MONTHLY REVIEW

IN THIS ISSUE:

SIXTH FEDERAL RESERVE DISTRICT

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FEDERAL RESERVE BANK OF ATLANTA

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Southern Mortgage Bankers Eye Housing Prospects

Developments in the mortgage markets since mid-May have raised the question of how much additional thrust residential building will provide to the economy in the balance of the year. Lagged but substantial recovery in this large sector of domestic investment had been an important part of the substantial pickup projected for the economy in the second half of 1967.

Since residential building in the past two decades has tended to counteract main economic swings, a recovery was expected following the economic slowdown in late 1966 and a changed monetary policy facilitating the necessary financial flows to support adjustments. The rapidity with which capital market yields responded to the initial stages of easing monetary conditions led many observers to expect a shorter lag in housing recovery than in some past periods.

This general view seemed even more defensible for a number of reasons when applied to the South. Since the beginning of the housing recovery in late 1960, the South had enjoyed a substantial three-year expansion, followed by a virtually level plateau of two years of home building at rates almost as high as in 1963. This consolidation period had allowed intraregional shifts in the pace of new production and in some markets had brought a slowing of output so that growing demand reduced excess housing stocks. Meanwhile, the South had accounted for a continuously rising proportion of total housing starts since 1959, when it recorded 33.7 percent. The proportion had risen to 40.5 percent in 1966, and for the eight-year period the region accounted for 36.7 percent of total starts.

Population growth higher than the national rate in the 1960's, together with further industrialization and rising incomes, had also laid the foundation for resiliency, as well as continued long-term growth, in the South's effective housing demand. Moreover, the quality of housing demanded had also been affected by higher incomes and the emergence of more attainable housing goals among a growing segment of the population.

Since large amounts of mortgage funds are imported into the region by mortgage bankers and other financial institutions, it seemed likely that the early and pronounced downswing in yields in the capital markets and the rapid rise in mortgage prices in the secondary market would produce an early housing recovery. This view was further supported by a decline which was relatively less severe in the South than in the three

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other major regions, although housing starts began to fall sharply in all areas early in 1966.

Southern housing did indeed follow this general pattern, after reaching a low of 372,000 starts, at a seasonally adjusted annual rate, in October 1966. Thereafter, through April 1967 and with the exception of February, each month's rate of starts was higher than the previous one. However, a new upturn in capital market rates, particularly in longer maturities that are closely competitive with mortgage yields, had gotten underway in February. Led by long-maturity Treasury securities, the rise was soon joined by corporates and municipals, in spite of continued moves toward monetary ease. By the middle of May heavy supplies of new debt offerings and the prospects for a sharp increase in Treasury borrowings in the second half had pushed most long-term rates sharply higher. As in the downswing in yields in late 1966, these changing yield pressures were quickly transmitted to the mortgage market. Contract rates on conventional mortgages either firmed at previous levels or rose somewhat, while yields on FHA and VA mortgages increased sharply.

Because of the importance of adequate supplies of imported mortgage funds in this District and because mortgage bankers are the principal intermediaries in this flow, this Bank surveyed the changing outlook for housing in late May.* The group of 80 mortgage bankers who responded service almost $6 billion in outstanding mortgages on properties located in Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

Housing Demand Strengthens

Over one-fourth of the 80 respondents, representing the majority response in 7 of 27 market areas, stated that housing demand was very strong. Another 55 percent, representing 16 of 27 market areas, reported an improvement. Only 17.5 percent of respondents in four market areas characterized housing demand as "about the same as in late 1966" or as "weak," giving these reasons:

	Number of Responses
Financial factors	
1. High interest rates and/or discounts	21
2. Statements by public officials suggesting that FHA interest rates may be lowered soon	2
3. Unrealistic usury laws	3
4. Waiting for lower interest rates	1
5. Sale of existing homes difficult because of high discounts on mortgages	1
Uncertainty due to military factors	5
1. Vietnam and impact of military service on young buyers	(3)
2. Uncertainty of wartime conditions	(2)
Population factors	
1. Lower rate of in-migration	1
2. Slower population growth in 1960's than in 1950's	1
Other factors	
1. High and rising taxes on homes	1
2. Changes in local property tax impact	1
3. Poor political leadership	1
4. Poor public education system	1
5. Bad newspaper reporting—doubt in purchasers' minds	1
6. Low demand or lack of demand for housing, cause unspecified	2

Most of the responses dealing with housing demand were based on developments through mid-May, at which time appreciation of the most recent pressures on mortgage rates had not become widespread. However, in follow-up conversations between June 1 and June 16, few wished to lower their original evaluations of the strength of demand. In two cases, respondents covering entire states indicated that immediate demand for housing purchases may have strengthened somewhat, as those waiting for lower rates decided to go ahead with planned purchases. One prominent mortgage banker stated that many potential home buyers have concluded that higher

*The Bank's study was part of a larger survey to evaluate changes in the regional network of mortgage banking in the Sixth District. A second article will present the results of this analysis in a forthcoming issue.

Table I: Strength of Housing Demand in Sixth District States

Strength of Housing Demand	Market Areas* Number	Market Areas* Percent of Total	Respondents Number	Respondents Percent of Total
Very Strong	7	25.9	22	27.5
Improving	16	59.2	44	55.0
About the same as in late 1966	3	11.1	10	12.5
Weak	1	3.7	4	5.0
Very weak	0	0	0	0
Total Reporting	27	100.0	80	100.0

*In nine instances there were split responses for the same market area. In these cases market areas are classified on the basis of plurality of responses. In cases of equal number of responses among the five choices, classification was made on the basis of size of servicing account and areas of coverage of the respondents.

mortgage rates than those of the early 1960's are going to persist. He went on to say that, "In one way or another the Federal government will make effective its demand for money to fulfill its programs. Corporate business and municipalities, for a variety of reasons, are in a superior position to absorb a major share of available savings flows. The would-be home buyer who waits for this to change enough to bring mortgage interest rates down may find that housing production costs have risen much more than his potential savings on interests costs."

Improvement in housing demand appears most pronounced in Georgia and Tennessee, where the largest number of "strong demand" market areas was reported. Florida and Louisiana had a smaller number but a majority of market areas enjoying improving demand. Although most of the respondents in Alabama and Mississippi did not say that demand was strong, three individual respondents indicated otherwise.

