Monthly Review

Atlanta, Georgia
August • 1966
Vol. LI, No. 8

Also in this issue:

Federal Reserve Bank of Atlanta

A Shift in Banking Philosophy? An Examination of Bank Investment Practices

The decline in importance of investments is one of numerous changes characterizing American banking in recent years. At midyear 1966, investments accounted for 32 percent of the earning assets of all U. S. commercial banks, compared with 42 percent in 1961. Fifteen years ago investments averaged 56 percent of assets.

Does this mean bankers have changed their views about investments? Is this merely a passive response to changes in environmental factors? Or is it a combination of changed investment philosophy and adaptation to outside forces?

Whatever the reasons, this decline in the relative importance of investments is a matter of great concern to some persons. This may have adversely affected bank liquidity, some analysts say. They wonder whether or not the ability of individual banks to meet unusual deposit withdrawals by converting their assets readily into cash with minimum loss has been reduced. Others wonder what this change has done to the ability of banks to meet demands of loan customers by liquidating investments when deposit inflows do not keep up with credit demands. The latter is of some importance in determining the effectiveness of Federal Reserve policy.

Aggregate data on loans and investments, such as those cited above, give inadequate answers. They show only that bankers in recent years have placed more of their funds in loans and less in investments. They do not show the types of securities held, maturity structure, or quality. Yet, these are matters of extreme importance in investment management and in judging the liquidity position of individual banks and the banking system.

A great deal of controversy has arisen about these matters, with inadequate statistical measures complicating a thorough investigation. Such inquiries have had to depend very often on summary statistics for about 14,000 insured banks in the nation or some other large group, such as all-member banks. Therefore, it has been difficult to get more than a bird's-eye view of the problem. Indeed, experience has shown that conclusions about commercial bank behavior, based on aggregate data, may be misleading. Often, they hide important variations among banks of different size and location and fail to stand up in individual instances. Furthermore, some information needed to answer the aforementioned questions has been collected only in isolated studies, and some not at all.

In trying to determine whether bank investment policies did significantly change in the Southeast, we asked 99 banks in Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee about some of their investment practices of the last few years. We supplemented this information with data from statistical reports and individual reports of bank examination, distinguishing between institutions by both size and geographical area. Although the study is obviously limited, it seems probable that changes in investment operations of a typical bank in this part of

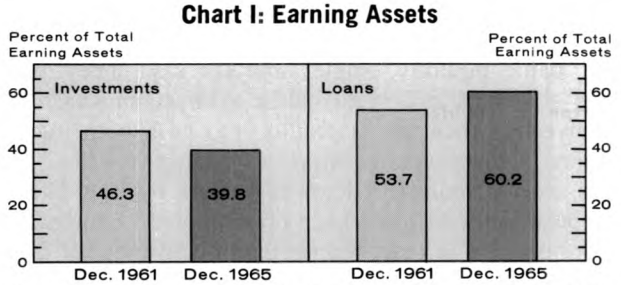
the South have not been too different from those of representative banks elsewhere.

Changing Investment Composition

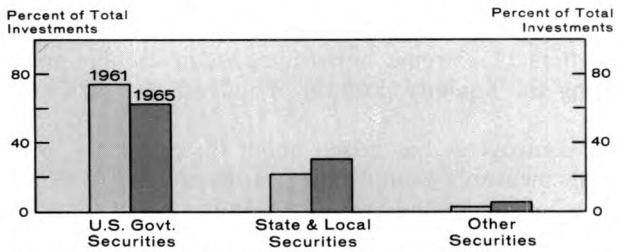
Investments held by insured banks in this six-state area shrank in importance over the last few years, as they did in other areas. From the end of 1961 to the end of 1965, investments, measured in relation to total earning assets, declined from over 46 percent to less than 40 percent. This reduction was most rapid in the second half of 1963 and first half of 1964. However, total investment volume increased, although much less than loans. At the end of 1965, Sixth District insured banks reported a $2.1-billion, or nearly 35-percent, gain from four years earlier.

Aggregate data on securities portfolios alone do not tell the full story. More significantly, most banks bought state and local government issues in heavy volume, so that holdings of state and local government issues doubled in four years. By the end of 1965, over 31 percent of total securities were of this type. In 1961, these investments accounted for only 22 percent. On the other hand, direct and guaranteed U. S. Government securities, as a proportion of total investments, fell from 75 to 63 percent over the same period. The sharpness of these changes supports conclusions that they are the direct result of deliberate bank policy decisions. However, one can overemphasize these shifts if the broader trends into which they fit are not given proper consideration.

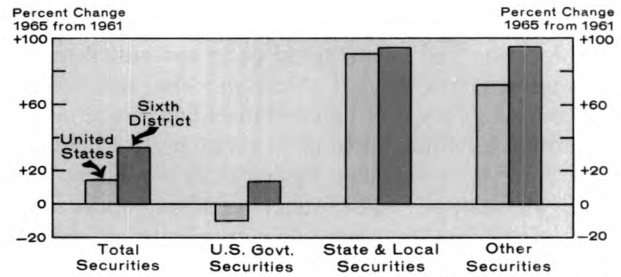
Chart I: Earning Assets



Investments at Sixth District insured banks, relative to total earning assets, increased only $2 billion in the December 1961-December 1965 period, while loans advanced $5 billion.

