 1965

Debits to Demand Deposit Accounts

Insured Commercial Banks in the Sixth District
(In Thousands of Dollars)

				Percent Change		
				Oct. 1965 from		Year-to-Date 10 months
	Oct. 1965	Sept. 1965	Oct. 1964	Sept. 1965	Oct. 1964	1965 from 1964
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham . . .	1,257,351	1,293,340	1,201,831	—3	+5	+10
Gadsden	60,489	56,215	58,634	+8	+3	+5
Huntsville . . .	163,941	158,867	167,235	+3	—2	+5
Mobile	440,980	385,414	389,300	+14	+13	+8
Montgomery . . .	268,373	264,063	241,992	+2	+11	+10
Tuscaloosa . . .	80,722	77,825	80,327	+4	+0	+4
Ft. Lauderdale—Hollywood . . .	461,394	422,710	426,814	+9	+8	+9
Jacksonville . . .	1,421,614	1,317,855	1,173,610	+8	+21	+16
Miami	1,730,343	1,593,090r	1,586,637	+9	+9	+8
Orlando	393,736	377,297r	393,116	+4	+0	+1
Pensacola	181,881	182,473	176,374	—0	+3	+10
Tampa-St. Petersburg	1,014,216	972,024	961,781	+4	+5	+7
W. Palm Beach . .	326,544	301,529r	310,642	+8	+5	+8
Albany	85,327	91,113	82,217	—6	+4	+18
Atlanta	3,851,563	3,918,309r	3,564,356	—2	+8	+11
Augusta	192,867	179,577	184,529	+7	+5	+3
Columbus	179,884	193,921	175,383	—7	+3	+7
Macon	202,928	196,333	186,446	+3	+9	+9
Savannah	225,659	222,115	220,196	+2	+2	+4
Baton Rouge . . .	452,754	432,052	394,364	+5	+15	+19
Lafayette	108,053	100,174	89,373	+8	+21	+19
Lake Charles . . .	112,494	108,086r	103,765	+4	+8	+9
New Orleans . . .	2,093,690	1,987,879	1,872,738	+5	+12	+11
Jackson	558,500	507,352	516,814	+10	+8	+11
Chattanooga . . .	494,125	505,876	427,285	—2	+16	+11
Knoxville	408,741	390,883	362,217	+5	+13	+10
Nashville	1,201,281	1,228,337r	1,049,637	—2	+14	+11
OTHER CENTERS						
Anniston	58,971	55,276	55,210	+7	+7	+7
Dothan	54,640	58,829	53,399	—7	+2	+6
Selma	45,434	39,324	41,207	+16	+10	+4
Bartow	36,343	30,089	25,436	+21	+43	+24
Bradenton . . .	44,569	40,142	42,166	+11	+6	+2
Brevard County . .	193,634	181,366	146,877	+7	+32	+18
Daytona Beach . .	74,998	73,393	70,152	+2	+7	+6
Ft. Myers—N. Ft. Myers . .	57,206	55,459	52,585	+3	+9	+6
Gainesville . . .	67,474	74,397	67,256	—9	+0	+9
Monroe County . .	29,629	27,147	24,906	+9	+19	+19
Lakeland	98,654	91,737	91,044	+8	+8	+10
Ocala	47,568	45,431	44,809	+5	+6	+6
St. Augustine . .	16,582	17,493	15,811	—5	+5	+5
St. Petersburg . .	258,270	238,685	254,455	+8	+1	+5
Sarasota	85,250	82,338r	78,204	+4	+9	+5
Tallahassee . . .	103,776	103,589r	88,696	+0	+17	+16
Tampa	562,908	556,619	517,294	+1	+9	+11
Winter Haven . .	48,542	49,199	46,953	—1	+3	+8
Athens	60,930	64,664	55,863	—6	+9	+15
Brunswick . . .	37,087	39,753	39,100	—7	—5	+2
Dalton	84,940	88,089	83,858	—4	+1	+12
Elberton	15,012	10,966	11,933	+37	+26	+8
Gainesville . . .	68,303	67,408	62,752	+1	+9	+8
Griffin	28,589	29,505	26,566	—3	+8	+11
LaGrange	19,894	21,417	18,829	—7	+6	+6
Newnan	22,141	22,909	25,013	—0	—1	—0
Rome	65,931	65,705	62,913	+0	+5	+6
Valdosta	47,061	57,757	42,919	—19	+10	+12
Abbeville	10,453	11,809	9,454	—11	+11	+12
Alexandria . . .	117,163	105,460	108,450	+11	+8	+9
Bunkie	6,561	6,274	6,521	+5	+1	+12
Hammond	30,194	26,297	28,525	+15	+6	+8
New Iberia . . .	34,142	31,062	28,851	+10	+18	+6
Plaquemine . . .	8,152	8,698	7,340	—6	+11	+9
Thibodaux . . .	19,500	20,138	17,354	—3	+12	+8
Biloxi-Gulfport . .	84,890	81,219	75,184	+5	+13	+10
Hattiesburg . . .	48,997	49,442	44,027	—1	+11	+9
Laurel	37,460	36,776	32,021	+2	+17	+8
Meridian	58,118	56,293	58,751	+3	—1	+5
Natchez	29,944	30,142	31,099	—1	—4	+0
Pascagoula—Moss Point . .	45,592	44,574	45,631	+2	—0	+5
Vicksburg	35,415	34,306	32,560	+3	+9	+13
Yazoo City . . .	27,630	23,030	26,471	+20	+4	+11
Bristol	61,457	60,722	59,610	+1	+3	+9
Johnson City . . .	63,659	61,956	57,639	+3	+10	+8
Kingsport	122,219	126,120	112,575	—3	+9	+13
SIXTH DISTRICT, Total	24,896,016	24,302,438r	22,905,926	+2	+9	+10
Alabama‡ . . .	3,287,346	3,265,567	3,252,001	+1	+1	+7
Florida‡	7,372,072	6,963,361r	6,696,494	+6	+10	+9
Georgia‡	6,235,035	6,340,121r	5,762,639	—2	+8	+12
Louisiana*† . . .	3,519,955	3,318,834r	3,097,354	+6	+14	+12
Mississippi*† . .	1,190,477	1,134,794	1,130,002	+5	+5	+9
Tennessee*† . . .	3,291,131	3,279,761r	2,967,436	+0	+11	+8