Housing Production Revives

Ten respondents, representing 13 percent of the total and a majority opinion in 11 percent of market areas, reported housing starts through April as "far above the first four months of 1966." Twenty-one respondents in ten or more market areas saw starts as "somewhat above the first four months of 1966," while 21 reporters in nine market areas indicated housing starts at "about the same level as in the first four months of 1966." Another group of 21 in five or more markets reported starts as "below the first four months of 1966," and only two reporters saw starts as "far below the first four months of 1966." Although most of the replies incorporated in Tables I and II were based on activity prior to the sharp rise in FHA-VA yields in mid-May, it appears that a solid groundwork for housing recovery in the District has been laid.

Table II: Volume of Housing Production in Sixth District States

Volume of Housing Production	Market Areas*		Respondents	
	Number	Percent of Total	Number	Percent of Total
Far above first four months of 1966	3	11.1	10	13.3
Somewhat above first four months of 1966	10	37.0	21	28.0
About the same as 1966	9	33.3	21	28.0
Below the first four months of 1966	5	18.5	21	28.0
Far below the first four months of 1966	0	0	2	2.7
Total Reporting	27	100.0	75	100.0

*See footnote, Table I, for classification method for market areas with more than one respondent when responses were different.

The causes of retarded production were given as:

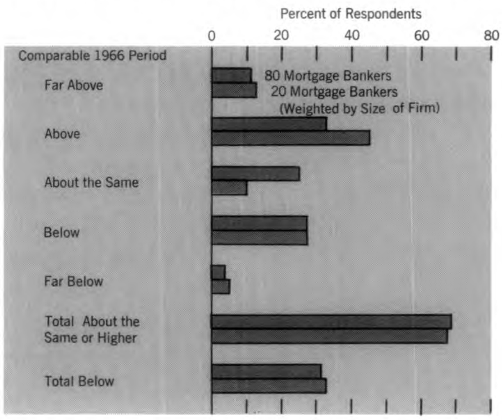
Financial factors	Number of Responses
1. High interest rates and/or discounts or shortage of money	16
2. Uncertainty in present money market	7
3. Cost and availability of construction money	4
4. Basic deficiencies in the mortgage market	2
5. Money is now retightening	2
6. Competition of commercial loans, taking money from singles	1
7. Lack of flexible interest rate on FHA-VA's	1
8. Too many Federal controls in the money market	1
9. Competition of bond yields	1
Cost factors, other than costs related to finance	
1. Rising land, labor, and/or other construction costs	7
2. Changes in local property taxes	2
3. Builders' skeptical of profits now	2
4. Builders' profits disappeared in 1966	1
Other factors	
1. Lag in development of new subdivisions and building sites and time needed to gear up	7
2. Loss of builders who went broke last year	3
3. Oversupply of housing, overbuilding in past	2
4. Loss of skilled workers during housing slump	2
5. Smaller builders waiting for further strengthening in the market	1

Outlook Good, But Not Boomy

Mortgage bankers were asked to comment on their volume of mortgage origination activity through mid-May in contrast to that of the same period last year. In interpreting their replies, it should be borne in mind that housing starts and mortgage origination activities were still at high levels during the 1966 period.

Over two-thirds of the mortgage bankers indicated that their origination activities, which in-

Chart I: Volume of Origination Activity in 1967



Through mid-May the origination activities of about two-thirds of mortgage bankers were running at levels about the same or higher than those of early 1966. Activities above the comparable 1966 period were more prevalent among the largest firms operating in extensive market areas.

clude inquiries, mortgage applications, forward commitments, construction loans in some cases, and closing of mortgage loans, were near the same or at higher levels than during the same period in 1966. More than 43 percent of the respondents reported such activities above and 11.2 percent far above the same period in 1966. Less than one-third reported lower origination activity.

Approximately the same results were secured when replies from the 20 largest mortgage firms were tabulated separately and weighted by size. The average portfolio of mortgages serviced by this group at the end of 1966 was slightly in excess of $200 million and each serviced over $100 million. Moreover, 18 of the 20 were multiple branch operators primarily in entire states or throughout the Southeast. Together they accounted for over two-thirds of total servicing reported by the 80 mortgage bankers and for over three-fourths of FHA and VA mortgages. Virtually all of them originate mortgages without prior commitments, and the same high proportion make construction loans. One or more of these firms are located in each of the six states served by this Bank.

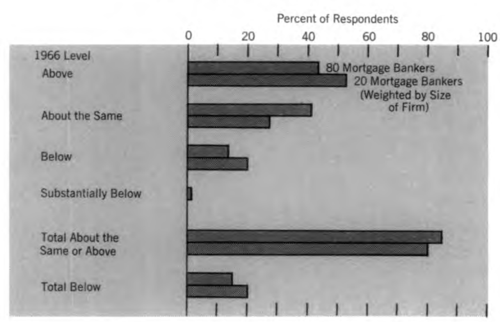
Mortgage origination activities of this group of 20 reinforce the expectation of continuing housing recovery when the replies are weighted by size of firm. Allowing one point for each $100 million of servicing account, those whose activities through mid-May were above those of 1966 amounted to 57.5 percent, while those "about the same as 1966" accounted for only 10 percent. Origination activities at levels lower than early 1966 were reported by only 32.5 percent. Firms headquartered in Alabama, Florida, and Georgia were generally enjoying relatively higher levels of origination activity than those in the other District states.

Mortgage bankers were asked to project the level of housing production for the balance of the year in their market areas, taking into account the present and expected availability of funds from their investors and the rate of re-entry into production by builders. Of all respondents, 43.7 percent expect the level to be above that of 1966; 41.2 percent, about the same as 1966. Only 15 percent look for the production level to be below that of 1966.

As in the case of origination activities, weighting the responses of the 20 largest mortgage bankers by size of firms produced a somewhat higher percentage expecting continued improvement. Almost 53 percent anticipate the level of housing production to be above that of 1966; 27.5 percent, about the same as in 1966; but 20 percent, at a lower level. Also consistent with the pattern of origination activities through mid-May, expectations of higher levels in the last half of 1967 were concentrated in Alabama, Florida, and Georgia.

