MONTHLY REVIEW

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FEDERAL RESERVE BANK OF ATLANTA

November 1967

What's Happening to Prices?

Are prices going up?

If you are the average man-in-the-street consumer, you might very well reply bitterly, "Of course. They never come down, do they?"

On the other hand, if you are a dealer in inedible fats and oils or a cotton textile mill owner, you might say that you certainly hope so, but that if they keep going down, you will be bankrupt and won't care.

Which is by way of illustrating, both that prices tend to be a rather emotional topic of conversation and that you can nearly always find somebody who is dissatisfied with their behavior, either because they are going up or down or not doing one or the other fast enough.

If you are selling something, whether it be a commodity, a manufactured product, or a service, you want its price to be high; if you are buying, you want prices low. All of us are concerned with the specific prices that immediately affect our welfare as producers or consumers. We are also concerned (or should be) with prices in general, since inflation or deflation affects the value of money and, therefore, our decisions to spend, to save, and to invest.

If we want to measure the behavior of prices "in general," however, we immediately face a problem. Literally, millions of prices are set everyday in the United States. They may be established impersonally in organized markets like the Chicago Board of Trade or the New York stock exchanges, stamped on paper tags by department store clerks, printed in manufacturers' price lists, or quoted verbally by the corner barber.

If all prices always rose or fell simultaneously in the same proportion, there would be no problem of measurement. We could simply say that prices went up (or down) by x percent this month. But prices never behave this way. Some go up, while others go down, or they rise or fall at different rates. Nothing meaningful can be said about millions of individual prices simultaneously, so we must find some way to lump them together, with a single number as the result. Changes in that number, then, will provide a measure of how prices "in general" have changed.

The Bureau of Labor Statistics is the principal compiler of price statistics in the United States. It publishes numerous subsidiary indexes, as well as two major ones—the Consumer Price Index (CPI) and the Wholesale Price Index (WPI). At first glance, this seems like a bewildering array of figures that is rather disappointing after being promised "one number" whose behavior would tell what is happening to prices. But different people want to know different things about prices and sets of prices. The textile industry is particularly interested in textile prices, the steel industry in steel prices, and so on. But for any particular combination of prices, the Bureau of Labor Statistics computes a single index number that represents the central tendency of that particular universe.

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Consumer Prices

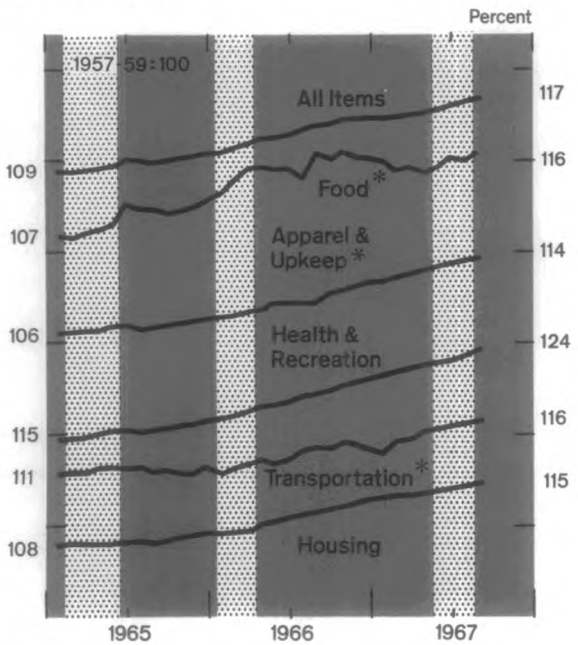
The Consumer Price Index, according to the Bureau, "is a statistical measure of changes in prices of goods and services bought by urban wage earners and clerical workers, including families and single persons." This statistical measure is derived by comparing the total cost of a fixed "market basket" once a month with the total cost in some given base period. The base period currently used is 1957-59. Thus, if the CPI is 117.1 (as it was in September 1967), this means that in that month it cost the average urban wage earner and clerical worker family $11.71 to buy the same bundle of goods and services for which they paid $10 in 1957-59.

The items making up the "market basket" are divided into five main groups: (1) food; (2) housing; (3) apparel and upkeep; (4) transportation; and (5) health and recreation. Chart I illustrates how the various groups have affected the overall index ("all items," the top line) at different times. The almost steady rise in this index during the period shown is nothing new. It has been rising slowly since 1961, when the present economic expansion began. However, its rate of increase advanced in early 1965, again in early 1966, and, most recently, from June through August.

The increase in early 1965 was primarily the result of rising food prices, the other components changing relatively little. In early 1966, all the components rose and their combined effect produced the most rapid rise in the overall index since 1957, an annual rate of 5.4 percent. In late 1966 and early 1967, food prices declined and transportation prices at least hesitated, leading to six months of very slow increases. Beginning in June of this year, this restraint disappeared, and the "all items" index climbed rapidly, at an annual rate of 4.7 percent from June through August. In September, food prices again dropped, although not to June levels, and the rise of the all items index moderated.

Chart I

Nearly all major components of the consumer price index have risen steadily since 1965, with the most rapid increases in the overall index (shaded areas) running concurrently with food price advances.



*Seasonally adjusted by BLS.
Source: U. S. Department of Labor, Bureau of Labor Statistics.

Wholesale Prices

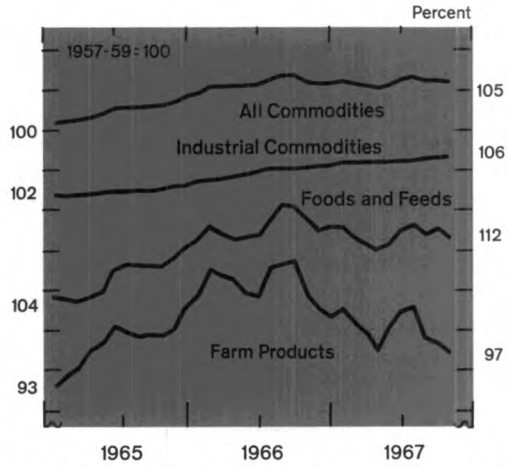
The Wholesale Price Index is designed to measure price changes at a different level of production, not, as with the CPI, at the moment goods and services are bought by consumers, but rather "in primary markets," or at the level of "the first significant commercial transaction." The relevant prices, in other words, are those at which products enter the market for the first time, as opposed to consumer prices, those at the other end of the distribution process.

There are 15 major divisions of the WPI, but 13 of them are lumped together under the general heading of "industrial commodities." The other two are "farm products" and "processed foods and feeds." These three series display markedly different behavior, as shown in Chart II. At the beginning of 1965, the overall index ("all commodities," the top line) hardly differed from its level in the base period. This had been one of the outstanding characteristics of the business expansion during its first four years. Wholesale prices had remained almost constant, on average, even though consumer prices were slowly rising. But a combination of rising industrial, farm, and food and feed prices in 1965 and most of 1966 produced a fairly rapid increase in the overall index.

The overwhelming importance of industrial prices is apparent in the period of late 1966 and early 1967 when, in spite of sharp drops in farm products and food and feed prices, the overall index declined less than one and one-half percent and was still 5.1 percent above its January 1965 level. Perhaps the most alarming feature of Chart II is the rise in industrial commodity prices from August through October of this year. After virtual

Chart II

The overall wholesale price index shows little fluctuation because of the heavy weight of industrial commodities. However, some volatility is evident in the prices of farm products and processed foods and feeds.



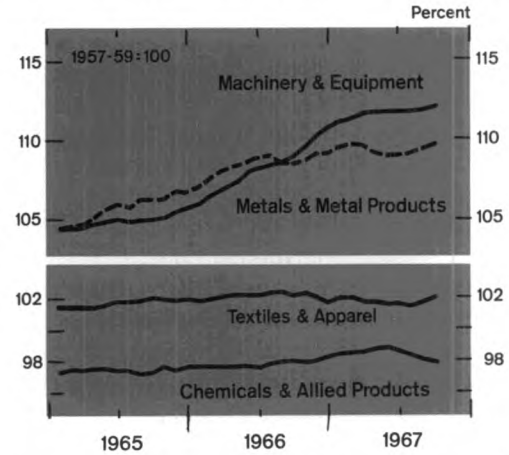
Source: U. S. Department of Labor, Bureau of Labor Statistics.

stability for thirteen months and absolutely no change for five, this crucial sector of the index rose at an annual rate of 2.7 percent.

Since the behavior of the overall index is so strongly influenced by industrial prices, it is interesting to see which industrial groups have been most important. Chart III shows how four of these industrial groups have behaved. Metals and metal products and machinery and equipment have contributed strongly to the 1965-67 rise, both because they have been among the most rapidly rising groups and because of their large relative importance. Metals and metal products

Chart III

The relative stability of the industrial commodities index conceals a high degree of diversity in its component parts.



Source: U. S. Department of Labor, Bureau of Labor Statistics.

The Construction

The Consumer Price Index (CPI) attempts to measure changes in prices of goods and services bought by urban wage earners and clerical workers, including families and single persons. It is derived by comparing the total cost of a fixed "market basket" once a month with the total cost in the base period, 1957-59. The key word is "same." That is, the composition of the "market basket" is held constant, both as to the items included and their quantity, so that the change in total cost must be due to changes in prices. Of course, if the market basket were held constant too long, it would get out of touch with the actual behavior patterns of the population, and the Bureau would be trying to price things that nobody buys any more, such as steel phonograph needles or player pianos. To avoid this, the Bureau conducts a Consumer Expenditure Survey periodically. The last one in 1960-61 involved collecting complete records of income and outlay of a selected sample of families for a calendar year. As a result, the relative importance of many of the items in the market basket were changed, new ones added, and others dropped.

