

MONTHLY REVIEW

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FEDERAL RESERVE BANK OF ATLANTA

January 1968

After the Pause — The Sixth District in 1967

The Sixth Federal Reserve District, like the rest of the United States, was affected last year by forces already in operation well before the year began. These forces were nationwide, even worldwide, in scope. At times purely regional events may have an important bearing on the performance of the District economy—for example, if there were a severe freeze in Florida. But last year the outstanding feature of the economic environment was the pause in national industrial and construction activity that followed the halt in credit expansion in 1966. Thus, we must look beyond our borders, both of time and space, for an explanation of District events.

We must go back at least as far as 1965, when Federal defense spending began to rise strongly from its level of \$50.2 billion. (The Budget Bureau in midsummer suggested that defense spending in fiscal 1968 might possibly increase \$4 billion over the January budget estimate of \$75.5 billion. If it should, this would represent an increase of nearly 60 percent in three years.) With labor and plant capacity in tight supply, prices began to go up. Then, beginning in December

1965, the Federal Reserve System gradually restrained credit expansion, and the Federal Government accelerated tax collections and reduced nondefense expenditures. This combination of monetary and fiscal measures dampened the growth in consumer and business spending. These measures were accompanied by some unfortunate by-products, however. Interest rates rose to record postwar levels; banks were caught in the tightest liquidity squeeze in many years; and the residential building industry, already weakened by several years of overbuilding, suffered a sharp recession because of the scarcity (and high price) of mortgage money.

Beginning late in 1966, as inflationary pressures lessened, monetary policy was eased to counteract recessionary tendencies that seemed to be developing. Interest rates declined. Early in 1967 homebuilding picked up once again. Nationally, industrial employment and production fell off in the early part of the year as inventory accumulation plummeted, but the fall was not great and was fairly brief. Banks found that their liquidity position was improved, with increasing reserve availability and a rather slack loan demand. Funds raised by corporations and state and local governments were unusually large, as corporate borrowers substituted money raised in the capital markets for bank credit. This demand,

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plus a prospective Federal budget deficit larger than at any time since the Korean War—partly arising from increasing demands of the Viet Nam conflict—drove long-term interest rates considerably beyond their 1966 highs. The final scene was heralded by the British devaluation, which prompted the Federal Reserve to raise the rediscount rate from 4 to 4½ percent. Congress had not, by the end of the year, agreed with President Johnson that a tax increase was necessary to halt what seemed a renewed spiral of inflation.

It is against this broad sketch of recent national and international events that the performance of the Sixth District should be judged.

The Response of the Sixth District

The national slowdown in industrial activity in early 1967 manifested itself primarily, in the District, in a decline in manufacturing activity. From January through May manufacturing employment fell off each month. After May, jobs increased once more, but by November only about 85 percent of the previous decline had been made good, with manufacturing employment slightly above a year earlier. Over 100,000 new manufacturing jobs had been created in 1966, under the impact of rapidly expanding private and governmental demand. Only 24,000 of those jobs

were lost during the “pause,” so that 1967 was not so bad as it might seem at first glance. Toward year-end, recovery seemed to be gathering momentum.

Most of the job loss was concentrated in three major industries: lumber, wood, furniture, and fixtures; apparel; and textiles. The first of these was strongly influenced by the decline in construction that was intensified by the credit squeeze in mid-1966. With mortgage money very scarce and expensive, fewer homes were built. This hit all sections of the industry—less lumber products demanded to build the houses, less furniture and fixtures to put in them. After April, however, construction recovered and, with a lag, so did employment in the industry. By November, 38 percent of the lost jobs had been recouped, and the industry seemed to have turned the corner.