Comments of mortgage bankers responding to this survey reflected rising concern over the recent uptrend in long-term interest rates. Yields on high-grade corporate bonds have already crossed the range in which they become directly competitive with yields on FHA-VA mortgages. Although recent firming of mortgage rates appears to have stimulated some potential home

Chart II: Level of Housing Expected By the End of 1967



Four-fifths or more of all respondents expect the level of housing production by the end of 1967 to be running about the same or above the output of 1966. Very few firms are extremely pessimistic, but a number think this year's production will be below the 1966 level.

buyers to go ahead with purchases, it has considerably dampened the outlook for rising output of new housing. In some markets the improving flows of funds to conventional lenders has enabled builders to shift from FHA-VA financing to conventional. On balance, however, the Southeast has long been unable to finance its housing needs from intraregional savings flows.

Further recovery of home building will depend greatly on whether builders can find ways to absorb cost rises involved in higher discounts on marketable mortgages in the present yield structure. It will also depend on the number of builders who are willing to take the risks of further discount changes between starts and sales. In view of the present uncertainties in the capital markets, few mortgage bankers are in a position to commit themselves for future closings at firm prices.

HIRAM J. HONEA

Bank Announcements

The **Citizens State Bank,** Marianna, Florida, a nonmember bank, began to remit at par on June 8 for checks drawn on it when received from the Federal Reserve Bank.

On June 10, a newly organized nonmember bank, **Citizens and Southern Bank of North Fulton,** Roswell, Georgia, opened for business as a par-remitting bank. Officers are Hugh F. Lane, president; Harold A. Benson, vice president; and Ted A. Murphy, cashier. Capital is $200,000; surplus and other capital funds, $200,000.

The **First Bank of Marianna,** Marianna, Florida, a nonmember bank, began to remit at par on June 12.

The **Bank of Cave Spring,** Cave Spring, Georgia, a newly organized nonmember bank, opened on June 15 and began to remit at par. Officers include H. E. Mize, president; H. J. Hedgepeth, executive vice president and cashier; and J. D. Lindsey, vice president. Capital is $50,000; surplus and other capital funds, $50,000.

A Little Known Side of Banking

Most persons look on commercial banks as places to keep their checking or savings accounts and as sources of funds for purchasing an automobile or for meeting other major expenditures. The average person probably knows little about the activities that go on in another service area of his bank—the trust department. Yet, in some cases, the assets administered by trust departments of large commercial banks rival the assets of the banks themselves.

As of the end of 1966, trust assets of the 16 large commercial banks for which these data are available totaled almost $4.5 billion. Of this amount, $3.2 billion was held in over 18,000 personal accounts and the remainder, $1.3 billion, in 848 corporate trusts. In 1956 total trust assets administered by the same banks totaled $1.6 billion.

Not only are trust departments important administrators of assets, they also contribute significantly to bank earnings. In 1966, 188 out of the 524 member banks in the District reported income from trust operations. Although some banks had only nominal incomes from this source, trust income contributed significantly to total bank income in other cases. Of the 188 banks, 28 reported income from trust operations of over 5 percent of total income.

The 30 large commercial bank trust departments included in this Bank's annual survey of earnings and expenses derive the largest portion of their income from fees on trust accounts. They took in 43 percent of total commissions and fees from that source. Management of estates contributed 34 percent of their income. Agency accounts provided 17 percent of trust income in 1966. Pension and profit sharing trusts, important trust activities in other parts of the country, contributed only 6 percent.

Expenses absorbed 89.8 percent of income during 1966. On average, the 30 trust departments reported net earnings before income taxes of 10.2 percent. Net earnings after taxes amounted to 5.4 percent of total commissions and fees, a slightly higher profit rate than the average for all member banks on income from all sources.

W. M. Davis

Trust Departments of Sixth District Commercial Banks 1966

Number of Banks	30
	Percent of Total Commissions and Fees
Commissions and fees from	
Estates	34.2
Trusts	42.7
Pension and profit sharing trusts	6.0
Agencies	17.1
Total commissions and fees	100.0
Total expenses	89.8
Net earnings before income taxes	+10.2
Income tax charges (−) or credits (+)	− 4.8
Trust department net earnings	+ 5.4
	Percent of Total Expenses
Direct expenses	
Salaries and wages	
Officers	30.8
Employees	23.7
Pensions and retirements	4.6
Personnel insurance	1.1
Other expenses related to salaries	2.5
Total expenses related to salaries	62.7
Occupancy of quarters	6.7
Furniture and equipment	2.1
Stationery, supplies, and postage	3.0
Telephone and telegraph	1.2
Advertising	2.1
Directors' and trust committee fees	.7
Legal and professional fees	1.8
Periodical and investment services	1.6
Examinations	1.1
Data processing	3.5
Other direct expenses	3.2
Total direct expenses	89.7
Overhead	10.3
Total expenses	100.0
Related items	
Dollar amount of total commissions and fees (thousands)	18,169
Dollar amount of total expenses (thousands)	14,448
*Deposit credit as percent of total commissions and fees	20.6
*Average rate allowed on deposit credit	3.23
*Average number of officers	12.6
*Average number of employees	27.0

NOTE: Ratios are averages of individual bank ratios.

*Average of individual banks reporting this item.

Copies of the Survey of Earnings and Expenses of Commercial Bank Trust Departments, Sixth District, 1966, are available upon request to the Research Department of this Bank.

When Banks Borrow

Business was brisk at the window but the Federal Reserve agent wasn't satisfied. "Inasmuch as you have never availed yourself of the rediscount facilities of the Federal Reserve Bank of Atlanta," he wrote to District member banks which were borrowing from other sources, "we are anxious to ascertain if there be any specific reason for you not allowing this institution to serve you in this capacity."

That year, 1915, the infant Reserve bank was reaching out for business to increase its revenues and insure its future. Though the agent was proud that two-thirds of the Sixth District members had used the bank's services, he wanted to accommodate the others. Think of his reaction if he were to return to Atlanta today and find the number of banks taking advantage of the discount privilege greatly diminished. His astonishment would doubtlessly turn to disbelief upon learning that we are not sending out letters to drum up more business.

The Federal Reserve System's oldest policy tool has changed greatly in its purpose and application. No longer is discounting the major source of income for Federal Reserve Banks; neither are all member banks necessarily encouraged to borrow. Experience has modified the concept of the proper use of the borrowing privilege by member banks. Moreover, this concept is an evolving one. Today, recognizing that economic and financial conditions continue to change, the System has undertaken a fundamental reappraisal of its lending function to determine if the discount mechanism again needs alteration.