*Includes only banks in the Sixth District portion of the state.
†Partially estimated. ‡Estimated. r-Revised.

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, 1957-59 = 100, unless indicated otherwise.)

SIXTH DISTRICT

	Latest Month (1965)		One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	Sept.	50,378	48,774r	48,656r	45,052
Manufacturing Payrolls	Oct.	171	168r	170	150
Farm Cash Receipts	Sept.	143	131	132	133
Crops	Sept.	136	134	122	133
Livestock	Sept.	143	130	134	123
Department Store Sales*/**	Nov.	158p	152	148	141
Instalment Credit at Banks, *(Mil.)					
New Loans	Oct.	212	217r	233	177
Repayments	Oct.	196	205	220	167
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Oct.	124	124	124	119
Manufacturing	Oct.	124	123	123	117
Apparel	Oct.	151	149	149	141
Chemicals	Oct.	118	118	118	113
Fabricated Metals	Oct.	133	130	132	125
Food	Oct.	109	109	109	108
Lbr., Wood Prod., Furn. & Fix.	Oct.	100	100	100	98
Paper	Oct.	110	110r	110	107
Primary Metals	Oct.	110	111r	113	109
Textiles	Oct.	100	100	99	96
Transportation Equipment	Oct.	153	152	151	120
Nonmanufacturing	Oct.	125	124	124	120
Construction	Oct.	122	120r	119	114
Farm Employment	Oct.	70	66	72	80
Insured Unemployment, (Percent of Cov. Emp.)	Oct.	2.1	2.4	2.4	2.8
Avg. Weekly Hrs. in Mfg., (Hrs.)	Oct.	41.7	41.4	41.6	41.0
Construction Contracts*	Oct.	166	139	143	150
Residential	Oct.	167	142	173	156
All Other	Oct.	165	137	118	146
Industrial Use of Electric Power	Sept.	128	130	132	123
Cotton Consumption**	Oct.	115	112	109	104
Petrol. Prod. in Coastal La. and Miss.**	Oct.	188	158	186	168
FINANCE AND BANKING					
Member Bank Loans*					
All Banks	Oct.	214	211	209	184
Leading Cities	Nov.	198	198	194	171
Member Bank Deposits*					
All Banks	Oct.	165	162	162	147
Leading Cities	Nov.	154	152	149	139
Bank Debits*/**	Oct.	173	164	166	152