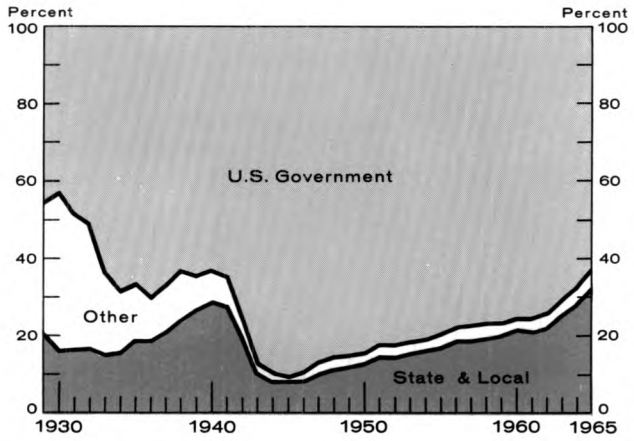


Among investments held by these banks, U. S. Government securities became relatively less important, and state and local issues more so.



Except for the expansion of the volume of U. S. Government-held securities, the District pattern resembled that of the nation over the last few years.

Chart II: Composition of Investments
Sixth District Member Banks



Banks were heavy buyers of Treasury obligations during World War II and to a somewhat lesser degree during the Korean War. In years since, they have been more often buyers than sellers, though the relative place of U.S. Government securities among total bank investments has shrunk steadily. Thus, owing largely to sizable purchases in 1962, District insured banks held more U. S. Government obligations in December 1965 than four years earlier. In this respect, District banks in the aggregate fared differently in the current business boom than in some other post World War II expansionary periods when heavy liquidations of U. S. Treasury issues were common. Although some U. S. Government issues have been sold this year, they still represent a slightly more important investment to this region's banks than in the late 1920's. District banks' participation in the market for state and local securities, on the other hand, is now greater than it was 35 years ago, although the trend toward greater investment in state and local issues was severely interrupted by World War II.

Published statistics fail to separate the exact amounts of corporate, real estate, and foreign bonds that banks hold today, but aggregate figures suggest the amount is insignificant. Similarly, holdings of Federal Agency issues remain fairly small, despite banks' greater than passing interest in these investments recently.

For banks to hold few securities other than U. S. Government and state and local obligations today is in sharp contrast to the 1920's. At that time, many were active buyers of various types of private and foreign bonds. As a result, for all District insured banks, nearly 35 percent of total investments in mid-1929 consisted of obligations of issuers other than the Federal Government and state and local units. In years of depression many of these securities proved difficult to sell even at considerable loss, which partly explains their near absence in portfolios today.

Obviously, not every District bank experienced an absolute increase in total investment volume (or in state and local issues) and a decline in the proportion of investments to total earning assets over the last few years. Nevertheless, every major group—insured nonmember, reserve city member, and country member—did. This differed only

in one respect from the national pattern—insured banks sold U. S. Government securities.

Chart III gives more insight into what transpired for District banks in various size groupings. There is little doubt that all banks shared the same trends, but smaller banks stayed more heavily invested and retained more U. S. Government obligations than larger ones.

Shifts in Portfolio Management

These portfolio shifts appear to reflect both deliberate changes in banking practices and adjustments to economic and financial conditions. As elsewhere, many District banks have become more aggressive competitors for time and savings deposits and more heavily loaned. The corollary is that they have become less heavily invested.

Why did individual bankers place more funds into loans than investments? In part, the answer lies in a willingness to accept more risks as banks have come to rely on newly developed sources of liquidity. Another explanation is that with the current economic expansion, one of the longest on record, loan demand has been extremely heavy. Total loans rose $5.3 billion between December 1961 and December 1965 at all District insured banks.

Another factor working toward the increased emphasis on loans over this period has been the need to offset the added cost of time and savings deposits, which surged from $4.7 billion to $8.8 billion. Between calendar 1961 and 1965, the interest paid on time deposits climbed from 24 percent of total operating costs to 34 percent.

As rates on time deposits increased, banks needed to move into higher yielding assets. This not only influenced their decision to place greater stress on loans (which normally earn more than investments), but also led them to

Chart III: Composition of Earning Assets
Sixth District Insured Banks

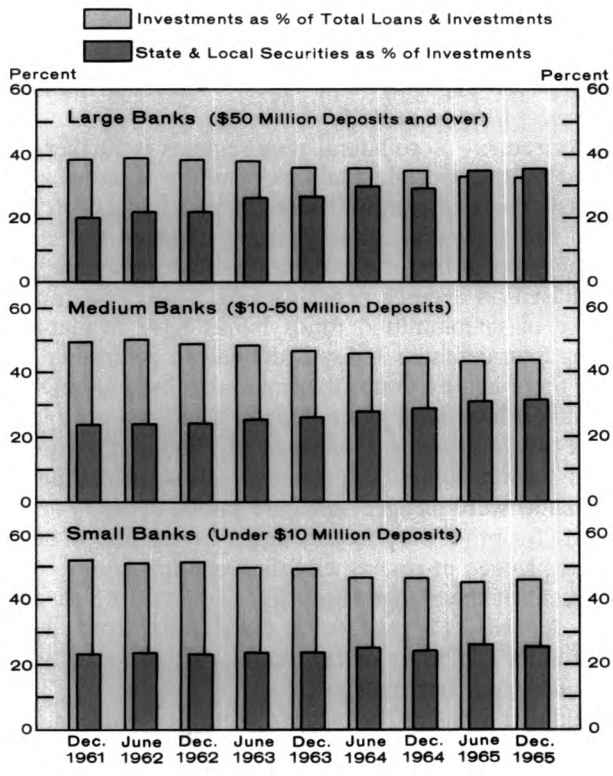
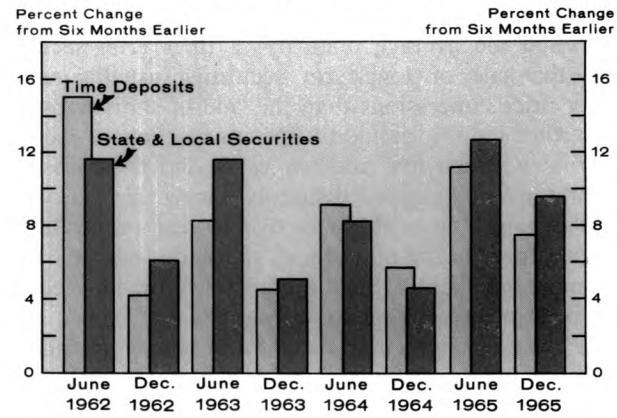