Despite changing views of the role of member bank borrowings, it has always been an important facet of monetary policy. By augmenting reserves, loans from the Federal Reserve System not only aid borrowing banks, but also increase the ability of the banking system to extend credit to its customers.

Lately, considerable changes in the volume of borrowings by District banks have occurred. More banks used our discount window in 1966 than in any of the last 30 years. Now borrowings from this bank are almost nil. What is the significance of these abrupt changes? What kinds of banks use the window? Why do they borrow?

Why Banks Borrow

Each member bank must maintain a balance at a Federal Reserve Bank as a part of its legal reserve requirement. Like ordinary checking accounts, these bank balances fluctuate with check clearings, currency withdrawals and deposits, and other transactions. Therefore, many factors may reduce a bank's balance below the minimum required level, forcing the bank to repair its reserve position.

Likely candidates for causing reserve deficiencies include unexpected withdrawals of private or public funds, prolonged adverse clearings as funds are moved from one area to another, seasonal patterns, and increased competition from another financial institution. Since the forces which play upon a bank's reserve position are only partially predictable, the banker's response to a reserve deficiency will depend upon his ability to predict it, his flexibility to meet adverse clearings, and his willingness to use alternative means of adding to his reserves.

When a bank's reserve balance is too low, what are its choices? The banker may borrow from the Federal Reserve Bank, or he may borrow from commercial banks by buying their reserves in the Federal funds market. If he does not wish to borrow the reserves, he can sell Treasury bills or other earning assets or not renew or make new loans as old ones are paid off. Alternately, he may induce other banks or the public to increase their deposit balances. Most likely, he will draw from several sources of funds.

Adjusting Reserves

Of the major adjustment methods used to replenish reserves, borrowing from the Federal Reserve System is probably the least popular. With the exception of the early years of the Federal Reserve System, when discounts and advances were actively solicited for revenue, the number of banks not borrowing in a given year has exceeded the number of banks borrowing by at least three to one in this District. In most years the percentage of non-borrowing banks has been much higher, indicating that banks usually prefer to adjust their reserve positions without resorting to the Federal Reserve's discount window.

During periods of strongly rising loan demand, however, alternative sources of funds become more difficult to use. The increase of member banks borrowing in this District in 1966 demonstrates very clearly what happens during such a period. Banks were faced with a great demand for loans, and most of them found it difficult to reduce the pace at which loans were being made.

Mechanics of Discounting*

Member banks may borrow from a Reserve Bank in two ways. First, they may rediscount short-term commercial, industrial, agricultural, or other business paper, with recourse on the borrowing bank. Second, they may give their own promissory notes secured by paper eligible for discounting, by Government securities, or by other satisfactory collateral. Borrowings by the first method are called discounts; by the latter, advances. The custom has developed of referring to both types of Reserve Bank lending as discounting, and the interest charge applicable to such lending is known as the discount rate.

Actually, most member bank borrowing has come to be in the form of advances—that is, against notes with Government securities as collateral. This form of borrowing is more convenient and time-saving for the bank, because the collateral is free of credit risk, is instantly appraisable as to value, and can be more readily supplied in large amounts conforming to the borrowing needs of individual banks. Many member banks leave Government securities with their Reserve Bank for safekeeping; this arrangement makes it easy to pledge such securities as collateral when they need to borrow.

When a member bank borrows at a Reserve Bank, the proceeds of the loan are added or credited to its reserve balance on deposit at the Reserve Bank. Conversely, when it repays its indebtedness, the amount of repayment is deducted from or charged against its reserve balance. Federal Reserve advances to or discounts for member banks are usually of short maturity—up to 15 days.

*Board of Governors of the Federal Reserve System. *The Federal Reserve System: Purposes and Functions* (1963), pp. 40-41.

It was hard for them to obtain funds from demand deposit expansion since businessmen and householders were in no mood to keep money idle in checking accounts when they could earn higher returns elsewhere.

Many banks were able to feed the loan expansion early in the year by attracting time deposits and curbing investment acquisitions. In the fall, however, time-deposit growth slowed considerably, as rates on certificates of deposit reached their legal maximums and rates on competing instruments continued to rise.

Other methods of adding to reserves also became more expensive. An increase in the Federal funds rate, from 4.32 in December 1965 to 5.53 in October 1966, made borrowing from other banks very costly. Large denomination time certificates of deposits which could be used to induce corporations to place funds in a bank for 4¾ percent in early 1966 were carrying rates of 5½ percent in September. Rising yields on U.S. Government and other securities, as evidenced by an increase in the short-term Treasury bill rate from 4.58 in January to 5.36 in September, meant that many securities could be sold only at a loss.

Collectively, these developments restricted banks' freedom to adjust reserves by methods other than borrowing from the Federal Reserve System. In this environment more and more banks turned to the discount window for assistance. Consequently, Sixth District member bank borrowing increased from a daily average of $47 million in April to an average $120 million per day in September.

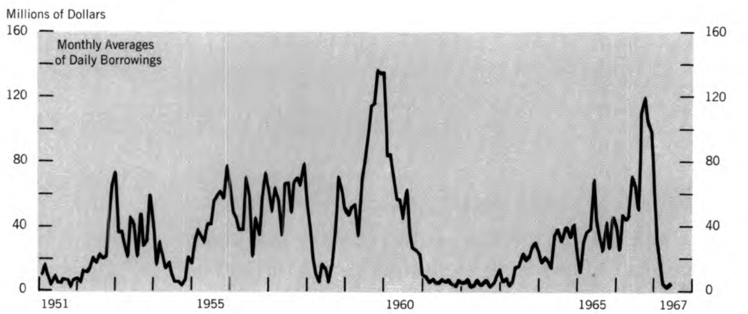
Borrowing Patterns in 1966

In such a period the growth in borrowing is accompanied by changes in the number of banks borrowing, size of loan, and length of indebtedness. When borrowings rise, these three factors tend to move together, resulting in more banks borrowing larger sums for longer periods. Last year, for example, 117 District banks borrowed, compared with 80 in 1965. Daily average borrowings per bank (a combination of size and duration of loans) increased from $458 thousand to $603 thousand. With both number of banks and average borrowings per bank advancing, borrowings climbed to an average $71 million daily, or nearly double the $37 million per day average borrowings in 1965.