ALABAMA

	Latest Month (1965)		One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	Sept.	6,878	6,625r	6,683r	6,143
Manufacturing Payrolls	Oct.	159	160r	162	140
Farm Cash Receipts	Sept.	149	123	142	136
Department Store Sales**	Oct.	118	115	123	110
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Oct.	115	115	116	112
Manufacturing	Oct.	114	115	116	110
Nonmanufacturing	Oct.	116	115	115	113
Construction	Oct.	112	112r	113	112
Farm Employment	Oct.	63	69	73	74
Insured Unemployment, (Percent of Cov. Emp.)	Oct.	2.6	2.6	2.5	2.9
Avg. Weekly Hrs. in Mfg., (Hrs.)	Oct.	41.8	41.7r	41.3	41.3
FINANCE AND BANKING					
Member Bank Loans	Oct.	204	198	199	178
Member Bank Deposits	Oct.	166	164	163	146
Bank Debits**	Oct.	162	155	157	153

FLORIDA

	Latest Month (1965)		One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	Sept.	14,681	14,084r	13,989r	13,188
Manufacturing Payrolls	Oct.	197	196r	192	176
Farm Cash Receipts	Sept.	151	120	131	139
Department Store Sales**	Oct.	184	185	191	174
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Oct.	134	133	134	129
Manufacturing	Oct.	137	136r	135	130
Nonmanufacturing	Oct.	134	133	133	129
Construction	Oct.	109	106	107	104
Farm Employment	Oct.	90	88	80	101
Insured Unemployment, (Percent of Cov. Emp.)	Oct.	1.9	2.2	2.2	2.4
Avg. Weekly Hrs. in Mfg., (Hrs.)	Oct.	42.6	41.8r	42.7	41.7
FINANCE AND BANKING					
Member Bank Loans	Oct.	216	216	215	188
Member Bank Deposits	Oct.	167	162	163	148
Bank Debits**	Oct.	171	157	163	148r

GEORGIA

	Latest Month (1965)		One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	Sept.	9,446	9,248r	9,160r	8,519
Manufacturing Payrolls	Oct.	171	168	171	145
Farm Cash Receipts	Sept.	151	128	121	146
Department Store Sales**	Oct.	153	144	148	139
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Oct.	124	123r	123	118
Manufacturing	Oct.	121	120r	119	113
Nonmanufacturing	Oct.	125	125	125	120
Construction	Oct.	135	136r	136	127
Farm Employment	Oct.	69	65	77	82
Insured Unemployment, (Percent of Cov. Emp.)	Oct.	1.7	2.1	2.0	2.4
Avg. Weekly Hrs. in Mfg., (Hrs.)	Oct.	41.2	41.1	41.2	40.2
FINANCE AND BANKING					
Member Bank Loans	Oct.	223	219	219	186
Member Bank Deposits	Oct.	178	174	176	153
Bank Debits**	Oct.	182	181	177	161