The current sample chosen to represent the market basket includes 812 items. Not all of these are priced every month everywhere in the country, as this would be prohibitively expensive. A representative sample is priced at a selected sample of retail outlets in a selected sample of cities. The five largest urban areas are priced every month, other large cities and a selection of smaller cities and towns once every three months, staggered so that some are priced every month. Food prices are collected monthly in every urban area, however. In the Sixth District, prices are collected in Atlanta, Nashville, Baton Rouge, Orlando; Florence, Alabama; and Vicksburg, Mississippi. A separate CPI is published, quarterly, only for Atlanta, however.

Separate indexes are computed and published for each of the main subdivisions of the index and several special groupings. The major subdivisions, with their percentage weights, are:

Major Groups	Percent of All Items December 1963*
Food	22.43
Housing	33.23
Apparel and upkeep	10.63
Transportation	13.88
Health and recreation	19.45
Medical care	5.70
Personal care	2.75
Reading and recreation	5.94
Other goods and services	5.06

*Totals may not add to 100 because of rounding.

Three of these major groups—food, apparel and upkeep, and transportation—show significant seasonal movements and are regularly published on a seasonally adjusted, as well as unadjusted, basis. The overall ("all items") index is not seasonally adjusted because seasonal fluctuations in the components offset one another.

of the Price Indexes

The Wholesale Price Index (WPI) is designed to measure price changes in primary markets, or at the level of the first significant commercial transaction. Wholesale prices, in other words, are those at which products enter the market for the first time. The WPI is designed to cover "all commodities sold in commercial transactions in primary markets of the United States." A sample of about 2,300 items has been chosen to reflect price changes in this universe, constructed so as to represent all commodity groupings, market participants, and geographical areas. Most quotations are obtained by mail from reporting firms, but some are the prices established on organized exchanges, such as coffee, wheat, etc. The various items are weighted by the net selling value of commodities produced, processed, or imported in the U. S., according to the industrial censuses. These weights were revised in January 1967, using data from the 1963 Censuses of Manufacturers and Mineral Industries, and the commodities were regrouped to provide more meaningful aggregates.

There are 15 major groups in the WPI, listed below, together with their relative importance:

Commodity Groups	Relative importance (percent), 1963 weights as of December 1966
All commodities	100.000
Farm products	10.637
Processed foods and feeds	16.533
Industrial commodities	72.830
Textile products and apparel	7.149
Hides, skins, leather, and related products	1.264
Fuels and related products and power	7.130
Chemicals and allied products	6.378
Rubber and rubber products	2.339
Lumber and wood products	2.418
Pulp, paper, and allied products	4.877
Metals and metal products	12.799
Machinery and equipment	12.110
Furniture and household durables	3.584
Nonmetallic mineral products	3.040
Transportation equipment	7.244
Miscellaneous products	2.498

The relative importance of these groups has changed considerably over the years. For instance, the 1909 weights, used in one of the earliest versions of the index, were:

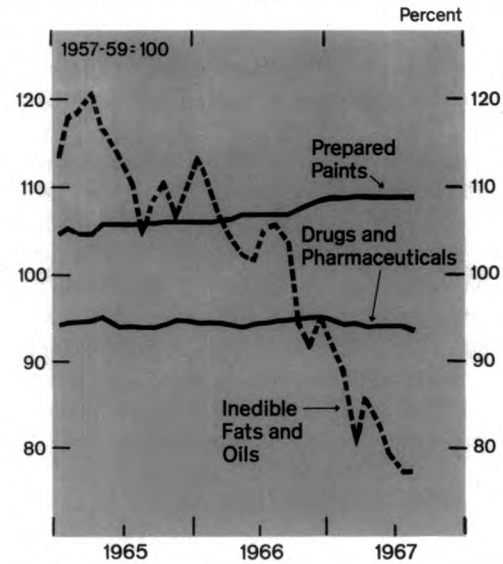
Commodity Group	1909 Weights (percent)
Farm products	29.04
Foods	25.54
All other	45.42

The index, when it was constructed with these weights, was much more volatile than it is now, because it was more heavily influenced by farm products and foods, whose prices are always much more subject to change than are those of industrial commodities. account for 12.8 percent of the net selling value of all commodities, and machinery and equipment for 12.1 percent. Chemicals and allied products and textile products and apparel, on the other hand, hardly changed. The textile group index was less than one and one-half percent higher in August than it had been in January 1962, and chemical prices were actually lower.

Thus, concealed beneath the relative stability of the overall industrial index is considerable diversity among its component groups. But within any one group the diversity is frequently even greater. Chart IV shows, for example, three of the subgroups contained within the chemicals and allied products group. The index for prepared

Chart IV

The steep fall in inedible fats and oils prices since early 1965 contrasts strongly with the stable prices of prepared paints and drugs and pharmaceuticals.



Source: U. S. Department of Labor, Bureau of Labor Statistics.

paints is slowly rising, while drugs and pharmaceuticals show no trend. Neither displays any pronounced movement from month to month. But the inedible fats and oils index shows tremendous volatility, and the road has been almost entirely downhill since early 1965, when the WPI actually advanced. The same underlying crosscurrents are visible in other groups, such as textiles (rising prices for silk yarns and falling prices for man-made fiber products) and metals and metal products (iron and steel prices very slowly increasing and nonferrous metals recently declining).

The diversity in price movements that we have noted can be observed in almost any period. It is

an essential feature of our economic system that prices should be flexible in relation to one another, because they are guideposts to businessmen, encouraging production of those things whose prices are rising, discouraging the production of those whose prices are falling. Without this flexibility of individual prices, resources would be misdirected and our standard of living would inevitably be lower. It is not at all desirable, however, that the price *level* should be flexible. Inflation, among other things, diverts businessmen from their proper preoccupation with production and distribution to speculate on the future course of prices. Deflation's nastiest by-product is unemployment, but it, too, produces business uncertainty and other unpleasant effects. So, just as flexibility of individual prices is necessary for our economy to work efficiently, reasonable stability of the price level is necessary for the same end.

Inflation?

By comparison with other countries, we have never had what could be called a "runaway" inflation. The 2-percent average annual rise in wholesale prices from 1965 to date, or the 2.8-percent increase in consumer prices, is piddling compared with the 73-percent inflation in the cost of living in Uruguay in 1966 or the incredible 855-*million* percent rise of wholesale prices in Germany in 1923. But this gives us no grounds to be smug. A 2.8-percent average annual increase every month can cut the purchasing power of the consumer's dollar by nearly 43 percent in twenty years, or by 61 percent at the June-August annual rate of 4.7 percent.

The worst feature of inflation is that it is self-reinforcing. As prices in general rise, people expect them to continue upward and behave so as to make that expectation come true. We must be constantly on the alert to prevent any such inflationary spiral—or, for that matter, a deflationary spiral either—from getting started. The price of stability, to paraphrase a famous quotation, is eternal vigilance.

Monetary policy—the power to change the availability of bank reserves—and fiscal policy—the power to change the tax receipts and expenditures of the Federal Government—constitute our principal defenses against inflation. Both work ultimately on the level of total demand, moderating its rise when it increases faster than productive capacity, stimulating it when it rises too slowly to employ all our productive resources.

So far in 1967, the private demand sector has not been a heavy contributor to raising total demand. Construction is only now achieving the level it reached last year before the credit squeeze; consumers have been saving larger-than-usual percentages of disposable income; business-fixed investment has marked time; and inventory investment has fallen to very low levels. It is perhaps significant that price increases were moderate until after midyear. There are indications, however, that many of these areas are likely to show increasing strength over the next three quarters. And defense spending, while not rising so rapidly as it did in 1965-66, is still contributing to the expansion of total demand. Monetary and fiscal authorities will need all their wisdom and sophistication in the coming months to maintain a stable, growing economy without inflation.

LAWRENCE F. MANSFIELD

Bank Announcements

On October 1 the **Darien Bank,** Darien, Georgia, a nonmember bank, began to remit at par for checks drawn on it when received from the Federal Reserve Bank.

Job Growth: Population Centers vs. Hinterland

One of the more popular variants of "the rich get richer and the poor get poorer" theme applies to the relative growth rates of urban and rural areas. The general belief is that large urban areas boom at the expense of smaller areas which do not receive their share of new jobs. For example, at a recent meeting of an industrial group, one speaker warned: "Industrial growth is going into population centers, while in the hinterland the growth is spotty." The same theme has been echoed many times, and ominous implications are frequently drawn from this thesis because of urban slums and congestion. But has the recent behavior of employment displayed this urban-rural dichotomy in the Atlanta Federal Reserve District?

For the purposes of this discussion, population centers are defined as the Major Labor Market Areas (MLMA's) and the hinterland as the difference between the state total and the sum of the MLMA's for each state. Hinterland data are somewhat rough because some MLMA's include counties in more than one state. Since these counties are small, relative to the state totals, and since nonfarm payroll statistics reflect place of work rather than residence, the distortion in hinterland data will be small.