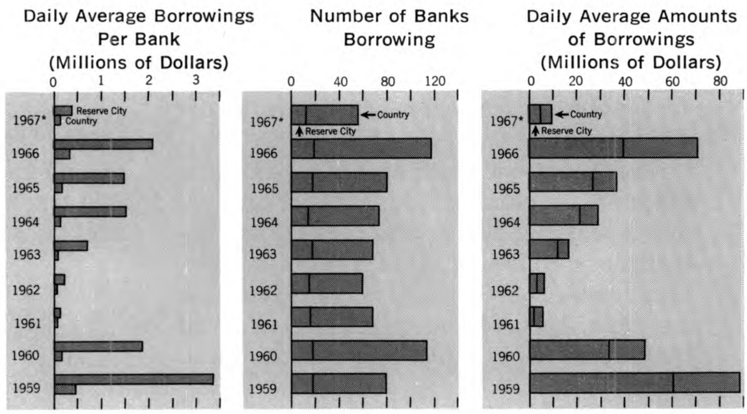
Breaking down the aggregate rise in borrowings reveals different patterns at reserve city and country banks. Reserve city banks borrowed an average of $40 million per day in 1966, up nearly 50 percent from the previous year's average. This occurred, although only one additional reserve city bank joined the number of borrowers. Obviously, daily borrowings per bank rose abruptly.

Country banks borrowed an average of slightly more than $31 million per day last year, about a fourth less than the daily average of reserve city borrowings. At this rate country banks were borrowing more than three times as much in 1966

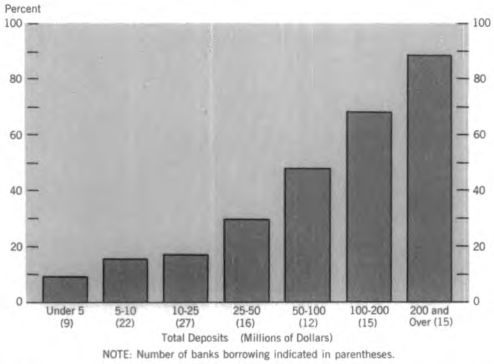
Borrowings from the Federal Reserve Bank of Atlanta increased sharply last year, as has been the tendency in previous periods of rising credit demand.



Movements in daily average borrowings over the 1959-67 period largely reflect changes in borrowings per bank at reserve city banks.



Percent of Sixth District Member Banks Borrowing from the Federal Reserve Bank in 1966



The larger a bank's deposit size, the more inclined it is to borrow from the Federal Reserve Bank.

as in 1965. The upsurge in country bank borrowings, unlike that at reserve city banks, reflected a change in both the number of banks borrowing and the average borrowings per bank. Thirty-seven more country banks borrowed in 1966 than in 1965, and the average per bank more than doubled.

This sharp increase in discount activity, dramatic in terms of changes over a year ago, appears much less unusual when compared with previous borrowing behavior. Cyclical movements of borrowing indicate that District bankers have generally expanded their indebtedness to the Federal Reserve Bank of Atlanta in periods of rising economic activity, repaying loans as the business pace has abated.

Despite the greater number of banks borrowing in 1966, daily average borrowings were actually lower than in 1959, the previous peak borrowing year. This came about primarily because reserve city banks did not increase their average borrowings per bank to the level reached in 1959. They probably borrowed more from other commercial banks, as indicated by District banks' greater participation in the Federal funds market in the past six years. Several of our larger banks were heavy purchasers of Federal funds last fall.

An evaluation of changes in borrowing during the 1959-66 period reveals that the rise in borrowings at reserve city banks resulted typically from changes in degrees of participation by a set group of banks. At country banks, however, both number of banks borrowing and average borrowings per bank changed considerably. In one year —1960—a decline in loan size sufficiently outweighed an increase in the number of banks borrowing, producing an overall decline in the volume of bank borrowings.

Most small banks do not borrow from the Federal Reserve System. In 1966, less than 10 percent of the member banks with deposits under $5 million received a loan from this Bank. At the other end of the scale, nearly 90 percent of banks with deposits of $200 million and over were borrowers. Since larger banks presumably make more extensive use of the various reserve adjustment techniques, the concentration of borrowing at larger banks would tend to support the hypothesis that last year's increase in borrowings resulted primarily from rising costs and falling availability of reserve adjustment by methods other than borrowing from the System.

Current Discount Activity

When pressures on banks to make loans are less strong—thus far characteristic of 1967—reserve adjustment methods other than borrowing from the Federal Reserve become more feasible and attractive. Federal funds have been trading at about 4 percent and the short-term Treasury bill rate had fallen to 3.4 percent by mid-June. Reflecting these changes, District member bank borrowings have remained at a low level for the past four months, averaging a very modest $3 million per day. In the most recent month, June, only nine country banks were in debt to the Federal Reserve Bank of Atlanta; daily average borrowings per bank amounted to $363 thousand. No reserve city banks borrowed from mid-May to the end of June.

PAUL A. CROWE

Interest Rates Dip As Business Lending Slows

Business customers of large commercial banks in the Sixth District on average paid slightly lower rates in May than three months earlier. The average interest rate for all types and sizes of businesses was 6.02 percent, compared with 6.19 percent in February 1967. This slight decline followed a steady rise in rates extending back to 1965.

Rates charged on money borrowed by businesses, individuals, or governments depend on a great many factors. High on the list of judging an applicant is the risk that his loan will not be repaid. The general credit standing of the business borrower, the type of collateral backing the loan, and the purpose and term of the loan are important factors explaining differences in rates paid by borrowers. In addition, the interest rate charged by banks, like most other prices, depends on the general demand and supply situation in credit markets. When banks run short of funds but customer loan demand stays high, they usually tend to hike their rates. When banks have ample funds and the demand for loans is weak, rates tend to ease off.

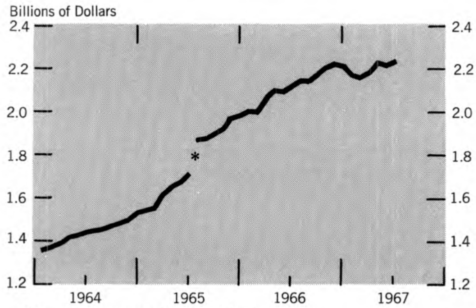
The latter situation contributed to the drop in rates during the first quarter. The decline coincided with a moderate weakening in loan demand, as businessmen cut back on the rate at which they were adding to their inventories. They also needed less money for tax payments than earlier in the year. At the same time, banks had more funds to lend, as the Federal Reserve System continued to make reserves available to the banking system. As the chart on total loans to business firms by large commercial banks in the Sixth District shows, loan demand remained fairly brisk, however, and the decline in rates was moderate.