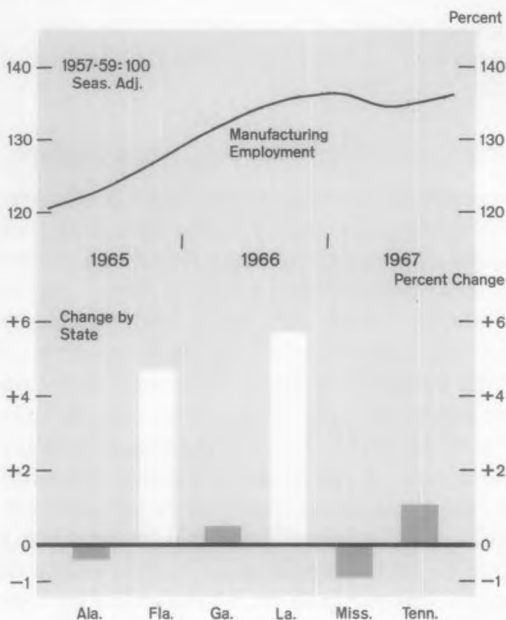
Apparel and textiles both benefited in 1966 from the sharp rise in defense orders and, when these orders fell off in 1967, so did employment. Apparently, employment did not suffer in proportion to the decline in orders, as many firms reportedly held on to employees for fear they could not rehire them when demand revived. Moreover, a wage increase of about 6 percent was announced in September. Both industries were plagued, not only by lower defense orders, but also by slackened consumer demand and increased imports, so that by November, employment was hardly above the low point of the year. In recent weeks, however, textile prices have risen considerably and new orders have improved.

The manufacturing industries that did best in 1967 were transportation equipment, paper, and food products. In the first case, performance was related directly to defense procurement. Awarding of the prime contract for the C-5A transport aircraft to Lockheed probably accounted for a good part of the gain through July, but upon completion of tooling-up, layoffs were announced in September.

Employment in the paper industry was hardly affected by the pause. Nationally, employment held up well, but District gains in 1967 are probably accounted for, at least in part, by the coming on-stream of several new plants announced in 1965 and 1966. For the first eleven months, 1967 employment averaged 3.5 percent higher than the previous year’s comparable period.

Food products employment ran counter to the performance in most other industries, being weaker since midyear than in the first five months. Nevertheless, the eleven months’ average

Sixth District states’ manufacturing employment declined slightly in the first half of 1967, but has since begun to recover. There was considerable diversity in performance among the states, with Florida and Louisiana experiencing the greatest gains from January to November, compared with the same 1966 period.



was 2.8 percent above that of 1966. A trend toward a greater degree of food processing and larger farm output, particularly Florida citrus, contributed to the improvement.

Nonmanufacturing employment held up much better than did manufacturing employment. In particular, state and local government jobs increased through November at just under the 1966 rate. The increase would have been greater had it not been for teachers' strikes in Florida in September. Retail and wholesale trade employment was also well maintained, although the increase through November was much smaller than the year before. This is consistent with the behavior of retail sales, which increased only 2.9 percent in the January-November 1967 period over the comparable 1966 period, whereas 1966 had shown an increase of 9.6 percent over 1965. The sector that held gains below their potential level was, interestingly enough, the Federal government, where employment in November was slightly below its January figure. Recent announcement of a reduction in force at the Redstone Arsenal in Huntsville, Alabama, may presage a further decline.

The hike in defense spending had fueled much of the industrial expansion of 1965 and 1966, but in 1967 it began to level off. Awards of prime defense contracts, in particular, hardly changed from the July-December 1966 level in the District and the nation.

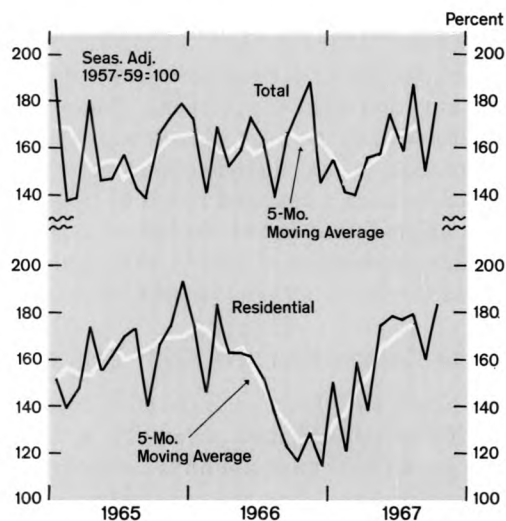
In spite of the pause in industrial activity, the total value of new and expanded plants announced in 1967 for the Sixth District states was nearly 12 percent higher than in 1966. Many of them, of course, have not been completed.