Chart IV: Growth of Time Deposits and State and Local Securities
Sixth District Insured Banks



invest more heavily in state and local government issues. Banks with the biggest time-deposit growth showed some of the largest gains in state and local government issues.

This was no accident. State and local securities were favored because of their tax-exempt status. Since 1956, the after-tax yield advantage of high quality long-term tax exempts relative to Treasury bonds has been one percent or better. For short-term issues, this rate advantage has not been quite as high, but still sizable relative to like-maturity Treasury issues. Over the last four years, the comparative after-tax yields in favor of tax-exempt maturities first narrowed and then widened after 1964. However, these fluctuations may have had less to do with banks' favoring these issues than the constant high level of after-tax yields.

Availability of state and local issues was another factor that encouraged bank buying. The expansion in state and local government debt offered more opportunity to acquire this type of government obligation—especially in comparison to the 1930's and World War II, when these were not too readily available, but U. S. Government securities were. Furthermore, these larger offerings of municipal securities in recent years helped keep yields high enough to attract bank interest.

If monetary policy had been less expansionary during most of this period, bank acquisition of tax-exempts would have been smaller. By providing the banking system with growing reserves, the basis for credit and deposit expansion, the Federal Reserve made it possible for banks to meet the bulk of credit demands from a continued growth of funds and to add to investments at the same time. In recent months, however, with monetary policy aimed at moderating bank credit growth while loan demand continued strong, many banks have felt compelled to supplement deposit growth by selling U. S. Government securities.

Liquidity Reduced

The appetite for tax-exempt securities over the last few years has been accompanied by some offsetting disadvantages. Generally speaking, these issues are not noted for price stability or for easy marketability relative to U. S. Treasury obligations. Although some widely known state and local issues can be sold readily, even a small block is difficult to liquidate without considerable price concessions in many instances. Therefore, it appears on first

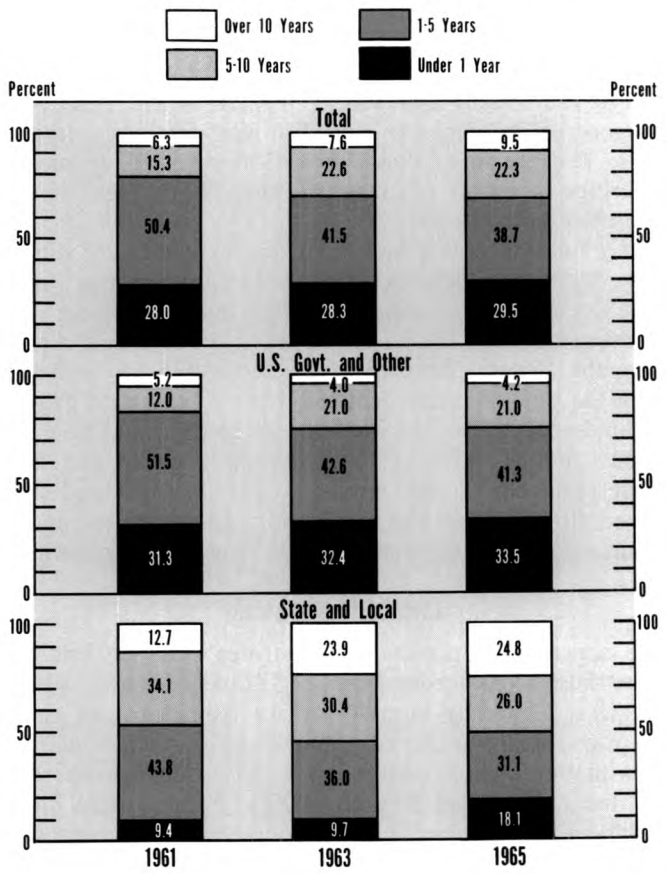
glance that, in stressing tax-exempt over U. S. Treasury issues, banks have sacrificed some liquidity to obtain higher yields.

Between 1961 and 1965, District member banks lengthened the average maturity of their total securities. Since the sale of long-term securities usually requires greater price concessions than the sale of short-term ones, this further reduced liquidity. The proportion of securities maturing between five and ten years and those maturing beyond ten years expanded sharply during this period, and issues coming due in the one- to five-year range declined considerably. On the other hand, the under one-year holdings increased slightly. Such maturity lengthening seems to have been most pronounced at reserve city banks.