The U. S. Department of Labor has defined 18 of the Standard Metropolitan Statistical Areas (SMSA's) in the Sixth District as major labor markets. For the six states these population centers contain about half the Sixth District's nonfarm jobs. In 1966 the percent of nonfarm jobs in MLMA's by state ranged from 13 in Mississippi, which has one MLMA, to 58 in Tennessee and Georgia, which have 4 and 5 MLMA's, respectively. The MLMA's are listed in the table and outlined on the map on page 149.

Demographic Factors and Total Employment

Population growth proceeded at a more rapid rate in the MLMA's (11 percent) than in the less urbanized areas (10 percent) during the 1960-65 period. Moreover, the participation rate (labor force divided by the population) was low in the hinterland because farm families have more children and a large percentage of the population is made up of retirees. The migration from rural to urban areas occurs primarily among young adults, the most likely participants in the labor force. Therefore, the 40-percent participation rate of MLMA's, compared with 35-percent for non-MLMA's, comes as no surprise.

A faster population growth and higher participation rate enabled the MLMA's to outdistance the hinterland in growth of the work force between 1963 and 1966. With a larger supply of new workers and the declining number of farm jobs making only a slight impact, the population centers registered a 13-percent advance in total employment between 1963 and 1966, compared with an 11-percent gain in the hinterland.

Despite a slower growth in total employment, the areas outside population centers recorded a dramatic reduction in the unemployment rate—from 6.0 percent in 1963 to 3.7 percent in 1966. For MLMA's the change was from 5.1 percent to 3.3 percent. Although the rate remained lower in the MLMA's in 1966, the differential was reduced from 0.9 to 0.4 percentage points. Florida was the only District state in which the unemployment rate outside the MLMA's was lower.

The high percentage of farm workers in the work force in the hinterland explains much of the difference in the rate. Farm employment has large seasonal fluctuations and is experiencing a

secular decline in jobs. In 1966 the U. S. unemployment rate for farm workers was nearly double that for nonfarm workers. If the same unemployment rate for farm workers prevailed in the District as in the U.S., the jobless rate for nonfarm workers in the non-MLMA's would be 3.4 percent —almost the same as for MLMA's.

Although the population centers outpaced the hinterland in terms of total job growth, the more widely used statistics on nonfarm payroll employment give the nod to the less urbanized areas in the growth race. What accounts for the difference in the behavior of total and nonfarm employment between the two types of areas? Although MLMA's had a faster growth in the work force than other areas, the increase in the supply of nonfarm workers was similar for both types of areas because of the reduction in farm employment. During the 1963-66 period farm employment was reduced by 108,000, or 15 percent. All of the lost agricultural jobs were outside MLMA's. Therefore, the subtraction of farm workers from the total work force gives an equal increase of about 12-percent in the nonfarm labor for both types of areas.

Lower wages outside the major labor markets explain part of the faster growth in the hinterland. Wages on which social security taxes were paid during first quarter 1962 in the six states averaged $1,041 in MLMA's and $893 outside MLMA's. Since wages in both types of areas advanced 15 percent in the 1962-66 period, relative wages have not changed. However, the dollar differential has increased. Although some of the differential in wages results from the higher average skill in the MLMA's—indicated partly by the higher levels of median education—area wage studies have found a wage differential between urban and rural areas for the same job. Wage rates may affect some firms' decision to choose one location over another.

Smaller towns and rural areas of the region could still be lagging if job growth in the non-MLMA's were concentrated in the metropolitan areas not classified as major labor markets. Of the 31 SMSA's—defined as cities with a population of 50,000 or more inhabitants and the counties which are economically and socially integrated with the central city—only 18 are MLMA's. In the 1960 Census each of the MLMA's had a population of 200,000 or more. In the 1962-66 period employment covered by social security for the non-SMSA's grew faster than for the SMSA's, 26.2 and 24.7 percent, respectively. Thus, the alternative definition of "population centers" does not alter the results. With the supply of nonfarm workers similar in and outside MLMA's, the answer for the differing behavior of job growth in the two types of areas must be found in the demand for various kinds of labor.

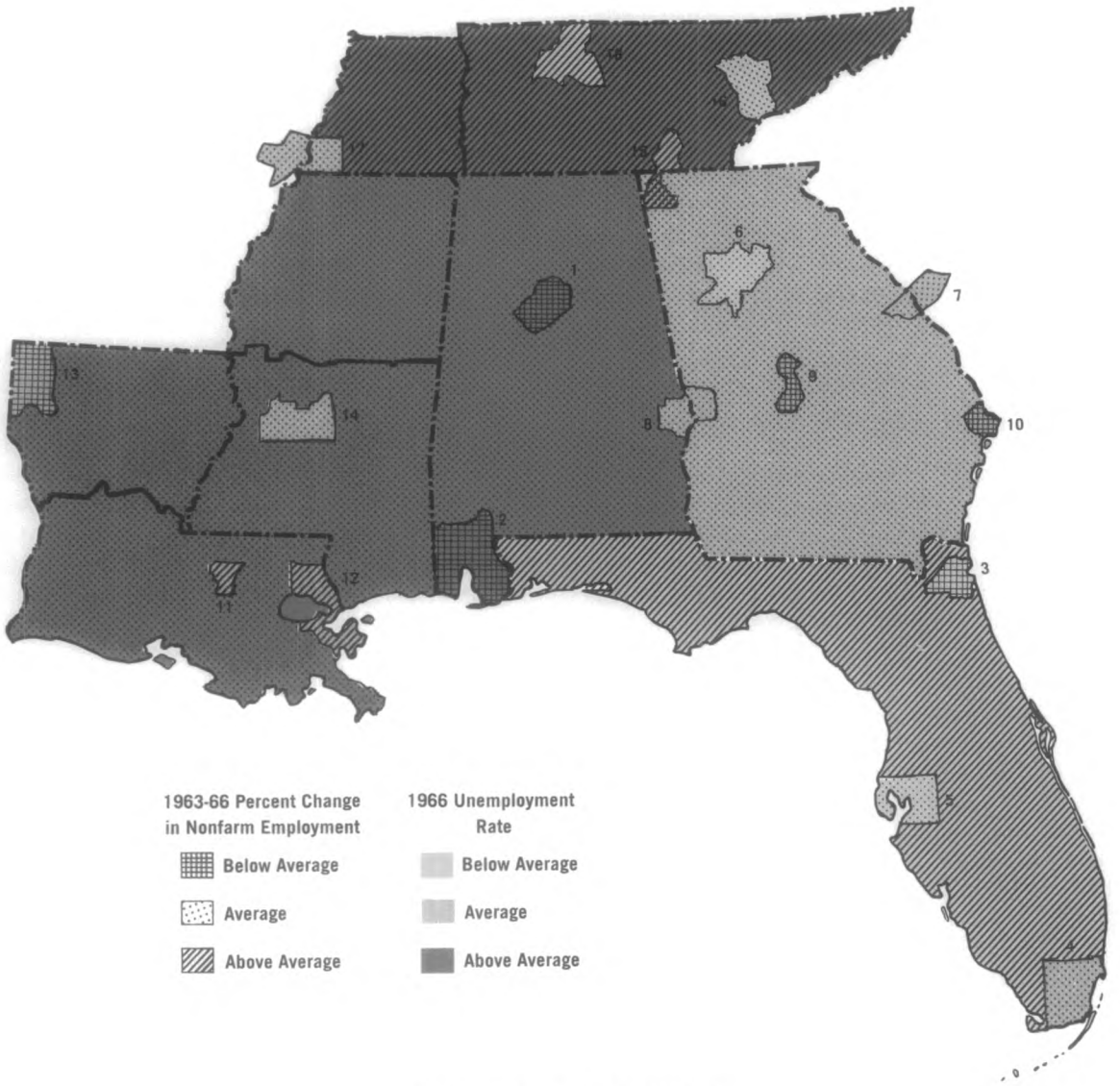
Labor Demand by Major Types of Activity

One reason for the faster nonfarm job growth outside the MLMA's is that the types of economic activity most important in the hinterland have grown faster than average in the District states. During the 1963-66 period, the three sectors which grew faster than total nonfarm employment were construction, manufacturing, and government. The less urbanized areas had a larger percent of employment in each of these activities than did the major labor market areas. The large share of employment in fast growing sectors outside MLMA's was reinforced by a more rapid increase in these three sectors in the hinterland. The faster growth in government jobs outside MLMA's can be explained partially by the location of two state capitals and many military and space facilities in areas outside large population centers. Inasmuch as the fast growth in construction jobs outside MLMA's is expanding the business base, new jobs are being created.

Some Geographical Differences

For the six-state total, non-MLMA's grew faster than the MLMA's, although in Georgia and Louisiana the situation was reversed. In cases where the other areas did not grow faster, MLMA's registered a rather vigorous growth rate. In Georgia, Atlanta and Augusta nonfarm jobs advanced 19 percent, and in Louisiana, Baton Rouge jobs jumped 25 percent and New Orleans employment 21 percent. Of the MLMA's, Mobile had the lowest growth rate because of a reduction in government jobs, still in progress. In 11 of the 18 cases, the MLMA had a slower growth of nonfarm jobs than did the non-MLMA in the state where it was located. In all six states the "other" area grew faster than at least one of the MLMA's in that state.