Surprising Strength in Construction Activity

The building industry, hit earlier by the pause than manufacturing, recovered sooner. As long-term interest rates rose in early 1966, the total value of new construction activity declined nationally. Particularly hard-hit was residential construction. Private housing starts declined from a level of nearly 1.5 million in 1965 to an annual rate of less than 900,000 in October 1966. Not only had the cost to builders of borrowed money gone up, but the availability of funds had gone down. Commercial banks and savings and loan associations were unable to attract, or in some cases even to retain, savings deposits, one of the most important sources of mortgage funds. The competition from other borrowers was too great.

Once interest rates began to fall in late 1966, the way was open for a revival of savings flows into savings institutions. With mortgage and

After suffering a sharp decline in early 1967, total construction activity in District states recovered nicely. Residential building led both the decline and the revival and showed surprising strength late in the year.



other long-term money more readily available, the dollar volume of construction contracts in the District began to recover by April of last year. By October, the volume was nearly as great as it had been in the first 10 months of 1966, and the trend was still upward. Construction employment had not recovered to 1966 levels, however.

The turnaround in the residential construction section of the industry was by far the most dramatic. The 1966 decline was very sharp, but by the beginning of 1967 homebuilding had begun to revive. In spite of long-term interest rates that rose far above 1966 levels, the volume of residential construction contracts by October had exceeded by 8 percent that of the first ten months of 1966.

Financial Institutions Less Hard Pressed

One reason for the remarkably good performance of construction in 1967 was the fact that banks and other financial institutions in the District were in a considerably easier liquidity position than during much of 1966. Federal Reserve policy was more liberal in supplying reserves, but also the demand for bank loans was more moderate, partly because of the slowdown in industrial activity. Time deposits expanded rapidly in the first half of the year. Although competition from other investments reduced the deposit inflow in the second half, it did not stop it, as it did for a while in 1966. Contributing to this better performance was the very high rate of saving out of personal income.

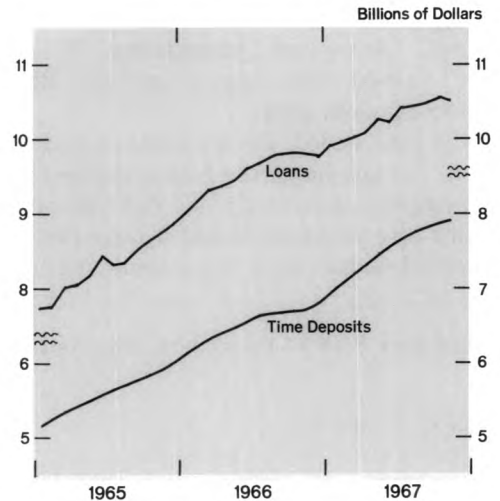
Savings and loan associations had a relatively good year in 1967. Certainly, there was no net outflow of savings such as occurred in late summer of 1966. But last December, however, rising interest rates were creating enough of a pinch that some Florida associations had raised their rates on savings deposits to the legal maximum.

Total bank credit grew about as fast in the first half of 1967 as in previous periods. In the second half of the year, more rapidly rising demand deposits partially offset the slowing of time-deposit growth. Loan demand recovered from the first half slump much less than bankers expected—this was particularly true of business loans—and banks put their funds to work in investments. Treasury bills were the favorite choice in early fall, but banks subsequently acquired Treasury notes and municipal securities.

Agriculture Less Profitable

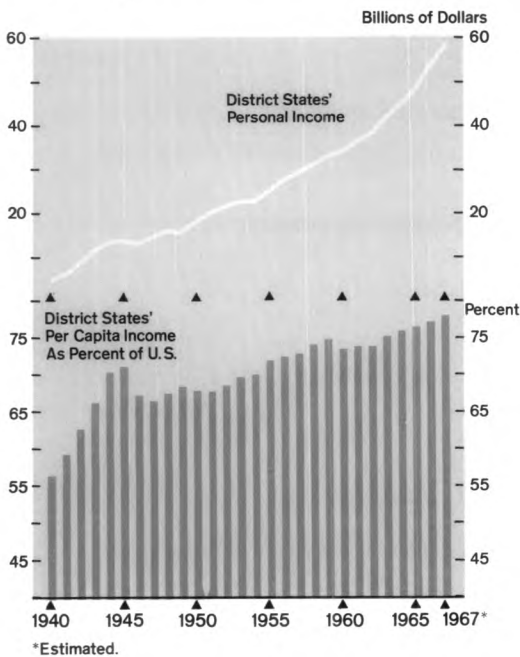
Farming was a little less profitable in the District in 1967 than the year before. This reflects both lower cash receipts and higher operating costs. Cash receipts were lower largely because sales of livestock and livestock products did not keep pace with the very high level of 1966. Also contributing to this result were lower broiler and egg