The overall lengthening in maturity shows up most decisively in the degree to which District member banks acquired long-term state and local government and Federal agency issues. In 1965, for example, about one-fourth of total tax-exempt securities had a maturity of more than ten years, compared with only one-eighth in 1961.

In placing greater emphasis on long-term issues, banks reduced the proportion of one-to five-year maturity U. S. Government obligations, state and local securities, and "other" (mainly Federal agency) issues. Nevertheless, banks did not altogether neglect liquidity considerations. The very short U. S. and state and local maturities increased in importance between 1961 and 1965 (see Chart V). Still, the greater importance of longer securities has confronted banks with the reality of capital losses where securities were acquired before recent price declines.

Chart V: Maturity Distribution of Securities
Sixth District Member Banks



Acceptance of greater risk was partly intentional because bankers seemed to feel that less liquidity was necessary than in years past. Many believe time deposits are more stable than demand deposits so that, given the larger volume of time deposits, they can afford to be less liquid. Some feel that additional liquidity has been provided by a broadened market for overnight interbank (i.e., Federal funds) and other means available for tapping the money market for short-term cash needs.

Nevertheless, it is not clear how far banks can afford to reduce liquidity. Certain types of time deposits, for instance, are not nearly as stable as total time and savings deposits are often assumed to be. And while larger banks may have found some newly gained ability to offset deposit drains, many smaller banks do not possess this ability to the same degree.

Pledging of Bank Assets

Banks have had to accept still another reduction in liquidity because they have had to set aside growing amounts of assets as collateral against public deposits. With more securities tied up for collateral, the amount that banks could conceivably sell in response to demands for loans has diminished. Between 1961-65, deposits held at District insured banks by governmental units increased by $895 million. Most of this gain was in deposits of state governments and political subdivisions.

Data have not been previously available to permit computation of the amount of securities banks have set aside and the amounts that are still available to meet increased customer borrowings. Such measurements are complicated by the variety of collateral requirements imposed by different governmental units. Some require collateral of value equal to deposits; others demand more than 100 percent of value and others less.

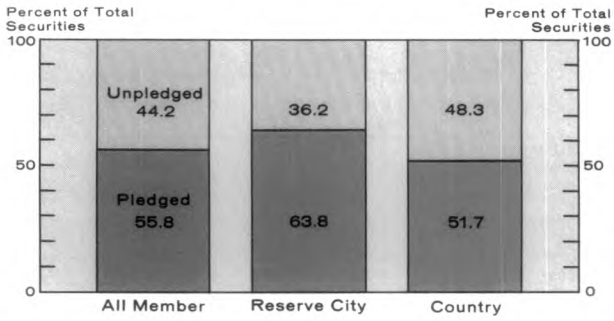
Moreover, public treasurers are selective in the securities they will accept as collateral. Some insist on Federal Government securities. Others accept bonds of their own city or state; still others take bank guarantees. And for certain public deposits, some types of customer paper are a legitimate form of security.

Measurement of collateral requirements is further complicated by the wide fluctuations common to many public deposits. These gyrations cause sharp changes in assets needed for pledging, although such changes are smaller than they appear because collateral requirements are sometimes based on average deposit levels. Thus, how much in the way of uncommitted funds banks have available for meeting loan demands today is difficult to determine.

Yet there is little doubt that many banks in this District at least still have sizable amounts of securities not pledged against public deposits. Our study of 1965 and early 1966 reports showed about 56 percent of all securities held by these banks were pledged to secure public deposits or were set aside for other purposes. A larger proportion of securities was pledged at reserve city than country banks. About 85 percent of the pledged securities were tied up to secure public deposits; 11 percent, to collateralize trust department funds; and most of the remainder, to serve as collateral for bank borrowings.

The dollar value of the pledged securities was considerably in excess of the dollar amount of the deposits and

Chart VI: Pledged and Unpledged Securities as of 1965 and Early 1966
Sixth District Member Banks



other liabilities that they secured. This was true for both reserve city and country banks, with the excess value amounting to 40 and 49 percent, respectively.

Quality Reduced?

Have bankers reduced the quality of their investments? Because nothing is deemed safer than a U. S. Government security, its shrinking importance and the rising importance of state and local securities are indirect evidence that bank investments are of lower quality than some years ago. However, the quality of tax-exempt issues—customarily measured by investment ratings—also needs consideration. Since no current information of this kind was available (except for some very large banks in the Cleveland Federal Reserve District) a group of banks holding over one-half of the Sixth District member banks' total state and local securities was asked to classify these. At the end of 1965, three-tenths of these banks' state and local holdings consisted of state and state agency issues; seven-tenths, issues of lower political units, such as counties, cities, and school districts.

Over 13 percent of the bank-held state and local issues lacked investment ratings. Although many unrated issues have excellent investment characteristics, they are usually more difficult to sell. Of the rated ones, about one-twelfth had the highest (Aaa) rating and two-thirds belonged in the three top grades (Aaa, Aa, and A).

Because the proportion of issues in these top grades shrank from four years earlier (and the lower grade issues increased), it is tempting to conclude that credit quality declined. This conclusion is further reinforced by evidence that not only reporting banks with deposits in excess of $100 million but those below shared the same experience. However, not too much significance should be attached to these changes in investment ratings because they were remarkably small. Rather, it would appear that investment quality of state and local issues was maintained quite well.