While employment for the hinterland has been concentrated in the District's fast growing sectors during the years of cyclical expansion, this may not be the case from a longer-term secular point of view. Jobs in cyclical industries like manufacturing and mining had below average growth rates over the last 20 years. Goods producing industries have generally been subject to a faster rate



Area Employment Indicators

Area	1963-66 Percent Change		Unemployment Rate, 1966
	Nonfarm	Manufacturing	
Alabama	14.4	18.2	4.2
1. Birmingham	10.3	8.2	4.1
2. Mobile	2.3	13.3	4.4
Outside MLMA's	18.4	22.4	4.2
Florida	18.7	20.9	2.6
3. Jacksonville	12.5	15.5	2.2
4. Miami	15.0	23.9	3.5
5. Tampa-St. Petersburg	16.1	21.9	2.4
Outside MLMA's	22.2	20.3	2.4
Georgia	16.1	17.6	3.4
6. Atlanta	18.4	20.9	2.8
7. Augusta	19.7	19.5	3.2
8. Columbus	18.8	7.7	3.5
9. Macon	12.2	20.2	2.9
10. Savannah	8.6	8.3	3.5
Outside MLMA's	14.6	17.2	3.7
Louisiana	17.9	14.5	4.3
11. Baton Rouge	25.4	8.2	3.7
12. New Orleans	20.5	21.9	3.3
13. Shreveport	10.5	31.6	3.2
Outside MLMA's	15.8	8.6	5.3
Mississippi	17.0	23.6	4.2
14. Jackson	13.5	19.5	3.2
Outside MLMA's	17.7	24.0	4.3
Tennessee	18.6	23.5	3.2
15. Chattanooga	21.9	25.4	2.9
16. Knoxville	13.8	12.5	2.7
17. Memphis	13.5	15.8	2.9
18. Nashville	20.8	23.2	2.4
Outside MLMA's	20.9	28.0	4.3
Six States	17.0	19.8	3.5
18 MLMA's	15.8	16.1	3.3
Outside MLMA's	18.1	22.7	3.7

of technological advance, which reduces labor requirements per unit of output, than have the service industries. Large cities, long characterized as industrial centers, now have a larger percent of employment in nonindustrial jobs than do the smaller areas. However, an important part of expansion depends upon the growth of an area's industries which serve national markets and create a demand for jobs in the local service areas. Therefore, developments in the manufacturing sector, which primarily serves nonlocal markets, need examination.

Growth in Manufacturing Employment

In manufacturing, the difference in the 1963-66 percentage growth rates in jobs between MLMA's and non-MLMA's was greater than for any other major division, with rates of 22.7 and 16.1 percent, respectively. Manufacturing jobs in the hinterland areas recorded their best gain in Tennessee, with a 42-percent advance in durable jobs in which furniture and fabricated metals manufacturing led the way.

Durable goods jobs in the hinterland increased more rapidly in each state than in the MLMA's of that state, even though the fastest growing durable goods industries were concentrated in population centers.

For the six states, the fastest growing durable goods manufacturers were transportation equipment, fabricated metals, and furniture. Transportation equipment jobs are substantially more important in the MLMA's, fabricated metals are somewhat more concentrated in MLMA's, and furniture manufacturing is more pronounced outside the major labor markets. The only durable goods industry with a job growth rate substantially below that of total manufacturing, lumber and wood products, is concentrated outside metropolitan areas. Furniture and fabricated metal manufacturing jobs grew faster in the non-MLMA's in every District state than in the population centers.

For nondurable goods manufacturing, the fastest growth in this region occurred in the apparel industry, located primarily in small towns. In the food, paper, and printing industries, where the area growth was about average, the pace was substantially faster outside the large urban areas. In the chemical industry, on the other hand, growth was higher in the MLMA's. However, the chemical industry does not employ a large number of people. For the paper and food industries, the availability of the principal material inputs makes the less populated areas attractive. The small capital requirements and the availability of many small towns with an adequate supply of female labor draws apparel firms to these areas. Thus, the more rapid growth in nondurable goods jobs outside the MLMA's is not unexpected.

Dispersion of Jobs

These employment developments reflect a general dispersion of industry away from population centers. A recent study by the U.S. Department of Labor also indicates that job growth is proceeding at a faster pace in the fringe counties of metropolitan areas than in the central counties. This dispersion reflects improved transportation and the move away from city congestion. In the central cities, the cost of both land and labor is considerably higher.

The concerted effort of many industrial development commissions to bring new industry into these less developed areas has also played a role in the dispersion of industry. These agencies make special studies of small areas to uncover potentialities and develop different training programs to improve the quality of the local labor force. Many of the less developed counties have taken advantage of special legislation, such as industrial bonds and tax concessions, to attract industries to their area. Such devices are less frequently used by large cities.

While the data clearly indicate that the areas outside metropolitan areas have grown faster in terms of nonfarm and industrial jobs in recent years, the aggregates cover up many of the disparities among individual areas. The variability of job growth is greater among hinterland counties than MLMA's because non-urban counties are more likely to depend upon a few industries or firms. If the fortunes of a dominant firm located in a less developed county falter, the local economy can easily lag. For larger areas, the number of different industries allows great opportunity for offsets. Yet the disparities in the fortunes of less populated counties do not mean the hinterland is losing out on the competition for new jobs. Growth may be spotty, but both nonfarm and industrial jobs have increased at faster rates in the hinterland in general than in the large population centers in recent years.

RICHARD LONG

Southern Mortgage Banking Matures — Part II
Growth and Structural Change

In fulfilling the essential role of maintaining and improving regional access to national capital markets, southern mortgage bankers have become larger, better capitalized, more experienced, and more flexible. In the 1950's, the industry's growth was explosive in terms of the number of companies establishing themselves and rapidly increasing their volume of specialized services. In the 1960's expansion has continued at a slower pace, and the emphasis has shifted from quantitative to qualitative growth.

Volume and Source of Mortgage Funds Administered

Mortgage bankers are service organizations. Although they devote much of their resources to originating mortgages and providing other services to their borrowing clients, they typically emphasize continuing servicing of mortgages for predominantly nonlocal investors as the measure of their size and growth. According to Bank estimates, at the end of 1966 about $11.4 billion of mortgages on properties located in the South[1] required such servicing, excluding that normally performed by local institutions of their own permanent portfolios (Chart I). Of this total, an estimated $9.1 billion, or 80 percent, was serviced by specialized mortgage companies. Commercial banks in the region, acting as mortgage bankers, serviced an additional 6 percent, while nonregional life insurance companies accounted for the remaining 14 percent directly or from offices

[1]The states of Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

Survey Techniques and Results

The analysis presented here was drawn primarily from a universe survey of all known mortgage banking firms (174), active in mortgage servicing on December 31, 1966. Most of the firms are members of the Mortgage Bankers Association of America and are headquartered in the six-state region of Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. Also included in the survey were known firms that are not MBA members.

An auxiliary survey was made in Florida, where the most changes in the number of firms have occurred over the past seven years. It was initially limited to determining whether firms advertising under "Mortgages" or "Real Estate Lending" in classified telephone directories were in fact mortgage banking firms and whether they would participate in the survey. Five responded to a follow-up inquiry with basic servicing data included in the total servicing volume of the analysis.

A third supplementary survey was conducted, covering all known mortgage banking firms headquartered outside the six states but which had branches, affiliates, or other formal servicing arrangements for mortgages on properties in the region. The basic survey was also supplemented by personal visits, correspondence, and telephone conversations with various mortgage bankers.

The main survey was patterned after a similar, but less extensive, survey made in the summer of 1960. The earlier survey was the Bank's first formal attempt to appraise the role of mortgage bankers in the region's capital inflows and in particular to quantify their contributions to regional mortgage financing. The current survey updates those data and in addition provides the basis for evaluation of structural changes within the industry.

Survey response was excellent, considering the type and quantity of detail requested:

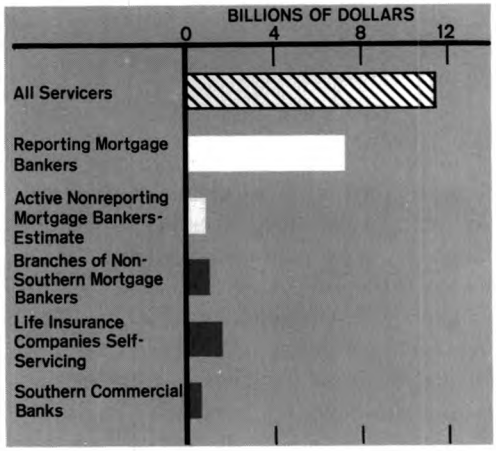
	Questionnaires		
	Number	Responses	
Survey Section	Mailed	Number	Percent
Main survey	174	106	61
Florida supplement	185	5*	3
Branch operations of firms headquartered outside region	32	16**	50

*Of the 22 firms responding to the 185 initial inquiries, 5 subsequently returned abbreviated questionnaires covering volume of servicing totaling $26.4 million, 5 returned questionnaires without furnishing any data, and 12 did not return questionnaires.

**Two additional firms responded but could not break out their servicing volume by state because of computer programming problems.

Chart I

Southern mortgage bankers serviced over two-thirds of mortgages owned by non-southern investors on southern properties, according to a survey made on December 31, 1966.



located in the region.

Specialized mortgage companies responding to the survey and headquartered in the South serviced $7.2 billion, or 63 percent of the total. Active nonreporting mortagage companies serviced an estimated $826 million. Fifteen of 31 mortgage companies headquartered outside the region but who maintained branch offices within the region serviced an estimated $1.1 billion.