Loans increased in the District in 1967 but less than bankers had anticipated. In spite of some slowing of time-deposit growth late in the year, District banks' liquidity position was fairly good.



prices and a disastrous cotton crop. Operating costs rose, with the most rapid gains recorded for interest, taxes, and wage rates. Extension of minimum wage coverage to farm labor had its greatest impact in labor intensive farm enterprises, thereby encouraging further mechanization. Because many southern farmers have a longer way to go in completely mechanizing their operations, a period of advancing prices for capital equipment and interest rates will have a greater impact on their costs than on farmers in other regions. All in all, however, agriculture was affected relatively little by the slowdown in economic activity.

Sixth District states' personal income again increased faster than the nation's in 1967, and estimates show that per capita income, as a percentage of the national average, may have risen to a new high.



Where Do We Stand Now?

The best overall measure of District economic well-being available to us is per capita personal income. In nearly every year of the postwar period it has increased relative to the national average. Preliminary information indicated that 1967 was no exception. For the six states as a whole, per capita personal income seems likely to be at least 78 percent of the national average, up from 56.6 percent in 1940 and 75.8 percent five years ago. Considerable variation among the states was reported: Alabama, 69.3; Florida, 89.3; Georgia, 80.6; Louisiana, 78.1; Mississippi, 60.7; and Tennessee, 75.5.

The rate of increase of total personal income in the District was apparently somewhat slower in 1967 than in 1966. Whereas 1966 income for

the six states was 9.8 percent higher than in 1965, the data for the first ten months of 1967 show only an 8.4-percent gain over the comparable 1966 period. This parallels developments in the entire country, where the like figures are 8.5 percent and 7.3 percent, respectively. Thus, the "pause" slowed down income growth, although the effect was not great.

As the year ended, the greatest imponderables were, on the one hand, the future course of Federal spending, particularly for defense, and the problems that would be raised if large deficits in the Federal budget were to continue and, on the

other, the possibility that rising interest rates at home and abroad might once again produce a diversion of funds from savings institutions that would hinder the construction industry. Already, the District had felt the impact of reductions in spending on space exploration and certain military bases. Congress, it was clear, would demand further cuts in Federal spending as the price for a tax increase that might serve to hold down rising prices and interest rates. Once again, the economic performance of the Sixth District in 1968 will be determined mainly by economic forces originating outside its boundaries.

The Research Staff of the Federal Reserve Bank of Atlanta was responsible for this article.

FEDERAL RESERVE BANK OF ATLANTA STATISTICAL RELEASES

The following statistical releases, which are published regularly, are available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303:

Weekly

Condition Report of Large Commercial Banks in the Sixth District

Monthly

Condition of Sixth District Member Banks and Selected Balance Sheet Items, Sixth District States and Areas

Consumer Instalment Credit at Sixth District Commercial Banks

Debits and Deposits at Commercial Banks in Georgia Metropolitan Areas

Electric Power Consumption by Mining and Manufacturing Establishments in the Sixth District

Maturity Distribution of Outstanding Negotiable Time Certificates of Deposit

Personal Income in Sixth District States

Semi-annually

Sixth District Member Bank Loans by States

Annually

Average Operating Ratios of Sixth District Member Banks

Average Operating Ratios of Member Banks by Sixth District States

Survey of Earnings and Expenses of Sixth District Commercial Bank Trust Departments

The Federal Funds Market In the Southeast

Southern bankers have become more sophisticated in their financial practices. Earlier issues of the *Review* called attention to Sixth District banks using a sharper pencil in the management of their reserves. More of them are also participating in the Federal funds market, though full documentation of this fact has not been possible up to now.