Table I: Investment Risk of State and Local Government Securities Portfolio at Selected Sixth District Banks
(Percentage Distribution)

Moody's Rating	*1961*	*1964*	*1965*
Aaa	7.5	7.4	8.3
Aa	26.0	21.7	21.3
A	36.6	38.3	36.7
Baa	15.6	17.8	19.7
Below Baa	0.5	0.6	0.6
Unrated	13.8	14.2	13.4
TOTAL	100.0	100.0	100.0

Geographic Diversification

Geographic diversification is one way in which banks can reduce risk, although some authorities have questioned the need for extensive diversification as long as securities include a few selected issues. On the other hand, the advantage of a bank's buying obligations of political units located in its own area is obvious. Banks are apt to be particularly well informed of fiscal policies and conditions of their own or nearby political units. Some persons, therefore, believe that banks should be heavy buyers of securities issued by their own cities, counties, and states.

Do banks really favor their "own"? The answer—obtained from the same group of District member banks providing data on investment ratings—is a hesitant Yes. For these banks, as a group, the state and local government securities held in late 1965 tended to be weighted in favor of securities issued where the banks were located. A slender majority of their total holdings was of this type.

This should not be interpreted to mean that all reporting banks, or even banks in any one of the six states, followed the same practice. At one extreme, 85 percent of the total state securities owned by the reporting Mississippi banks were Mississippi issues. In contrast, Tennessee banks reported that state of Tennessee obligations accounted for only one-fourth of their total state issues. Tennessee and Florida banks reported that roughly one-half of their total state securities were issued by states outside the District. However, for banks in other District states, the bulk of the issues were either obligations of their own states or other District states.

At banks participating in our survey, securities issued by political subdivisions below the state level were similarly weighted in favor of their own localities. About one-fifth of the municipals held were issued by the same city, county, or district in which the bank was located, and over two-fifths were issued by other governmental units in the same state. Only about one-tenth were issued by political units of District states other than the one in which the reporting banks were located, and one-fourth consisted of out-of-District obligations.

Many of these preferences seem to reflect differences in yield, availability, and investment ratings. However, why bank preferences in the various states should be so widely different from each other is not entirely clear.

Table II: Geographic Characteristics of State and Local Government Securities at Selected Sixth District Banks
(Percentage Distribution)

Securities Issued By	*Mid-1966*
State Governments, Agencies, or Authorities of:	100.0
Same State as Bank	52.5
Other Sixth District States	14.4
All Other States	33.1
Local Governments, Agencies, or Authorities Below State Levels of:	100.0
Cities, Counties, etc., in Bank's Metropolitan Area	20.9
Other Cities, Counties, etc., in Same State	43.3
Other Cities, Counties, etc., in Sixth District States	11.5
All Other States	24.3

In Conclusion

Bank investment practices in the Southeast have undergone considerable change in the last four years. Clearly, District bankers have reduced their investment portfolios relative to loans—the result of a change in attitude, as well as a response to environment. Many banks have deliberately chosen to compete aggressively for time deposits and have accepted greater risks by increasing loans relative to deposits, lengthening the maturity of their investments, and taking on less easily marketable securities. These banks were apparently influenced to some degree by a belief that an expanded variety of time and savings deposit instruments, other newly developed sources of funds, and more stable deposits diminished their liquidity requirements. Their eagerness for state and local securities likewise must have been deliberate in part, as these issues seemed to offer special advantages. However, many of the changes in investment policy can be looked upon as being part of longer trends and as responses to monetary policy, loan demands, the availability of different types of securities, and other factors.

To the extent that the District banks' investment policies are typical, what do these conditions imply for future lending and investment policies? Because investment holdings have shrunk relative to deposits and now consist of more longer-term and riskier assets, banks may examine the risk and liquidity position of their portfolios and their lending policies more carefully. Such a development, which may have already occurred, would fit hand in glove with monetary policy actions aimed at curbing bank credit growth. Nevertheless, although the pledging of assets to secure public deposits has reduced the use of securities as a liquidity source, the remaining securities appear to be ample to meet lending needs (assuming District banks are typical) so long as banks are willing to make further reductions in the importance of investments. Meanwhile, greater assumption of risk in investment portfolios has not been accompanied by a significant shift toward lower-rated state and local issues at District banks. Thus, if these findings have wide applications, both adequacy and quality of bank investments may have held up much better in recent years than is sometimes believed.

HARRY BRANDT AND ROBERT R. WYAND II

Bank Announcements

Two nonmember banks agreed to remit at par on July 1 for checks drawn on them when received from the Federal Reserve Bank. They are THE BANK OF TIFTON, *Tifton, Georgia, and the* BANK OF HAZLEHURST, *Hazlehurst, Mississippi.*