The foregoing analysis makes it clear that a particular region such as the South is not wholly dependent upon its own mortgage companies for importation of mortgage funds. It is equally clear, however, that major dependence does have to be placed upon them. Historically, locally-oriented institutions have maintained such channels over the longer run.

Less than 25 percent of the companies headquartered in the South serviced two-thirds of the $7.2 billion total for the group, as can be seen in Chart II. The ten largest companies, representing less than 10 percent of all the reporters, serviced slightly more than 40 percent of the total mortgage volume. Total 1966 servicing volume of this group exceeded $200 million per firm, and by June 30, 1967, two administered portfolios in excess of $500 million each.

The prime role of the large mortgage banker is emphasized in Table I. First, he must make rapid adjustments to changing conditions in the sources of funds. The largest mortgage companies have one of the lowest proportions of servicing for life insurance companies. Since the large firms specialize heavily in mortgages with a national secondary market, i.e., FHA and VA mortgages, they had to find new sources of funds when life insurance companies switched preferences to other forms of investment. They found a substantially enlarged investment flow from mutual savings banks. These banks, located mainly in New York State and New England, had a high preference for FHA-VA mortgages, but they also preferred to acquire them "off the shelf."

The mortgage banker must also be able to make adjustments in his operating methods. The larger mortgage firms were better equipped in staff, capital, credit lines, and other factors to enlarge their risk-taking functions by originating such mortgages for their own inventories. They were also frequently in a position to "make a market" for smaller companies by buying mortgages from them for later packaging and sale in large lots to "off-the-shelf" buyers.

This combination of shifting sources of funds and changing methods of operations brought substantial benefits to the southern mortgage borrower. Size, resources, experience, and flexibility enabled the large mortgage banker to move into developing pockets of relative shortage of mortgage funds by either branching, appointment of originating agents, or affiliation with existing firms. As Table I shows, the largest southern mortgage firms were considerably below average in proportion of servicing for life insurance companies and considerably above for mutual savings banks. Because the latter are heavily concentrated in both New York State and New England, these larger mortgage companies are also well above average in servicing mortgages owned by investors in both areas.

The role of the medium- and small-size mortgage banker is not to be overlooked in the changing credit needs and sources of funds. Many

Chart II

Large mortgage banking firms, servicing over $100 million in mortgages, accounted for almost two-thirds of servicing by firms headquartered in the South on December 31, 1966.

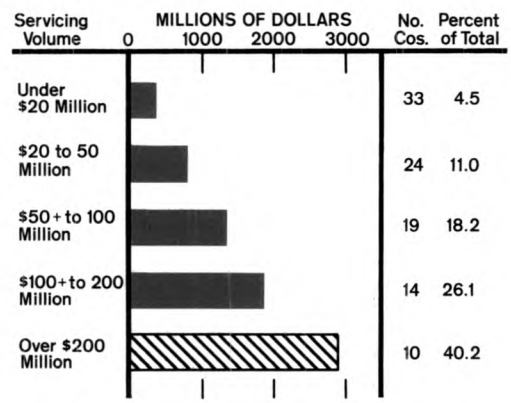


Table I
Percent Distribution of Mortgage Servicing Portfolios of Southern Mortgage Bankers at the End of 1966

100 Reporting Mortgage Bankers, by Type of Mortgage	Size of Firm in $ Millions Servicing					
	All Firms	Over 200	100+ to 200	50+ to 100	20+ to 50	20 & Under
FHA Insured, 1-4 Family Housing	49	53	49	45	43	52
FHA Insured, Multi-family Housing	2	3	2	*	2	1
VA Guaranteed Mortgages	25	27	27	23	20	16
Conventional, 1-4 Family Housing	8	6	9	9	14	12
Conventional, Multi-family Housing	5	5	3	4	6	8
Commercial, Other Than Multi-family Housing	10	6	10	16	15	10
Other	1	*	*	3	*	1
96 Mortgage Bankers, by Location of Investor, Investors Headquartered						
New York State	37	40	40	35	24	28
New England	21	25	16	16	33	10
Sixth District States	16	15	15	17	15	22
All Other States	26	20	29	32	28	40
Outside the United States	*	*	*	—	*	—
99 Mortgage Bankers, by Type of Investor						
Life Insurance Companies	46	42	47	41	63	49
Mutual Savings Banks	30	34	30	31	15	18
Pension, Retirement, & Trust Funds	2	2	2	1	4	5
Savings and Loan Associations	4	5	2	4	2	5
FNMA	11	11	10	13	10	16
Commercial Banks	3	1	5	5	2	2
Your Own Inventory	3	3	3	4	3	4
All Others, Including Individuals	1	2	1	1	1	1

*Less than 0.5 percent.

of these companies, located in smaller but growing southern communities, were long-time correspondents for the major life insurance company investors. As the trend from single-family to multi-unit residential building developed and as more single-family housing was financed by conventional mortgages, these firms evidently chose to specialize more in these mortgage types. The same holds true of mortgages on commercial properties. The medium- and small-size companies also appear to have been relatively more active in developing alternative sources of funds from within the six southern states and from "all other states."

The smallest mortgage companies were evidently more successful than larger ones in attracting a relatively greater share of funds from pension, retirement, and trust funds. They also serviced a higher proportion of FNMA-owned mortgages. The largest and the smallest companies had the highest proportion of servicing for savings and loan associations. The geographic distribution pattern of servicing portfolios, Table I, suggests that in the case of the smaller companies a sizable volume of funds may have come from within the region or from adjacent states. Savings and loan associations in the South have recently increased their interest in FHA-VA mortgage purchases, not only for diversification, but also because these are viewed as nonrisk assets for reserve purposes.

Medium- and small-size companies had higher proportions of all three types of conventional mortgage servicing than did the largest companies. As previously noted, the tendency toward specialization was more pronounced among this size group than among the largest companies; in some cases, individuals well versed in particular types of mortgages, such as commercial, left their employment to form their own specialized firms.

Growth of Southern Mortgage Banking Slows

One of the marks of a maturing industry is that the rapid entry and fast growth phase gradually gives way to concentration of the industry into larger firms. Growth may continue, but it is typically slower and capitalization requirements tend to increase.

In spite of $9.1 billion mortgages being serviced by southern mortgage bankers at the end of 1966, the rate of total growth has declined in the

1960's. In the 1950's, for example, total volume climbed at a compound annual growth rate of 17 percent. Over the seven years, 1959 to the end of 1966, the compound growth rate amounted to only 8 percent. An expected slowing of growth was suggested by two factors noted in Part I: first, a larger share of the South's mortgage credit requirements was being satisfield by its own local and regional institutions; second, a sharp change occurred in the investment preferences of life insurance companies away from mortgages.

The same pattern of slowing growth is present when available data for 1949, 1959, and 1966 for 69 mortgage banking firms are analyzed. Over the 1949-66 period the compound growth rate of these firms was 13.1 percent. Between 1949 and 1959, it was 14.4 percent, but from 1959 to 1966 declined to 11.3 percent. Further examination of data for an additional 22 firms, not in operation in 1949 but in business in 1959, reveals a compound growth rate between 1959 and 1966 of 13.7 percent, or 2.4 percent per year higher than that of the older firms during the same period.

In contrast to the 22 firms that began operations in the 1950's, only nine respondents began operations in 1960 or later. However, between year-end 1959 and 1966, at least 51 companies known to be in operation on December 31, 1959, went out of business. Some merged with other companies; several sold their servicing accounts and concentrated on real estate, insurance, or other types of related business; a few failed; and others simply discontinued originating and/or servicing mortgages. While these data are incomplete, they are indicative of a maturing industry.

Mortgage bankers were asked in the survey to state the relative importance in their growth of four specific factors and to list others of importance but not covered in the four. Twenty-seven indicated that purchase of servicing accounts from others had played some part in their growth. In two-thirds of the cases, however, it amounted to 10 percent or less of their total portfolio growth.

Purchase of entire mortgage companies or merger with other companies was listed as a factor in growth by only eight companies. In three cases the contribution was 10 percent or less, but in five it amounted to more than 30 percent. Purchase of mortgage banking portions of other companies (such as combination real estate, insurance, and mortgage lending firms) was listed by only six companies, five of which indicated its importance as 10 percent or less, and one between 20 and 30 percent.

Internal growth was given most frequently as the most important type of growth of 90 firms. Estimates of internal growth as a percentage of respondents' present servicing volume were:

Degree of Importance	Number of Firms
100 percent	56
91 to 99 percent	10
81 to 90 percent	8
71 to 80 percent	3
61 to 70 percent	1
51 to 60 percent	6
41 to 50 percent	3
31 to 40 percent	0
21 to 30 percent	3
20 percent and under	0

Five firms listed other factors:

1 Refinancing and purchases	40 to 50 percent
1 Increasing lending areas	40 to 50 percent
3 Investor transferred loans	
(1)	30 to 40 percent
(1)	0 to 10 percent
(1) Assignment from FNMA	0 to 10 percent

Growth of Assets, Capital and Net Worth, Credit Lines, and Branch Operations

In the seven-year period between year-end 1959 and 1966, southern mortgage bankers expanded their capital and net worth by 86 percent. Assets grew only 72 percent. The latter is not so significant, however, since mortgage inventories typically account for a large proportion of assets. These in turn are offset almost entirely by warehouse loans. Moreover, it is probable that the cutoff date of December 31, 1966, unduly distorts the asset data; the latter half of 1966 was an unsettled period in which large sales from uncommitted inventories were made to FNMA by many mortgage bankers. For example, mortgage holdings of FNMA on properties in the six states increased by $155.2 million, accounting for slightly more than 25 percent of the entire growth in FNMA holdings during the seven-year period.