Banks in this part of the nation used to be less active in the Federal funds market than in many other regions. For instance, Federal funds participation of "country" banks in the Sixth District in 1964 was 20 percent, whereas it was 37 percent for the New York Federal Reserve District, 33 percent for Philadelphia, and 25 percent for Chicago. This gap has narrowed appreciably, and the participation rate of Sixth District banks now seems well in line with that in other areas. Many more District banks are active in this market than ever before; even small institutions use it. Furthermore, the trading of Federal funds among banks in the Southeast has become more common.

These conclusions are based on a survey of 518 Sixth District member banks in June 1967, which provides up-to-date information on the growth, present structure, and operation of the Federal funds market in the Southeast.

What Are Federal Funds?

Every banker knows that Federal funds is shorthand for immediately available Federal Reserve funds. And trading in Federal funds involves the borrowing and lending of balances on deposit with Federal Reserve Banks. In recent years the term "Federal funds" has become less descriptive because a bank may lend directly funds which it holds on deposit with its correspondent and consider the transaction a loan of Federal funds. Yet this financial medium's distinguishing mark—its

immediate availability—has remained unchanged. Banks use Federal funds chiefly as a temporary source of borrowed funds and investment outlet.

Growth and Development

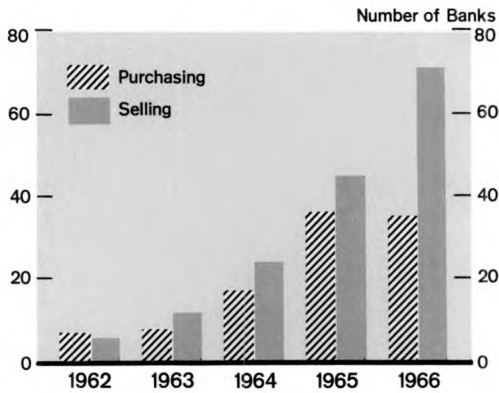
Trading in Federal funds is not novel. Almost half a century ago, banks discovered that lending (or selling) surplus funds to another bank provided a return on the transaction, and borrowing (or buying) was an alternative to the discount window or to liquidating short-term investments. Yet, such activity in the Southeast, as elsewhere, experienced its greatest growth during the last ten years. As late as 1958 only 5 percent of the Sixth District member banks had ever bought or sold Federal funds. By 1960 the percentage had doubled, and by 1965 nearly one-third were participants. As of June 1967 almost one-half had bought or sold Federal funds on at least one occasion.

Several factors account for this growth. By far the major explanation was the awakening of management to opportunities in the market, as attested by three-fourths of the questionnaire respondents. The rising level of interest rates was the other principal reason, while a somewhat less significant but not unimportant stimulus was the pressure on profit margins. About one-fifth said they entered the market in response to a profit squeeze.

In most instances not one but a combination of factors influenced banks, and the importance of each has changed with time. Rising interest rates and pinched profits were more important determinants for banks first becoming active in 1965 and 1966 than in previous years. The most important reason for joining, however, remained the increased awareness of opportunities in the Federal funds market.

This burst in participation, extending back to

The number of banks entering the Federal funds market has increased steadily each year.



1964, applies to the selling and the purchasing side. From 1964 to mid-1967 those buying Federal funds grew from 80 to 162; the sellers, from 91 to 228. Banks entering the market in recent years have been increasingly smaller institutions.

The forces behind this development have been present for some time, but the acceleration in participation reflects more recent events. At one time, the \$1-million minimum trading unit was more than many small banks would have had available to sell or needed to borrow. On the other hand, most large banks were not interested in transactions of less than \$500,000. Even at the 4 1/8-percent rate commonly paid in 1965, a bank earned only a little over \$56, less expenses, on a \$500,000 transaction.

In more recent years, banks have shown greater willingness to buy and sell Federal funds in smaller amounts. During 1966 more than four-fifths of the banks traded in units under \$500,000, and about one-half, in units of \$200,000. These arrangements encouraged smaller banks to enter the market.