Debits to Demand Deposit Accounts

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

	June 1966	May 1966	June 1965	Percent Change: June 1966 from May 1966	Year-to-Date 6 months June 1966 from June 1965	Year-to-Date 6 months 1966 from 1965
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham	1,435,067	1,368,875	1,276,430	+5	+12	+14
Gadsden	61,301	64,165	56,013	−5	+9	+9
Huntsville	175,752	171,146	162,717	+3	+8	+3
Mobile	444,004	449,424	421,586	−1	+5	+10
Montgomery	297,990	295,748	272,265	+1	+9	+11
Tuscaloosa	89,222	86,691	76,745	+3	+16	+15
Ft. Lauderdale–Hollywood	532,881	574,574	496,193	−7	+7	+15
Jacksonville	1,382,702	1,414,016	1,240,179r	−2	+11	+19
Miami	2,003,900	1,998,891r	1,815,956	+0	+10	+13
Orlando	444,152	496,802	412,419	−11	+8	+9
Pensacola	205,537	205,150	192,522	+0	+7	+5
Tampa–St. Petersburg	1,121,055	1,151,051	1,050,594	−3	+7	+10
W. Palm Beach	416,123	445,445	352,647	−7	+18	+22
Albany	89,797	87,327	81,971	+3	+10	+7
Atlanta	4,163,351	4,085,447	3,765,775	+2	+11	+13
Augusta	255,944	249,172	209,293r	+3	+22	+23
Columbus	195,166	206,422	188,170	−6	+4	+6
Macon	214,587	211,861	189,916	+1	+13	+8
Savannah	252,063	245,346	235,171	+3	+7	+11
Baton Rouge	539,327	473,260	416,086	+14	+30	+19
Lafayette	116,088	116,723	108,337	−1	+7	+15
Lake Charles	129,320	130,571	112,749	−1	+15	+15
New Orleans	2,380,877	2,484,408	2,168,357	−4	+10	+16
Jackson	541,135	582,084	486,540	−7	+11	+16
Chattanooga	555,093	545,720	483,467	+2	+15	+14
Knoxville	436,180	429,332	365,576	+2	+19	+10
Nashville	1,247,776	1,329,558	1,168,755	−6	+7	+12
OTHER CENTERS						
Anniston	65,743	65,276	55,057	+1	+19	+17
Dothan	54,024	55,801	50,801	−3	+6	+11
Selma	38,759	38,869	35,334	−0	+10	+16
Bartow	39,090	43,300	32,064	−10	+22	+17
Bradenton	64,593	48,784	54,975	+32	+17	+12
Brevard County	212,616	210,534	204,184	+1	+4	+11
Daytona Beach	83,825	80,141	78,729	+5	+6	+9
Ft. Myers–N. Ft. Myers	67,830	71,719	65,912	−5	+3	+12
Gainesville	75,381	76,532	70,128	−2	+7	+10
Monroe County	32,352	34,831	29,634	−7	+9	+17
Lakeland	116,097	119,818	104,256	−3	+11	+12
Ocala	52,208	53,235	50,821	−2	+3	+10
St. Augustine	18,539	18,481	19,486	+0	−5	+13
St. Petersburg	265,617	276,684	253,936	−4	+5	+13
Sarasota	92,922	102,639	87,956	−9	+6	+12
Tallahassee	106,034	119,461	100,138	−11	+6	+13
Tampa	643,259	651,373	593,841	−1	+8	+8
Winter Haven	57,991	64,962	55,268	−11	+5	+8
Athens	68,951	68,985	65,159	−0	+6	+13
Brunswick	40,451	38,387	38,078	+5	+6	−0
Dalton	82,964	85,708	78,465	−3	+6	−1
Elberton	15,606	12,720	11,373	+23	+37	+12
Gainesville	71,592	70,969	64,803	+1	+10	+8
Griffin	30,644	32,712	28,485	−6	+8	+14
LaGrange	24,743	25,603	20,430	−3	+21	+20
Newnan	24,127	27,012	22,378	−11	+8	+9
Rome	70,962	71,691	62,947	−1	+13	+12
Valdosta	46,207	47,233	47,065	−2	−2	+7
Abbeville	12,998	10,604	10,034	+23	+30	+15
Alexandria	138,938	114,075	110,335	+22	+26	+12
Bunkie	5,855	5,609	5,595	+4	+5	+4
Hammond	31,616	39,368	29,498	−20	+7	+9
New Iberia	32,414	34,811	30,341	−7	+7	+8
Plaquemine	10,157	9,827	8,369	+3	+21	+16
Thibodaux	21,642	20,987	24,417	+3	−11	+10
Biloxi-Gulfport	95,697	92,555	80,827	+3	+18	+19
Hattiesburg	51,722	49,060	44,867	+5	+15	+14
Laurel	33,980	32,169	34,054	+6	−0	+4
Meridian	61,564	61,365	56,645	+0	+9	+8
Natchez	34,146	33,846	29,290	+1	+17	+11
Pascagoula–Moss Point	49,655	48,866	41,331	+2	+20	+16
Vicksburg	37,516	37,876	33,665	−1	+11	+15
Yazoo City	34,190	34,175	27,495	+0	+24	+20
Bristol	73,155	66,590	64,441	+10	+14	+12
Johnson City	69,456	70,231	64,450	−1	+8	+12
Kingsport	149,750	147,171	123,422	+2	+21	+15
SIXTH DISTRICT, Total	27,344,637	27,418,327	24,818,800	−0	+10	+12
Alabama‡	3,634,030	3,485,365	3,266,802	+4	+11	+11
Florida‡	8,213,536	8,415,517r	7,619,946	−2	+8	+12
Georgia‡	6,760,627	6,704,718	6,172,981	+1	+10	+11
Louisiana*†	3,949,945	3,968,066	3,512,161	−0	+12	+16
Mississippi*†	1,235,998	1,246,041	1,089,733	−1	+13	+15
Tennessee*†	3,550,501	3,598,620	3,157,177	−1	+12	+12