LOUISIANA

	Latest Month (1965)		One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	Sept.	7,591	7,408r	7,412r	6,607
Manufacturing Payrolls	Oct.	156	146r	159	140
Farm Cash Receipts	Sept.	135	185	137	116
Department Store Sales*/**	Oct.	139	138	136	112
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Oct.	117	115	115	110
Manufacturing	Oct.	108	107r	109	106
Nonmanufacturing	Oct.	119	117	116	111
Construction	Oct.	134	128	125	111
Farm Employment	Oct.	81	69	79	84
Insured Unemployment, (Percent of Cov. Emp.)	Oct.	2.3	2.7	2.8	3.0
Avg. Weekly Hrs. in Mfg., (Hrs.)	Oct.	42.6	40.2r	42.7	42.2
FINANCE AND BANKING					
Member Bank Loans*	Oct.	201	200	196	168
Member Bank Deposits*	Oct.	144	142	139	133
Bank Debits*/**	Oct.	158	145	150	133

MISSISSIPPI

	Latest Month (1965)		One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	Sept.	3,810	3,651r	3,698r	3,425
Manufacturing Payrolls	Oct.	191	183	184	159
Farm Cash Receipts	Sept.	147	132	145	140
Department Store Sales*/**	Oct.	122	108	114	93
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Oct.	127	127	126	123
Manufacturing	Oct.	136	136r	135	127
Nonmanufacturing	Oct.	123	123	123	121
Construction	Oct.	129	128r	122	131
Farm Employment	Oct.	65	54	57	70
Insured Unemployment, (Percent of Cov. Emp.)	Oct.	2.0	2.1	2.2	3.2
Avg. Weekly Hrs. in Mfg., (Hrs.)	Oct.	41.7	40.8r	41.3	40.6
FINANCE AND BANKING					
Member Bank Loans*	Oct.	226	223	221	203
Member Bank Deposits*	Oct.	175	170	173	159
Bank Debits*/**	Oct.	181	174	178	164