Increased willingness of larger banks to buy or sell in small amounts stems partly from a desire to attract or retain deposits of small correspondents. This stimulus existed especially during 1966, when under intense pressure for funds some of the largest banks developed a network of correspondents from whom they bought Federal funds in relatively small amounts.

These small sales have been facilitated through the evolution of some city correspondents' practice of investing for a certain period part of the country banks' deposit balance held with them. By prearrangement, the city correspondent might retain the money for a specified number of days or weeks. Some large city correspondents undertake such transfers for members and nonmembers.

In introducing other banks to the Federal funds market, the larger banks kept in mind not only their own needs, but those of their correspondents. Two reported minimum units of \$10,000 (which even at 6 percent yields only \$1.64).

Without the intense pressure for credit and changing relationships among investment and borrowing alternatives, the Federal funds market would have developed less rapidly. While Federal funds during 1963-64 offered no yield advantage over 91-day Treasury bills, they did in 1965-66. Federal funds thus became an attractive short-run investment medium in relation to Treasury bills and other short-term U.S. Government securities. Federal funds have always had the advantage of immediate availability with no market risk.

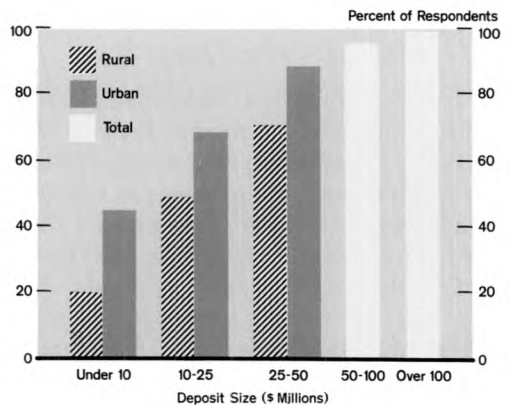
Federal funds have also become an increasingly important alternative to borrowing at the discount window. Although borrowing in the Federal funds market during 1965-66 was generally

Although bigger banks are the most active, a surprisingly large proportion of small rural banks are participants.

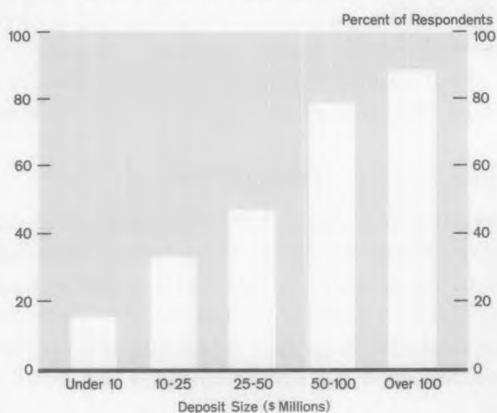
Degree of Participation
As of June 1967

	Number	Percent of Respondents*
Sellers or Buyers	249	48.1
Sellers	228	44.0
Buyers	162	31.3
		Percent of Participants
Sellers and Buyers	140	56.2
Sellers Only	89	35.8
Buyers Only	20	8.0

*Member bank respondents numbered 518, or 98.3 percent.



Even on the buying side, many small banks participate.



more costly than at the discount window, the Reserve System's discouragement of the use of the window caused banks to turn more aggressively to the funds market.

The part played by credit conditions should not be exaggerated, and the spurt in trading in recent years instead viewed as evolutionary. This conclusion is strengthened by the participation of 18 banks in the funds market for the first time during the first half of 1967, when credit conditions were relatively easy.

One other force contributing to the continuing growth of this market was the trend toward greater sophistication in reserve management by small and large banks alike. As interest rates increased, it became more costly to hold idle balances and more profitable to put them to work. Higher interest rates encouraged banks to use their excess reserves in the Federal funds market.

Structure

As noted, almost one-half of the Sixth District member banks have traded in Federal funds. A majority of these banks participated on both sides of the market, indicating that most banks are willing to buy or sell to adjust reserves. Yet this majority was slight, leaving a large number on one side of the market. Most of these were banks which sold only. Consequently, nearly all District banks in the Federal funds market sold funds at one time or another. The larger the bank, the more likely it is in the market; all banks with more than \$100 million in deposits are participants. Yet the smaller banks are not shut out of the Federal funds market. About one-fourth of the banks with less than \$10 million of deposits and over one-half in the \$10-25 million size group were active buyers or sellers.