Bank Rates on Short-Term Business Loans
(Percent per annum)

	February 1967	May 1967
Size of loan		
$1,000-9,999	6.61	6.49
$10,000-99,999	6.39	6.30
$100,000-499,999	6.15	6.00
$500,000-999,999	6.04	5.69
$100,000,000 and over	5.94	5.83
All sizes	6.19	6.02

Based on loans of $1,000 or more made to businesses during the first 15 days of the month.

Business Loans
At Large Commercial Banks
Sixth District



*Sample expanded to include 32 banks.

Information on rates charged on business loans is now developed from the reports of 24 large commercial banks in the Sixth District. The banks report the amount, interest rate, and maturity of all business loans that go on their books during the first 15 days of February, May, August, and November. The banks included in the series represent the most prominent business lenders in the District. Prior to February of this year, the information was based on reports from banks in Atlanta and New Orleans only.

Large loans tend to carry lower interest rates than small loans since the size of the loan is related to the size of the business and consequently to its financial standing. That is, large firms with established credit standing account for much of the large-loan volume. For example, the rate on loans of over $1 million averaged 5.83 percent in May, whereas the rate on the smallest size group, $1,000-10,000 averaged 6.49.

Contrary to the general impression, interest rates on business loans at the larger banks in the Southeast are lower than in most areas of the country. In May the southeastern average was fractionally less than at reporting banks in the nation as a whole after account is taken of the size of loan. Banks in only two of the six areas reported lower average rates.

W. M. Davis

Sixth District Statistics

Seasonally Adjusted

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

	Latest Month (1967)		One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Personal Income, (Mil. $ Ann. Rate)	Apr.	56,941	56,726r	56,372r	52,241
Manufacturing Payrolls	May	193	193	195	186
Farm Cash Receipts	Apr.	134	139	137	149
Crops	Apr.	115	137	125	146
Livestock	Apr.	143	145	146	153
Instalment Credit at Banks, *(Mil. $)					
New Loans	May	293	288r	295	284
Repayments	May	288	265	254	259
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	May	136	135	136	131
Manufacturing	May	135	135	136	133
Apparel	May	165	164	166	165
Chemicals	May	129	129	130	128
Fabricated Metals	May	152	151	153	150
Food	May	115	115	116	111
Lbr., Wood Prod., Furn. & Fix.	May	102	104	105	106
Paper	May	117	116r	117	113
Primary Metals	May	125	124	125	126
Textiles	May	105	105	105	105
Transportation Equipment	May	177	176	173	171
Nonmanufacturing	May	136	136	136	131
Construction	May	126	129	130	127
Farm Employment	May	61	61	68	66
Unemployment Rate (Percent of Work Force)	May	3.8	3.6	3.5	3.4
Insured Unemployment (Percent of Cov. Emp.)	May	2.2	2.1	2.1	1.6
Avg. Weekly Hrs. in Mfg., (Hrs.)	May	40.8	40.7	41.0	41.6
Construction Contracts*	May	175	138	159	163
Residential	May	143	168	124	156
All Other	May	158	154	140	159
Electric Power Production**	Mar.	143	141	146	134
Cotton Consumption**	May	113	120	118	118
Petrol. Prod. in Coastal La. and Miss.**	May	220	208	217	205
FINANCE AND BANKING					
Member Bank Loans*					
All Banks	May	252	248	247	232
Leading Cities	June	225	228	222	216
Member Bank Deposits*					
All Banks	May	190	187	185	177
Leading Cities	June	169	173	170	161
Bank Debits*/**	May	194	178	193	184
ALABAMA					
INCOME AND SPENDING					
Personal Income, (Mil. $ Ann. Rate)	Apr.	7,566	7,436r	7,417r	6,964
Manufacturing Payrolls	May	177	172	175	173
Farm Cash Receipts	Apr.	143	146	148	150
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	May	124	124	125	123
Manufacturing	May	122	121	122	122
Nonmanufacturing	May	126	125	126	123
Construction	May	121	119r	121	126
Farm Employment	May	63	68	75	70
Unemployment Rate (Percent of Work Force)	May	4.4	4.3	4.1	4.2
Avg. Weekly Hrs. in Mfg., (Hrs.)	May	41.1	40.6r	41.2	41.6
FINANCE AND BANKING					
Member Bank Loans	May	237	232	234	216
Member Bank Deposits	May	185	184	184	174
Bank Debits**	May	180	171	183	171
FLORIDA					
INCOME AND SPENDING					
Personal Income, (Mil. $ Ann. Rate)	Apr.	16,079	16,370r	16,095r	14,891
Manufacturing Payrolls	May	238	240	241	218
Farm Cash Receipts	Apr.	125	141	126	160
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	May	149	148	147	142
Manufacturing	May	155	155	155	148
Nonmanufacturing	May	148	147	146	141
Construction	May	111	111	110	107
Farm Employment	May	90	83	88	91
Unemployment Rate (Percent of Work Force)	May	2.7	2.6	2.6	2.5
Avg. Weekly Hrs. in Mfg., (Hrs.)	May	42.3	42.6r	42.4	42.3
FINANCE AND BANKING					
Member Bank Loans	May	259	256	256	234
Member Bank Deposits	May	196	194	189	176
Bank Debits**	May	190	172	185	181
GEORGIA					
INCOME AND SPENDING					
Personal Income, (Mil. $ Ann. Rate)	Apr.	10,960	10,926r	10,891r	10,201
Manufacturing Payrolls	May	187	191	194	185
Farm Cash Receipts	Apr.	139	135	137	150
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	May	134	134	134	132
Manufacturing	May	130	129	129	130
Nonmanufacturing	May	136	136	137	133
Construction	May	128	132	133	140
Farm Employment	May	49	51	55	49
Unemployment Rate (Percent of Work Force)	May	3.4	3.3	3.4	3.2
Avg. Weekly Hrs. in Mfg., (Hrs.)	May	40.4	40.0	40.4	41.1
FINANCE AND BANKING					
Member Bank Loans	May	263	258	258	248
Member Bank Deposits	May	210	206	204	197
Bank Debits**	May	208	186	215	197
LOUISIANA					
INCOME AND SPENDING					
Personal Income, (Mil. $ Ann. Rate)	Apr.	8,685	8,531r	8,564r	7,761
Manufacturing Payrolls	May	176	173	177	165
Farm Cash Receipts	Apr.	150	138	147	151
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	May	127	127	127	120
Manufacturing	May	120	120r	121	113
Nonmanufacturing	May	129	129	129	122
Construction	May	146	154	150	137
Farm Employment	May	65	58	60	71
Unemployment Rate (Percent of Work Force)	May	4.5	4.4r	4.1	4.2
Avg. Weekly Hrs. in Mfg., (Hrs.)	May	41.6	41.8	42.5	42.8
FINANCE AND BANKING					
Member Bank Loans*	May	227	222	220	214
Member Bank Deposits*	May	161	158	158	154
Bank Debits*/**	May	173	156	163	167
MISSISSIPPI					
INCOME AND SPENDING					
Personal Income, (Mil. $ Ann. Rate)	Apr.	4,507	4,383r	4,364r	4,03
Manufacturing Payrolls	May	209	212	211	20
Farm Cash Receipts	Apr.	135	144	145	15
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	May	137	138	139	13
Manufacturing	May	142	145	146	14
Nonmanufacturing	May	134	134	136	13
Construction	May	133	136	147	14
Farm Employment	May	45	51	61	5
Unemployment Rate (Percent of Work Force)	May	5.2	4.6	4.2	4.
Avg. Weekly Hrs. in Mfg., (Hrs.)	May	40.4	40.3r	40.6	41.
FINANCE AND BANKING					
Member Bank Loans*	May	298	300	294	27
Member Bank Deposits*	May	220	220	224	21
Bank Debits*/**	May	207	190	207	18