Growth of capital and net worth is what matters in mortgage banking. The degree of this growth is significant not only to the individual company and to the industry, but also to the investors and the region the industry serves. Adequate capital is a major determinant of most of the other functions which risk-taking, flexibility, maturity, and permanency require.

Throughout most of the 1950's mortgage bankers generally had been unable to add to their capital at rates commensurate with their overall

growth. Most studies during this period emphasized their newness as financial institutions, their tendency to operate as "correspondents" or "captive agencies" of investors, and their under-capitalization. Investors urged them to build capital faster, and so did their legacy of vulnerability in the longer past, their most recent experience in the late 1950's, and the changing market conditions of the times. Shifting investment preferences of their major suppliers of funds and the sharpened competition of local and regional investors under conditions of relatively easy availability of funds added to the pressures for taking additional risks in originating and holding mortgages in inventory.

Southern mortgage bankers responded to this challenge in differing degrees. On balance, the growth rate of capital and net worth was positively correlated with size of firm, but there were substantial exceptions (Table II). Of the total of 77, 31 more than doubled their capital accounts. Only six firms showed a reduction, the largest of which was 35 percent. Southern mortgage bankers increased the amount of mortgage servicing per dollar of capital from $90 in 1959 to $100 in 1966, according to Table III. The smallest firms were the only ones that decreased their ratio. However, the largest firms increased this ratio by a very small amount, while the firms in the size range of $20+ to $50 million in servicing volume showed the largest rate of increase. Some of the reasons the largest firms require a higher ratio of capital to servicing volume are that they typically operate more branch offices, provide more services to builder clients (such as construction lending, land development, etc.), and are more heavily involved in servicing single-family residential mortgages.

Mortgage bankers were asked to rank four policy factors as to relative importance in their growth over the past five years. The most important of these, as indicated by response, was "broadening to include more conventional loans, such as commercial and industrial." Of 68 listing this as a factor, 40 indicated that it ranked first in importance. Forty-five respondents listed "concentrating more heavily upon 'mortgage banking' (as opposed to other real estate services, insurance, etc.)." Of these, 19 ranked it first in importance.

Considerably fewer mortgage bankers emphasized "expansion of range and service functions outside of the origination and servicing of mortgages." Only 12 of the 36 rated it most important. A somewhat larger number, 42, listed the factor of "becoming more specialized in FHA-VA mortgages and penetrating this sector of the market more deeply" as important. Most of those listing it first in importance were large firms that served extensive geographic areas and operated branches.

Table II
Growth of Capital and Net Worth
77 Mortgage Bankers
Year-end 1959-66

Rate of Change (Percent)	Size of Servicing Portfolio, December 31, 1966, $ Millions					
	All Firms	$20 and Under	$20+ to $50	$50+ to $100	$100+ to $200	Over $200
Over 200	11	4	1	2	2	2
100 to 199	20	0	4	6	4	6
50 to 99	15	5	5	2	2	1
25 to 49	10	4	3	2	1	0
0 to 24	15	7	7	0	1	0
− 1 to −9	2	0	1	0	1	0
−10 and Over	4	1	1	1	1	0
	77	21	22	13	12	9

Table III
Servicing Volume to Capital and Net Worth
1966 and 1959

1966 Portfolio Size of Company	Number of Companies		Dollar Amount of Mortgages Serviced Per Dollar Capital and Net Worth	
	1966	1959	1966	1959
$20 Million and Under	24	19	72.5	88.1
$20+ to $50 Million	24	22	81.3	55.2
$50+ to $100 Million	13	12	102.9	88.2
$100+ to $200 Million	12	12	152.8	137.1
Over $200 Million	9	9	90.0	88.2
All Companies	82	74	100.1	90.3

Operational Methods and Range of Services

As has been suggested, one of the reasons that higher capitalization is desirable for mortgage companies is that their function requires risk-taking. Just as the investment banker must incur costs and bear risks in discovering, originating, underwriting, and distributing an issue of bonds, so must the modern mortgage banker incur costs and assume risks in originating and inventorying mortgages. As he has matured and as market conditions have changed, risk-bearing has become an even more important measure of his effectiveness. It is true, of course, that the mortgage banker has a couple of risk-limiting factors going for him that the investment banker does not. First, he has the government-insured or guaranteed mortgage, which insurance or guaranty limits its default risk and converts an otherwise ineffici-

ent capital market instrument into one that has broad acceptability. Second, at most times he has a floor under prices of mortgages eligible for purchase by FNMA, which places some limit on inventory risk.

The FHA-VA mortgage, combined with the system of advance commitment by permanent investors, facilitated the rapid growth of mortgage companies in the 1950's. This expansion, in both numbers of companies and in volume of mortgage servicing, was possible on a relatively small capital base. Thus, it is not surprising that during most of that decade substantially less than half the southern mortgage companies originated mortgages without prior commitment. By 1959-60, the proportion was still only about 46 percent (Chart III). The median volume of mortgage originations without such prior commitment by these companies was only 40 percent of their total volume.

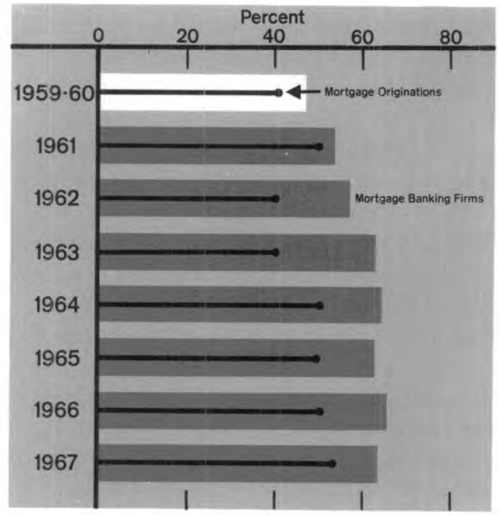
Changing market conditions and growth of capital and net worth in the 1960's made it both necessary and possible for southern mortgage bankers to assume more risk in the originating, inventorying, and selling of mortgages. Substantial growth in capital base was accompanied by a sharp expansion in credit lines and for many companies by greater flexibility in opening, closing, and maintaining branch operations. As a result of these and other factors, the number of companies assuming greater risks through increasing their "own inventory" originations rose steadily during the 1959-66 period. A similar, though less pronounced, rise occurred in the proportion of noncommitted originations by these firms.

During the current year the median proportion of noncommitted mortgages of those companies making such originations rose to 53 percent. One of the reasons is that FNMA has provided relatively greater support volume-wise for the FHA-VA market than in some prior years; and, of course, mortgages are offered to FNMA "off the shelf." As one mortgage banker stated, "If you want to stay in business, you have to accept the risk of price changes by both the market and by FNMA and originate without commitment." A number of mortgage bankers, with the long view and adequate capitalization, have maintained firm price floors in short-term future contracts with builders and others, even under market conditions of rising yields.

Southern mortgage bankers have also been willing to assume risks in conventional mortgage originations. Somewhat more than 25 percent of those originating without commitments in 1967 were doing so in conventional mortgages.

Chart III

More mortgage bankers are originating more mortgages without prior commitments than during the 1950's.



Higher capitalization has permitted southern mortgage bankers to expand other functions during the 1960's. For example, in 1959-60, only 56 percent of respondents provided construction loans. By 1967 this proportion had risen to 71 percent. Over one-third of respondents indicated they are now originating high-loan-to-value-ratio conventional loans, involving private mortgage insurance and junior liens. The majority utilize the General Electric Credit Corporation plan. A much smaller proportion of firms, about 8 percent, make loans on "second" or "vacation" homes. Less than 5 percent make loans on mobile homes.

Respondents were asked to list any new services or development which their companies had initiated or adopted over the last six years. Most of them listed entry into land development and making land development loans. One firm had been active in joint ventures with builders in land development. Refinement of cost accounting systems for better departmental and branch office management and control was also listed by several companies. Among other replies were expansion of operating territory, heavier emphasis on commercial and industrial loans, preclosed construction-permanent loans, and development of source of funds through public sale of demand notes limited to 10 percent of outstanding mortgages held by the issuer.

Present Competitive Position

In a free market competition is the spur that produces progress. Southern mortgage banking firms, the least government-regulated of any regional financial institution, achieved the results reviewed here in a highly competitive atmosphere. On the side of registering the bids of their borrowing clients in the market for funds, they enjoyed a period of ready availability of such funds for a relatively long period between 1961 and 1965. They were thus able to cope with the problem of replacement of a substantial reduction in the rate of increase of mortgage funds becoming available from one major investor by finding other buyers of southern mortgages.

The same favorable climate for increasing the flow of outside mortgage credit into the South also stimulated more competitors to help provide the channels. Mortgage bankers were asked to evaluate the intensification since 1960 of this competition from commercial banks, from mortgage companies headquartered elsewhere but operating in their market area, and from other firms such as real estate firms expanding into mortgage banking. Of 94 firms responding, 89 percent indicated some increase in competition from commercial banks, while 40 percent had experienced a substantial increase. The same proportion of respondents reported greater competition from mortgage companies headquartered elsewhere. About 44 percent indicated that it was substantial.