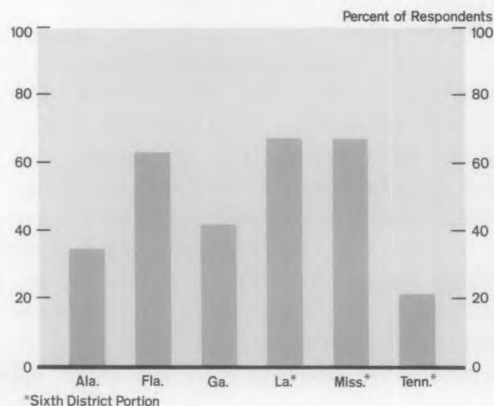
The smaller the bank, the more it acted as a seller than a buyer. This finding is in accord with the relatively high amounts of excess reserves held by smaller banks. Even on the buying side, however, participation of smaller institutions is not negligible, and for medium-size ones is extensive. A surprising one-third of the banks in the \$10-25 million deposit size and almost one-half of those in the \$25-50 million class were buyers.

Although smaller institutions are less likely to participate in the Federal funds market, this fact diminishes greatly if account is taken of rural or urban location. As might be expected, urban banks are decidedly more active than rural banks of the same deposit group. Urban banks presumably can attract more specialized personnel and often have close ties with their city correspondents.

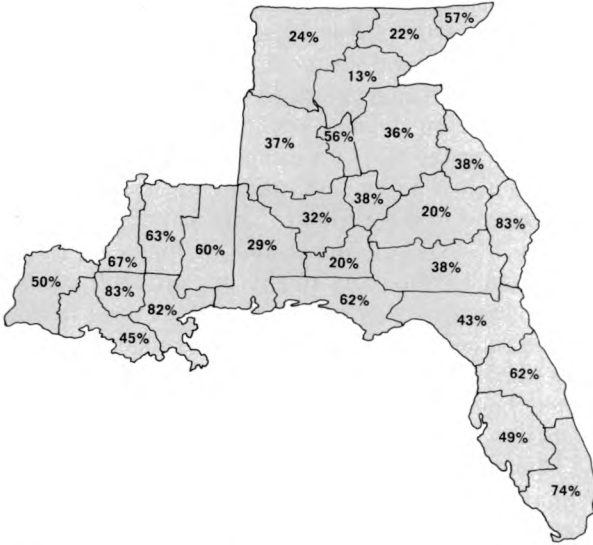
Geographically, one fact stands out. Unlike the situation in some other regions, Federal funds activity varies a great deal from one District state to another. This diversity was partly associated with bank size and urban-rural characteristics.

The map on page 10 shows differences in participation on a trade and banking area level to be even more striking. High participation rates in some instances extended even to small outlying banks, especially in the Orlando area where overall participation was heavy. In fact, the heaviest overall participation rates in the Southeast were among port locations and Florida's tourist areas. Although the heavy participation of trading in resort areas could not be explained statistically by seasonal variations in deposits, nearly one-fourth of the respondents reported more activity during certain months of the year. Two-thirds of these banks were located in the Jacksonville,

Participation varies a great deal among District states.



Differences in participation on a smaller geographic level were even more striking, as can be seen from the percentage of respondents.



Miami, Pensacola, and Tampa-St. Petersburg areas, where two-fifths of the region's Federal funds participation occurs.

Mechanics

Since banks use Federal funds for short-term adjustments, one would expect one-day contracts primarily. The survey confirmed this fact and also that Federal funds transactions are usually unsecured. Nine-tenths of the purchase contracts and seven-tenths of sales were unsecured.

The latter contrasts with the situation in 1962, when only one-third of sales were unsecured. At that time, the Comptroller of the Currency defined sales as unsecured loans made by one bank to another and therefore under the single borrower limitation. In 1963, however, this ruling was changed. The decrease in the use of collateral transactions was probably a result.

Whether secured or unsecured, the bulk of Federal funds transactions is handled through the correspondent banking system. The overwhelming portion of total sales in 1966 was made to banks with which the selling bank has a standing customer relationship. The remainder was arranged with brokers and noncorrespondents.