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

Sixth District Statistics

Seasonally Adjusted

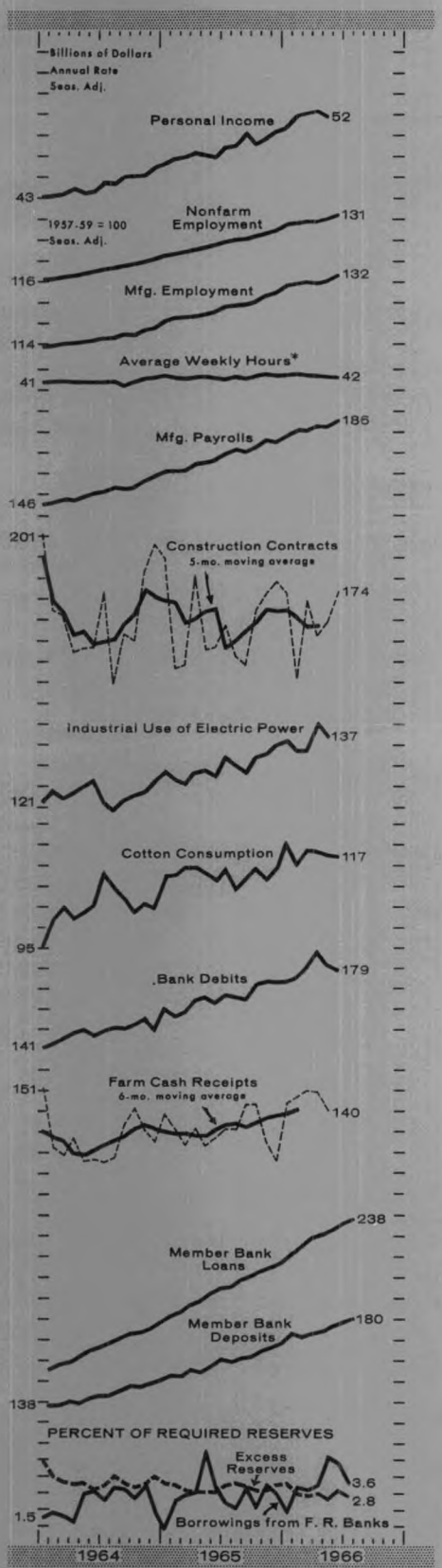
(All data are indexes, 1957-59 = 100, unless indicated otherwise.)

		Latest Month (1966)	One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	May	52,230	52,976r	52,845r	47,568
Manufacturing Payrolls	June	186	183r	183	166
Farm Cash Receipts	May	140	149	150	124
Crops	May	141	146	158	144
Livestock	May	144	153	152	116
Instalment Credit at Banks, *(Mil. $)					
New Loans	June	254	284r	287	249
Repayments	June	247	259	249	217
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	June	131	130	130	124
Manufacturing	June	132	130	130	123
Apparel	June	162	160	160	152
Chemicals	June	126	124	123	118
Fabricated Metals	June	146	142r	143	132
Food	June	111	111	111	107
Lbr., Wood Prod., Furn. & Fix.	June	104	103	104	95
Paper	June	115	113r	113	109
Primary Metals	June	115	114	114	110
Textiles	June	104	104	103	100
Transportation Equipment	June	169	168	168	148
Nonmanufacturing	June	131	130	130	124
Construction	June	128	127	128	121
Farm Employment	June	69	69	67	80
Insured Unemployment, (Percent of Cov. Emp.)	June	1.6	1.6	1.6	2.3
Avg. Weekly Hrs. in Mfg., (Hrs.)	June	41.5	41.6	41.8	41.5
Construction Contracts*	June	174	159	152	147
Residential	June	161	163	164	162
All Other	June	185	156	143	134
Electric Power Production**	May	137	140	134	129
Cotton Consumption**	June	117	118	118	111
Petrol. Prod. in Coastal La. and Miss.**	June	203	201	198r	183
FINANCE AND BANKING					
Member Bank Loans*					
All Banks	July	238	232	230	206
Leading Cities***	July	240	216	210	189
Member Bank Deposits*					
All Banks	July	180	177	174	170
Leading Cities***	July	181	161	159	148
Bank Debits*/**	June	179	182	188	163
ALABAMA					
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	May	7,056	7,144r	7,148r	6,476
Manufacturing Payrolls	June	171	169r	168	158
Farm Cash Receipts	May	142	150	153	127
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	June	121	121	120	118
Manufacturing	June	120	120	119	116
Nonmanufacturing	June	122	121r	121	119
Construction	June	128	130	128	122
Farm Employment	June	73	67	69	82
Insured Unemployment, (Percent of Cov. Emp.)	June	2.0	1.9	2.0	2.5
Avg. Weekly Hrs. in Mfg., (Hrs.)	June	41.8	41.6r	42.0	41.4
FINANCE AND BANKING					
Member Bank Loans	June	218	216	213	200
Member Bank Deposits	June	177	174	173	160
Bank Debits**	June	171	164	184	154
FLORIDA					
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	May	15,011	15,079r	15,175r	13,703
Manufacturing Payrolls	June	214	209	206	193
Farm Cash Receipts	May	152	160	161	142
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	June	142	141	140	134
Manufacturing	June	143	141	140	134
Nonmanufacturing	June	142	141	140	135
Construction	June	112	108r	109	109
Farm Employment	June	65	96	90	87
Insured Unemployment, (Percent of Cov. Emp.)	June	1.5	1.4	1.3	2.2
Avg. Weekly Hrs. in Mfg., (Hrs.)	June	42.1	42.3r	42.1	42.4
FINANCE AND BANKING					
Member Bank Loans	June	239	234	232	211
Member Bank Deposits	June	180	176	174	162
Bank Debits**	June	173	181r	184	160
GEORGIA					
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	May	9,847	10,096r	10,049r	8,928
Manufacturing Payrolls	June	187	182r	186	167
Farm Cash Receipts	May	136	150	150	122
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	June	131	130	130	124
Manufacturing	June	129	128	128	120
Nonmanufacturing	June	132	132r	132	125
Construction	June	141	141	142	136
Farm Employment	June	59	54	58	67
Insured Unemployment, (Percent of Cov. Emp.)	June	1.2	1.1	1.1	1.7
Avg. Weekly Hrs. in Mfg., (Hrs.)	June	40.9	41.1r	41.8	40.9
FINANCE AND BANKING					
Member Bank Loans	June	255	247	247	213
Member Bank Deposits	June	193	197	191	174
Bank Debits**	June	195	194	200	178
LOUISIANA					
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	May	7,911	8,067r	8,025r	7,202
Manufacturing Payrolls	June	165	163r	165	153
Farm Cash Receipts	May	129	151	137	115
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	June	120	120	119	114
Manufacturing	June	112	111	111	108
Nonmanufacturing	June	122	122	121	115
Construction	June	136	137	140	120
Farm Employment	June	74	80	69	82
Insured Unemployment, (Percent of Cov. Emp.)	June	2.0	2.2	2.4	3.0
Avg. Weekly Hrs. in Mfg., (Hrs.)	June	42.6	42.8r	42.4	42.8
FINANCE AND BANKING					
Member Bank Loans*	June	212	214	209	190
Member Bank Deposits*	June	154	154	151	139
Bank Debits*/**	June	168	168	168	150
MISSISSIPPI					
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	May	4,082	4,117r	4,035r	3,747
Manufacturing Payrolls	June	202	203	202	175
Farm Cash Receipts	May	144	150	155	118
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	June	131	131	131	126
Manufacturing	June	142	143	142	134
Nonmanufacturing	June	127	126	126	122
Construction	June	133	132	140	128
Farm Employment	June	62	59	59	83
Insured Unemployment, (Percent of Cov. Emp.)	June	1.6	1.7	1.7	2.4
Avg. Weekly Hrs. in Mfg., (Hrs.)	June	41.4	41.5r	41.7	40.4
FINANCE AND BANKING					
Member Bank Loans*	June	275	272	277	217
Member Bank Deposits*	June	210	210	209	168
Bank Debits*/**	June	183	186	198	161
TENNESSEE					
INCOME AND SPENDING					
Personal Income, (Mil. $, Annual Rate)	May	8,323	8,473r	8,413r	7,512
Manufacturing Payrolls	June	186	182	181	161
Farm Cash Receipts	May	130	127	136	107
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	June	133	132	131	123
Manufacturing	June	141	139	138	128
Nonmanufacturing	June	129	128	128	121
Construction	June	153	153	154	140
Farm Employment	June	80	74	70	79
Insured Unemployment, (Percent of Cov. Emp.)	June	1.6	1.7	1.9	2.5
Avg. Weekly Hrs. in Mfg., (Hrs.)	June	41.2	41.2r	41.3	41.4
FINANCE AND BANKING					
Member Bank Loans*	June	235	231	228	203
Member Bank Deposits*	June	177	172	171	164
Bank Debits*/**	June	188	197	201	168