On the other hand, reflecting higher capital requirements, scarcity of specialized personnel, and other factors, the proportion of respondents experiencing more competition from other types of firms was 39 percent. Only one percent reported substantially greater competition from this source, while 61 percent had no change or reduced competition.

Almost half the respondents—46 percent—anticipate that competition from commercial banks will rise significantly within six months to a year. Slightly more than one-third—37 percent—look for such competition from other mortgage companies through branch or other operations. Less than one-fifth, however, expect significant increases in competition from other firms. The most frequent response of the latter was that greater competition was expected from direct lending of savings and loan associations.

In spite of increased competition, severe readjustments in the wake of unsettled capital markets, and a sharp recession in housing, only 24 percent of the respondents at midyear 1967 felt that the mortgage banking industry in their markets had been weakened and only 2 percent that it had been weakened significantly. Although 46 percent replied that the industry's ability to continue as an important member of the South's family of financial institutions was about the same as before 1966, 29 percent felt that it was somewhat stronger. Only 1 percent felt that it was substantially stronger.

What of the Future?

The South has made remarkable progress in financing a growing share of its mortgage credit needs from local and regional savings flows. Considering its deeply based growth trends in population, industrialization, employment, and incomes, however, the need for substantial augmentation of its own savings capacity will most likely continue for many years. As its economy grows more like that of the nation, the need for interregional capital flows may be somewhat reduced as its savings base expands. Given the pattern of sharp differentials in growth rates in urban areas within the region, however, and the spread of industry to smaller centers, the need for intraregional capital flows seems likely to grow further. Moreover, investment diversification requirements of most financial institutions will probably increase.

Since it is unlikely that the basic deficiencies of the individual mortgage as a capital market instrument will soon be remedied, capital deficit regions will continue to need specialists in originating, inventorying, packaging, selling, and servicing such mortgages. The southern mortgage banker has demonstrated his tactical competence by his flexibility in adjusting to sharp changes in his environment. He has given reassurance of his longer-run viability by his success in rapidly building his capital, for the most part from internal sources. He has confirmed his maturity by the volume and quality of his service to his investors and to a fast growing region.

HIRAM J. HONEA

This is the second in a series of articles on the southern mortgage banker. Copies of this article and Part I, which appeared in the October issue, are available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

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. $, Annual Rate)	Aug.	58,600	57,978r	57,795r	53,840
Manufacturing Payrolls	Sept.	201	200	198	194
Farm Cash Receipts	Sept.	129	161	146	134
Crops	Sept.	99	174	147	118
Livestock	Sept.	161	152	144	156
Instalment Credit at Banks* (Mil. $)					
New Loans	Sept.	298	302r	322	264
Repayments	Sept.	268	256	270	265
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Sept.	136	136	136	133
Manufacturing	Sept.	135	135	135	135
Apparel	Sept.	166	163	166	167
Chemicals	Sept.	132	131	130	131
Fabricated Metals	Sept.	152	152	152	150
Food	Sept.	112	114	114	112
Lbr., Wood Prod., Furn. & Fix.	Sept.	103	103	103	107
Paper	Sept.	118	118	118	114
Primary Metals	Sept.	126	126	126	131
Textiles	Sept.	105	106	104	106
Transportation Equipment	Sept.	178	181	185	175
Nonmanufacturing	Sept.	137	137	137	133
Construction	Sept.	124	122	121	127
Farm Employment	Sept.	54	62	68	57
Unemployment Rate (Percent of Work Force)	Sept.	4.1	4.1	4.1	3.6
Insured Unemployment (Percent of Cov. Emp.)	Sept.	2.4	2.5r	2.5	1.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept.	41.3	40.9	40.7	41.8
Construction Contracts*	Sept.	151	188	159	165
Residential	Sept.	160	179	177	124
All Other	Sept.	144	195	144	199
Electric Power Production**	Aug.	146	148	145	141
Cotton Consumption**	Sept.	108	107	110	116
Petrol. Prod. in Coastal La. and Miss.**	Sept.	274	270	250	211
FINANCE AND BANKING					
Loans*					
All Member Banks	Oct.	258	257	256	241
Large Banks	Oct.	230	229	226	224
Deposits*					
All Member Banks	Oct.	196	193	194	178
Large Banks	Oct.	176	172	174	163
Bank Debits*/**	Sept.	210	210r	208	183
ALABAMA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Aug.	7,682	7,572r	7,567	7,214
Manufacturing Payrolls	Sept.	175	177	177	174
Farm Cash Receipts	Sept.	125	124	160	126
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Sept.	124	125	125	124
Manufacturing	Sept.	121	122	121	123
Nonmanufacturing	Sept.	126	126	126	124
Construction	Sept.	121	120	119	131
Farm Employment	Sept.	55	66	82	47
Unemployment Rate (Percent of Work Force)	Sept.	4.8	4.6	4.3	4.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept.	40.9	40.5	40.7r	41.3
FINANCE AND BANKING					
Member Bank Loans	Oct.	240	240	241	223
Member Bank Deposits	Oct.	190	190	175	275
Bank Debits**	Sept.	193	199r	200	172
FLORIDA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Aug.	17,248	17,025r	16,854r	15,590
Manufacturing Payrolls	Sept.	249	246	243	237
Farm Cash Receipts	Sept.	164	160	140	149
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Sept.	151	151	151	145
Manufacturing	Sept.	159	157	157	154
Nonmanufacturing	Sept.	149	150	150	143
Construction	Sept.	108	108	110	110
Farm Employment	Sept.	88	77	83	78
Unemployment Rate (Percent of Work Force)	Sept.	2.9	3.0	3.1	2.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept.	42.1	42.4	42.3	42.7
FINANCE AND BANKING					
Member Bank Loans	Oct.	270	271	270	246
Member Bank Deposits	Oct.	205	200	201	180
Bank Debits**	Sept.	222	223r	197	174
GEORGIA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Aug.	11,305	11,205r	11,178r	10,332
Manufacturing Payrolls	Sept.	203	201	202	194
Farm Cash Receipts	Sept.	141	158	141	183
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Sept.	135	135	135	131
Manufacturing	Sept.	130	130	131	130
Nonmanufacturing	Sept.	137	138	137	132
Construction	Sept.	128	125	124	120
Farm Employment	Sept.	50	62	63	51
Unemployment Rate (Percent of Work Force)	Sept.	3.7	3.8	3.5	3.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept.	41.4	40.7	40.4	42.0
FINANCE AND BANKING					
Member Bank Loans	Oct.	265	268	265	252
Member Bank Deposits	Oct.	215	213	212	195
Bank Debits**	Sept.	217	225	223	198
LOUISIANA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Aug.	8,706	8,613r	8,574r	7,951
Manufacturing Payrolls	Sept.	182	179	182	171
Farm Cash Receipts	Sept.	143	236	159	130
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Sept.	128	127	126	124
Manufacturing	Sept.	121	119	119	116
Nonmanufacturing	Sept.	129	128	127	126
Construction	Sept.	132	127	121	141
Farm Employment	Sept.	55	62	64	62
Unemployment Rate (Percent of Work Force)	Sept.	5.0	5.1	5.5	4.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept.	42.5	41.8	42.6	42.7
FINANCE AND BANKING					
Member Bank Loans*	Oct.	231	231	233	223
Member Bank Deposits*	Oct.	164	163	163	152
Bank Debits*/**	Sept.	172	171	184	165
MISSISSIPPI					
INCOME					
Personal Income (Mil. $, Annual Rate)	Aug.	4,429	4,396r	4,491r	4,094
Manufacturing Payrolls	Sept.	216	212	211	206
Farm Cash Receipts	Sept.	85	156	154	88
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Sept.	138	137	137	137
Manufacturing	Sept.	144	143	143	147
Nonmanufacturing	Sept.	135	135	135	132
Construction	Sept.	132	131	128	145
Farm Employment	Sept.	38	49	58	47
Unemployment Rate (Percent of Work Force)	Sept.	5.3	5.0	5.3	5.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept.	40.8	40.1	39.9	41.2
FINANCE AND BANKING					
Member Bank Loans*	Oct.	314	306	310	291
Member Bank Deposits*	Oct.	232	231	231	216
Bank Debits*/**	Sept.	215	220	202	198

	Latest Month (1967)		One Month Ago	Two Months Ago	One Year Ago
TENNESSEE					
INCOME					
Personal Income (Mil. $, Annual Rate)	Aug.	9,230	9,167	9,131r	8,659
Manufacturing Payrolls	Sept.	197	197	191	191
Farm Cash Receipts	Sept.	107	139	126	107
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Sept.	136	136	136	136
Manufacturing	Sept.	142	143	142	145
Nonmanufacturing	Sept.	133	133	133	131
Construction	Sept.	157	157	153	158
Farm Employment	Sept.	58	67	69	66
Unemployment Rate (Percent of Work Force)	Sept.	4.2	4.3	4.5	3.2
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept.	40.6	40.2	39.7	41.3
FINANCE AND BANKING					
Member Bank Loans*	Oct.	254	245	239	237
Member Bank Deposits*	Oct.	186	182	181	171
Bank Debits*/**	Sept.	232	207	231	209