TENNESSEE		Latest Month (1967)	One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income, (Mil. $ Ann. Rate)	Apr.	9,144	9,080r	9,041r	8,389
Manufacturing Payrolls	May	188	189	191	185
Farm Cash Receipts	Apr.	119	133	127	127
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	May	136	136	138	133
Manufacturing	May	142	143	145	142
Nonmanufacturing	May	133	133	134	128
Construction	May	149	158r	159	153
Farm Employment	May	68	65	77	78
Unemployment Rate (Percent of Work Force)	May	4.3	4.0	3.8	3.0
Avg. Weekly Hrs. in Mfg., (Hrs.)	May	39.9	40.0r	40.0	41.2
FINANCE AND BANKING					
Member Bank Loans*	May	251	243	240	231
Member Bank Deposits*	May	182	178	173	172
Bank Debits*/**	May	223	210	215	199

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

Debits to Demand Deposit Accounts

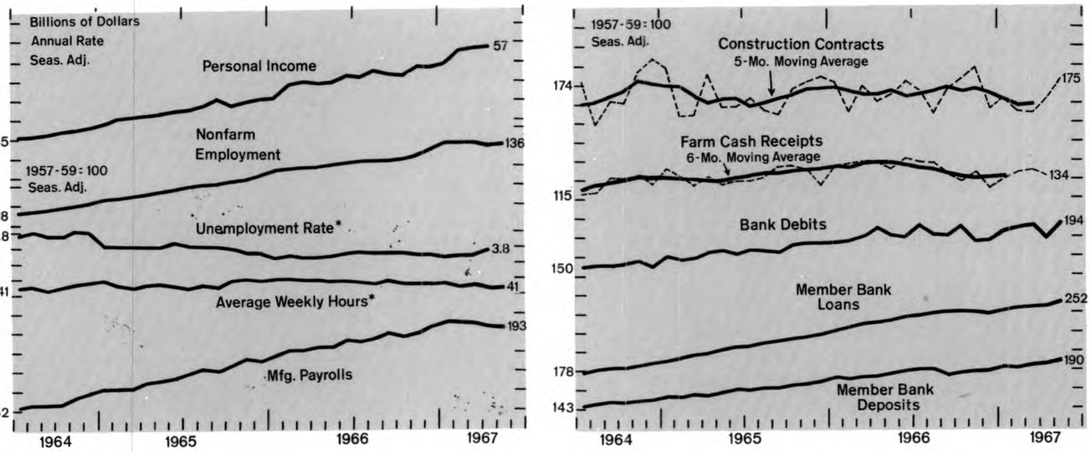
Insured Commercial Banks in the Sixth District

(In Thousands of Dollars)