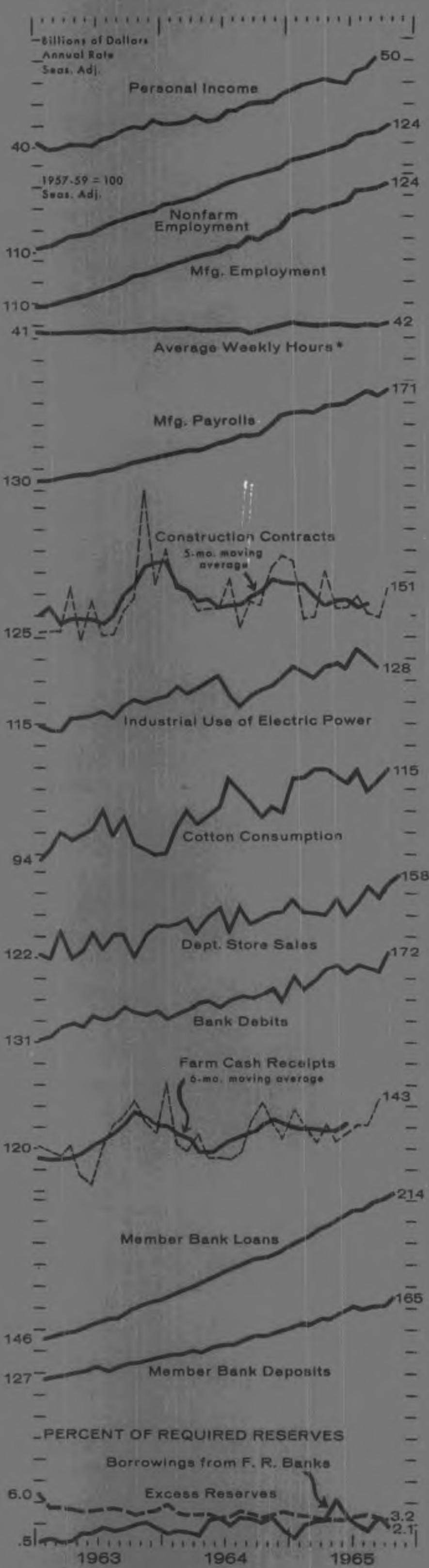
TENNESSEE

	Latest Month (1965)		One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	Sept.	7,972	7,758r	7,714r	7,170
Manufacturing Payrolls	Oct.	167	167	165	152
Farm Cash Receipts	Sept.	119	122	119	108
Department Store Sales*/**	Oct.	129	126	129	118
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Oct.	125	125r	124	119
Manufacturing	Oct.	129	129r	128	122
Nonmanufacturing	Oct.	123	122	123	118
Construction	Oct.	139	136	135	134
Farm Employment	Oct.	66	66	74	82
Insured Unemployment, (Percent of Cov. Emp.)	Oct.	2.3	2.5	2.4	3.3
Avg. Weekly Hrs. in Mfg., (Hrs.)	Oct.	41.3	41.9r	41.1	41.0
FINANCE AND BANKING					
Member Bank Loans*	Oct.	213	209	204	187
Member Bank Deposits*	Oct.	165	161	161	151
Bank Debits*/**	Oct.	183	182r	177	157

*For Sixth District area only. Other totals for entire six states. **Daily average basis. r Revised. p Preliminary.

Sources: Personal income estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U. S. Dept. of Labor and cooperating state agencies; cotton consumption, U. S. Bureau of Census; construction contracts, F. W. Dodge Corp.; petrol. prod., U. S. Bureau of Mines; industrial use of elec. power, Fed. Power Comm.; farm cash receipts and farm emp., U.S.D.A. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.

DISTRICT BUSINESS CONDITIONS



*Seas. adj. figure; not an index.

The District's economy has continued to expand at a vigorous pace. Retail sales, spurred by the expenditure of retroactive social security payments, reached a record high in October. The insured unemployment rate dipped further, as more workers were hired. The farm economy prospered, with total cash farm receipts exceeding year earlier amounts, largely because returns from poultry and livestock surged higher. Increases in business loans and time deposits led a general expansion at District banks. Total construction contracts improved greatly, with current building activity matching September's level.

Employment and retail sales recorded excellent gains in October. The insured unemployment rate showed the largest percentage decline of the current expansion. Only Alabama, hampered by the steel slowdown, failed to register a decrease in insured unemployment. Construction employment showed gains in all states except Georgia, where a labor dispute, now settled, kept workers off the payrolls. The recapture of some of the employment losses caused by Hurricane Betsy gave Louisiana the best increases in the District. Retail sales, aided by the expenditure of retroactive social security payments, climbed to a new high. And spending, measured by bank debits, jumped sharply.

The overall farm economy remains strong, despite reduced prices and harvestings in some crops. Cotton growers, especially in Alabama, Louisiana, and Mississippi, the main cotton producing areas, have been harvesting somewhat smaller crops and receiving slightly lower prices than in 1964, and citrus growers are finding prices down considerably. Cash receipts from crops in general are only a little larger than last year. Livestock and poultry producers, however, have experienced rising receipts resulting from brisk sales at relatively favorable prices. Furthermore, they are gearing up operations for an even larger output in the coming weeks.

Bank loans in leading cities accelerated in November. The increases, coupled with the reasonably strong loan expansion in October, imply that the slowdown in loan expansion in late September and early October was temporary. Business loans, especially, have increased markedly since early October because of large gains in loans to food, liquor, and tobacco processors. Bank holdings of U. S. Treasury bills and short-maturity notes dropped sharply in early November. Government demand deposits were reduced in mid-November to about one-fourth the level prevailing at the end of September. Total time-deposit growth was impressive in October and reasonably strong the first two weeks in November.

A vast improvement in total construction awards during October may have reversed a mild downward trend, prevalent for several months. Current building activity is high. Non-residential building construction remains the most buoyant sector throughout the region, with exceptional growth in Louisiana. To date, however, this factor has not offset a rather substantial reduction in several categories of non-building construction contracts.

NOTE: Data on which statements are based have been adjusted whenever possible to eliminate seasonal influences.