*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

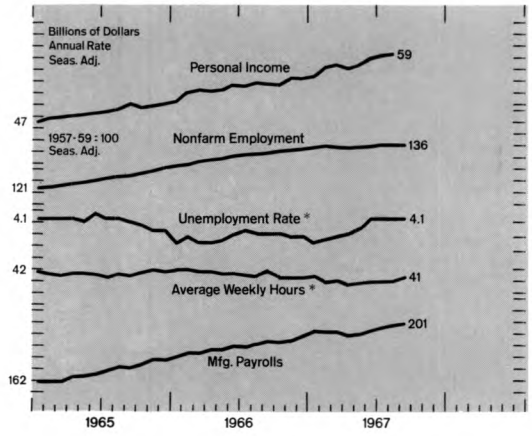
Insured Commercial Banks in the Sixth District

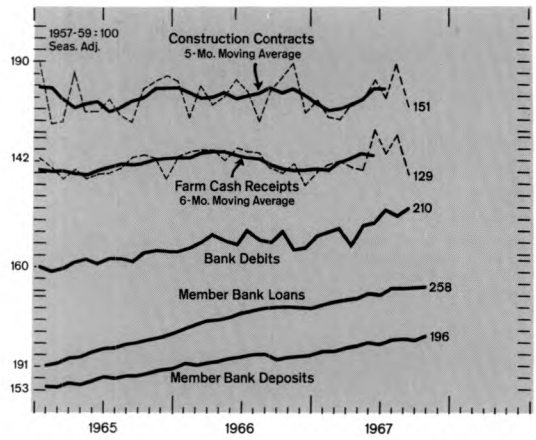
(In Thousands of Dollars)

	Sept. 1967	Aug. 1967	Sept. 1966	Percent Change: Sept. 1967 from Aug. 1967	Percent Change: Sept. 1967 from Sept. 1966	Percent Change: Year-to-date 9 mos. 1967 from 1966
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham	1,446,944	1,534,472r	1,384,857r	−6	+4	+8
Gadsden	60,365	64,612	64,171r	−7	−6	−5
Huntsville	170,808	193,104	180,010r	−12	−5	+0
Mobile	455,965	522,778	416,606r	−13	+9	+7
Montgomery	320,040	333,933	289,195r	−4	+11	+3
Tuscaloosa	93,215	102,120	83,410	−9	+12	+9
Ft. Lauderdale—Hollywood	576,551	587,408	528,878r	−2	+9	+8
Jacksonville	1,427,445	1,526,081r	1,361,298r	−6	+5	+5
Miami	2,200,773	2,275,208r	1,868,937r	−3	+18	+10
Orlando	470,560	538,311	460,591r	−13	+2	+7
Pensacola	187,237	199,575	184,075r	−6	+2	+9
Tallahassee	135,612	151,291	121,481	−10	+12	+14
Tampa—St. Petersburg	1,292,692	1,325,198r	1,117,997r	−2	+16	+10
W. Palm Beach	370,718	384,389	339,668r	−4	+9	+3
Albany	89,881	87,505	97,885	+3	−8	−4
Atlanta	4,599,060	4,784,437	4,174,710r	−4	+10	+8
Augusta	275,339	310,507	272,848r	−11	+1	+10
Columbus	221,362	236,462	209,736r	−6	+6	+10
Macon	252,432	261,107	224,271r	−3	+13	+11
Savannah	250,426	276,884	238,470r	−10	+5	+9
Baton Rouge	509,271	516,149	483,266r	−1	+5	+10
Lafayette	116,335	126,289	115,352	−8	+1	+4
Lake Charles	143,051	147,557	138,931	−3	+3	+12
New Orleans	2,187,869	2,369,108	2,218,506r	−8	−1	+2
Jackson	611,512	652,518	591,272r	−6	+3	+9
Chattanooga	574,023	590,569	553,253r	−3	+4	+6
Knoxville	451,055	469,205	433,336r	−4	+4	+6
Nashville	1,619,786	1,541,642	1,485,290r	+5	+9	+18
OTHER CENTERS						
Anniston	62,916	67,027	64,676	−6	−3	+1
Dothan	64,830	60,471	61,655	+7	+5	+10
Selma	47,614	57,820	42,822	−18	+11	+14
Bartow	31,687	31,536	39,012	+0	−19	−7
Bradenton	62,059	62,249	59,225	−0	+5	+21
Brevard County	195,169	220,536	199,292r	−12	−2	+5
Daytona Beach	81,870	86,964	77,279	−6	+6	+7
Ft. Myers—N. Ft. Myers	71,442	74,177	63,856	−4	+12	+9
Gainesville	84,336	78,854r	83,411	+7	+1	+7
Lakeland	109,980	113,723	107,190	−3	+3	+4
Monroe County	33,988	32,829	29,403r	+4	+16	+5
Ocala	52,887	55,960	51,897	−5	+2	+4
St. Augustine	17,777	19,934	19,298	−11	−8	+1
St. Petersburg	290,655	307,166r	254,078	−6	+14	+11
Sarasota	93,204	96,923	90,144r	−4	+3	+1
Tampa	705,834	706,984	610,697	−0	+16	+8
Winter Haven	53,029	49,058	52,507	+8	+1	+1
Athens	70,680	71,676	80,661	−1	−12	+4
Brunswick	41,278	41,241	38,791	+0	+6	+5
Dalton	80,068	81,216	81,550	−1	−2	−4
Elberton	16,166	18,342	15,838	−12	+2	+11
Gainesville	67,507	75,468	68,543	−11	−2	+5
Griffin	35,993	33,574	31,674	+7	+14	+6
LaGrange	22,543	20,877	24,028	+8	−6	−5
Newnan	24,919	24,318	22,118	+2	+13	+1
Rome	69,414	73,514	72,076	−6	−4	+0
Valdosta	64,099	70,506	50,254	−9	+28	+17
Abbeville	12,412	11,965	13,216	+4	−6	+2
Alexandria	124,755	134,368	116,582	−7	+7	+13
Bunkie	5,960	6,793	6,169	−12	−3	+19
Hammond	42,983	36,425	36,258	+18	+19	+17
New Iberia	33,899	39,846	34,986	−15	−3	−0
Plaquemine	10,287	11,430	10,832	−10	−5	+11
Thibodaux	20,680	21,799	21,106	−5	−2	+2
Biloxi-Gulfport	98,216	104,495	92,963	−6	+6	+9
Hattiesburg	51,994	56,872	55,950	−9	−7	+1
Laurel	31,523	32,779	34,516	−4	−9	−5
Meridian	61,553	66,751	62,141	−8	−1	+2
Natchez	34,868	38,873	33,451	−10	+4	+6
Pascagoula—Moss Point	53,668	55,321	51,506	−3	+4	+8
Vicksburg	39,543	42,427	40,545	−7	−2	+3
Yazoo City	25,402	51,164	25,739	−50	−1	+4
Bristol	75,336	78,775	71,419	−4	+5	+4
Johnson City	72,112	73,733	66,247	−2	+9	+8
Kingsport	141,548	157,095	142,606	−10	−1	+5
SIXTH DISTRICT, Total	28,712,696	30,982,312r	27,125,481r	−7	+6	+7
Alabama‡	3,869,491	4,246,282r	3,631,057r	−9	+7	+7
Florida‡	8,519,704	9,339,478r	7,699,520	−9	+11	+8
Georgia‡	7,251,038	7,853,322	6,946,930r	−8	+4	+7
Louisiana†*	3,756,983	3,989,398	3,792,474r	−6	−1	+3
Mississippi†*	1,336,346	1,469,852	1,293,351r	−9	+3	+8
Tennessee†*	3,979,134	4,083,980	3,762,149r	−3	+6	+11

*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.

Expansion in most sectors exemplifies the District's economy. Retail spending continued to advance slowly, despite the sharp increase in consumer incomes. Manufacturing employment rose again, in the face of adverse developments. Bank credit expanded at a lively pace in October, but the construction sector showed somewhat less vigorous signs of recovery. Both cash receipts and net farm incomes may fall below those of last year.

July and August retail sales in the District were level to slightly declining, reflecting in part depressed automobile sales prior to the new model year announcements. In September, new car sales, up only slightly, were probably held back by the auto strike. Outstanding consumer credit at banks rose only fractionally in September, compared with a steady advance in personal income through the first eight months of the year.

Little change occurred in the size of the District states' work force and unemployment rate. A small gain in manufacturing employment and a longer workweek boosted payrolls, in spite of an auto strike and layoffs. Jobs in apparel and chemical industries increased more than other manufacturing industries. Louisiana led other District states in both manufacturing and nonmanufacturing gains.

Large commercial banks were busy suppliers of credit in October, with much of the activity being influenced by recent Treasury borrowings. Loans to securities dealers sparked a moderately strong gain in total loans while holdings of short-term U.S. Governments in banks' own portfolios rose sharply. Deposit expansion at both Reserve city and country banks resulted from gains in demand deposits and passbook savings, extending an emerging trend.

After achieving record dollar volume in August, construction contracts retreated sharply in September. Following four straight months of expanded volume, residential contracts declined. An even sharper decrease occurred in other types of construction. The exceptionally vigorous nonresidential contracting last autumn and the erratic nature of its volume make current interpretation difficult, but it appears that overall recovery in construction is continuing.

Lower yields are expected in some District crops. The projected output for oranges and grapefruits in Florida is well below last year's. Cotton yields will drop for the second consecutive year, but corn and soybeans production will exceed 1966 levels. Total farm cash receipts will probably be lower than those received last year.

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