	May 1967	April 1967	May 1966	Percent Change: May 1967 from April 1967	May 1967 from May 1966	Year-to-Date 5 mos. 1967 from 1966
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham	1,594,742	1,439,058	1,375,671r	+11	+16	+9
Gadsden	61,956	54,005	64,389r	+15	−4	−6
Huntsville	185,981	161,831	178,009r	+15	+4	+1
Mobile	500,144	472,919	452,019r	+6	+11	+3
Montgomery	302,689	261,977	294,900r	+16	+3	+2
Tuscaloosa	100,199	88,589	86,691	+13	+16	+8
Ft. Lauderdale—Hollywood	660,286	664,157	599,512r	−1	+10	+6
Jacksonville	1,542,624	1,368,121	1,466,975r	+13	+5	+5
Miami	2,284,381	2,187,790r	1,998,891	+4	+14	+9
Orlando	575,725	550,433	559,077r	+5	+3	+3
Pensacola	206,202	185,077	186,808r	+11	+10	+9
Tallahassee	153,405	130,164	127,345	+18	+20	+15
Tampa—St. Petersburg	1,339,764	1,326,211	1,208,012r	+1	+11	+8
W. Palm Beach	426,243	433,210	408,993r	−2	+4	+1
Albany	89,034	78,292	87,327	+14	+2	−2
Atlanta	4,532,385	4,147,120r	4,105,070r	+9	+10	+7
Augusta	306,997	266,429	264,819r	+15	+16	+13
Columbus	219,488	201,852	202,412r	+9	+8	+9
Macon	257,436	228,965	214,710r	+12	+20	+11
Savannah	286,015	244,497	238,896r	+17	+20	+10
Baton Rouge	596,576	544,427	469,606r	+10	+27	+12
Lafayette	135,214	114,696	116,723	+18	+16	+6
Lake Charles	146,902	140,438	130,571	+5	+13	+15
New Orleans	2,547,273	2,250,552r	2,465,315r	+13	+3	+2
Jackson	683,714	589,292	578,660r	+16	+18	+11
Chattanooga	596,533	554,743	546,247r	+8	+9	+7
Knoxville	469,963	432,964	429,700r	+9	+9	+8
Nashville	1,717,254	1,678,390r	1,371,827r	+2	+25	+21
OTHER CENTERS						
Anniston	63,967	58,653	65,276	+9	−2	+1
Dothan	64,983	58,086	55,801	+12	+16	+12
Selma	43,619	43,395	38,869	+1	+12	+8
Bartow	38,378	33,118	43,300	+16	−11	−1
Bradenton	70,579	71,919	48,784	−2	+45	+30
Brevard County	236,397	198,999	210,534	+19	+12	+6
Daytona Beach	89,899	95,025	80,141	−5	+12	+8
Ft. Myers—N. Ft. Myers	80,554	74,314	71,719	+8	+12	+5
Gainesville	86,797	79,351	76,532	+9	+13	+9
Lakeland	119,731	118,887	119,818	+1	−0	+2
Monroe County	36,608	36,284	34,831	+1	+5	+4
Ocala	57,925	57,198	53,235	+1	+9	+5
St. Augustine	19,508	19,931	18,481	−2	+6	+5
St. Petersburg	318,595	358,004	276,684	−11	+15	+9
Sarasota	104,433	109,309	102,639	−4	+2	−1
Tampa	700,804	646,239	651,373	+8	+8	+5
Winter Haven	64,103	61,897	64,962	+4	−1	+1
Athens	73,905	65,387	68,985	+13	+7	+8
Brunswick	40,193	37,495	38,387	+7	+5	+4
Dalton	79,008	81,428	85,708	−3	−8	−5
Elberton	17,719	14,162	12,720	+25	+39	+18
Gainesville	73,227	68,302	70,969	+7	+3	+6
Griffin	34,507	32,166	32,712	+7	+5	+7
LaGrange	23,799	20,417	25,603	+17	−7	−4
Newnan	25,187	23,852	27,012	+6	−7	−5
Rome	72,473	64,329	71,691	+13	+1	+2
Valdosta	54,515	50,813	47,233	+7	+15	+12
Abbeville	10,836	10,220	10,604	+6	+2	+5
Alexandria	132,229	128,602	114,075	+3	+16	+22
Bunkie	6,551	5,918	5,609	+11	+17	+17
Hammond	42,644	39,276	39,368	+9	+8	+17
New Iberia	34,414	34,149	34,811	+1	−1	−1
Plaquemine	12,340	10,628	9,827	+16	+26	+20
Thibodaux	22,477	19,868	20,987	+13	+7	+1
Biloxi-Gulfport	105,827	95,260	92,555	+11	+14	+12
Hattiesburg	55,126	53,813	49,060	+2	+12	+7
Laurel	31,927	29,963	32,169	+7	−1	−4
Meridian	69,029	57,012	61,365	+21	+12	+4
Natchez	36,344	34,808	33,846	+4	+7	+8
Pascagoula—Moss Point	56,374	46,566	48,866	+21	+15	+10
Vicksburg	41,294	36,755	37,876	+12	+9	+7
Yazoo City	35,297	32,903	34,175	+7	+3	+7
Bristol	81,461	60,473	66,590	+35	+22	+11
Johnson City	76,929	70,789	70,231	+9	+10	+9
Kingsport	159,675	152,199	147,171	+5	+8	+10
SIXTH DISTRICT, Total	30,737,550	28,443,342r	27,714,822r	+8	+11	+7
Alabama‡	4,015,301	3,647,878	3,640,731r	+10	+10	+6
Florida‡	9,250,135	8,828,485r	8,415,517	+5	+10	+6
Georgia‡	7,536,513	6,858,778r	6,830,352r	+10	+10	+7
Louisiana*†	4,260,604	3,821,577r	3,940,350r	+11	+8	+6
Mississippi*†	1,452,306	1,305,516	1,260,700r	+11	+15	+10
Tennessee*†	4,222,691	3,981,108r	3,627,172r	+6	+16	+12

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

District Business Conditions



*Seas. adj. figure; not an index.

As 1967 reached the halfway mark, the momentum of economic activity showed no significant change. Advancing auto sales led gains in the retail sector, and further recovery in residential construction more than offset reduced nonresidential building. Nonfarm employment increased slightly; manufacturing payrolls acted in reverse. Loan volume at larger banks advanced. Although crop prospects are good, farm cash sales remain below last year's.

Consumer spending increased in May, as indicated by gains in retail sales. Underlining these advances were increases in repair and modernization loans and bank instalment loans to finance automobiles. However, consumer loans for other purchases and personal loans declined slightly.

Residential construction in the Southeast continues to recover. Contracts experienced a good increase in May in dollar value, number of dwelling units, and square footage. The total value of contracts was below that of the first five months of 1966, with indications of further contractions in the gap. Meanwhile, nonresidential building contract volume declined further below that of May 1966. In spite of recent upward pressures on mortgage rates, mortgage bankers in most of the District's major markets look for continued improvement in housing in the second half of 1967.

The number of nonfarm jobs advanced slightly in May; however, more rapid gains in the number of persons available for employment caused the unemployment rate to edge upward. Most of the gain in jobs occurred in the trade and state and local government sectors. In manufacturing, slight declines in jobs and hourly wages more than offset an increase in weekly hours worked.

Bankers expecting a June rise in loans were not disappointed, judging by increases at large District banks. The high rate of borrowing for the June 15 tax date matched strong gains of the last two years. Reflecting this strength was a slowing in the acquisition of investments by all banks, though purchases of tax-exempt securities remained reasonably heavy. Time-deposit growth showed no signs of abating.

Cash receipts from farm sales are still lagging behind last year's pace. Prices for broilers and eggs, the District's largest source of farm income, are well below last year's. Cattle prices have remained relatively steady, while hog prices receded after a very abrupt increase in May. Most crops are in good condition. Preliminary estimates indicate that District farmers will plant more acreages in soybeans this year than any other crop.

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