*For Sixth District area only. Other totals for entire six states. **Daily average basis. ***Because of a change in the composition of the series and the addition of several new banks, the latest figures are significantly higher. r-Revised.

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 has continued to exhibit a mixed growth pattern: Loan expansion at large District banks slowed in July, following large gains in June. The volume of farm loans remains high, even though interest rates paid by farmers have advanced. Sponsors of a growing volume of new construction projects continue to find financing, even at higher rates. Nonfarm jobs increased sharply in June after a two-month lull, and automobile sales improved.

A considerable expansion of time deposits in July enabled many large District banks to channel funds into state and municipal bonds. However, loan activity proceeded at a slower pace after unusually large increases in June. Time deposits gained substantially in the same month at District member banks, primarily a result of inflows at banks outside leading cities.

Most institutions lending to farmers report somewhat higher interest rates and more selective allocation of their funds. Yet the dollar volume of farm loans for agricultural production and real estate still exceeds last year's levels. Land values are still advancing, with some of the nation's sharpest gains coming in the District. Scattered showers and warmer weather have generally improved crop conditions, but some regions still suffer from drought.

The strength of nonresidential construction at midyear continued to mask weakness in the residential sector, so that construction gains as a whole remain robust. Even residential construction continues upward in total dollar terms, although some decline in number of dwelling units under contract has occurred. Construction employment in June also reflected an extended high level of construction outlays. In many areas specialized mortgage lenders experienced some further slowing in rate of savings gains in late June-early July, but increased rates posted by many institutions appear to have blunted the expected heavy outflow of savings.

A steep climb for June in the number of nonfarm workers contrasted sharply with minute changes which occurred in April and May. Since a scarcity of experienced workers persists, the gain was apparently sparked by the greater-than-usual number of jobs going to people recently out of school. Insured unemployment held at a low 1.6 percent for the third consecutive month. Manufacturing jobs jumped in several major industries, scoring job gains of over one percent from the previous month. The airline strike has hurt the Florida tourist industry, particularly in the Southern part of the state.

After declining for two straight months, automobile sales advanced moderately in June. In this respect, the District has outperformed other regions thus far in 1966, as new car sales in the nation have remained below the year-earlier rate. Reflecting the growth in auto sales has been a steady increase in the level of outstanding automobile instalment credit at District banks.

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