While banks for the most part are selective in their lending, they seem far more willing to borrow from the most readily available source. Almost one-half of all purchases in 1966 were arranged through brokers and from large banks with whom the borrowing bank had no corres-

pondent relationship; two-fifths, from their own correspondent. The other source of funds was smaller banks. Many of these transfers bypass Federal Reserve Banks entirely. Among rural and small banks, about one-half the transfers are bookkeeping entries on correspondent balances.

Trading Flows

In recent years important shifts have occurred in trading flows. Previous data, from September 1959 to April 1962, showed Sixth District banks' buying only 3 percent of their total volume from other banks in the region, while intradistrict sales accounted for 6 percent of the total. By 1966, the scope of intradistrict trading had grown to a point where 12 percent of all purchases and 23 percent of sales were made with other District banks.

Intradistrict trading was especially high among rural banks. Small urban banks also engage heavily in intradistrict trading, but more commonly sell than buy from banks in the Sixth District. Intradistrict sales and purchases by banks with over \$100 million deposits represented only 8 and 10 percent of their total transactions.

Intradistrict trading is anything but uniform throughout the region. It is, on the selling side, particularly sizable for banks in the District portion of Mississippi, where it accounts for more than two-thirds of the total, and is extremely popular in northern Alabama, southwest Georgia, and the Florida panhandle as well.

Little intradistrict trading, on the other hand, occurs in the District portion of Tennessee. And only in the Birmingham trade and banking area

Relatively few banks account for the bulk of the total trading volume, especially on the buying side.



1966 Volume of Federal Funds Transactions
(\$ Millions)

	Alabama	Florida	Georgia	Louisiana*	Mississippi*	Tennessee*
Intradistrict**						
Purchases	532	2,267	3,034	688	453	396
Sales	1,664	4,202	3,110	942	1,912	413
Net purchases (+) or sales (-)	-1,132	-1,935	- 76	- 254	-1,459	- 17
Outside District						
Purchases	1,016	14,877	24,250	2,963	6,452	4,077
Sales	6,380	16,424	7,006	4,213	883	6,551
Net purchases (+) or sales (-)	-5,364	-1,547	+17,244	-1,250	+5,569	-2,474
Total	-6,496	-3,482	+17,168	-1,504	+4,110	-2,491

*Sixth District portion.

**Since this information comes only from member banks, calculations on intradistrict flows include only purchases and sales between member banks and those transactions with nonmembers reported by members. The partial omission of nonmember transactions probably accounts for most of the imbalance in intradistrict totals.

and the Florida panhandle does intradistrict buying constitute more than one-half the total purchases. It is fairly important in central and south Florida. These geographic differences, partly related to urban or rural concentration, also reflect the correspondent relationships that have developed over the years.

Trading between banks in the same city is still a rarity. Only 0.6 percent of total purchases and 0.9 percent of sales are of this type. In fact, no intracity trading of any kind was reported by banks in Georgia, Mississippi, and Tennessee, and virtually none in Alabama and Louisiana. This means that major banks in such cities as Atlanta and Nashville do not trade with each other. The little trading among banks in the same locality that does exist is confined to a few small banks with their city correspondent.

For trading across District lines, New York City continues to be the hub, though its importance in absorbing funds from District banks has been reduced materially.

In this connection, an interesting change in Federal funds trading has occurred. According to a previous study, Sixth District banks, in the aggregate, reported a larger volume of sales than purchases during most of 1960, 1961, and 1962. The present survey, on the other hand, shows this region during 1966 as a net purchaser (purchases minus sales), amounting to \$17.8 million per day, and consequently a net importer of Federal funds.

For different bank groupings, net Federal funds positions are markedly different. Urban banks with over \$100 million in deposits were found to be net purchasers, whereas the other size urban

and all rural size classes were net sellers.

Large city banks bought funds on balance from other Sixth District banks, as well as from banks outside this District. Correspondingly, the country banks that sold Federal funds on balance had a net outflow with banks located in the Sixth District and those outside.

Among the reserve cities—Birmingham, Miami, Nashville, New Orleans, Atlanta, and Jacksonville—the latter two were the only net buyers. And among the District's 27 trade and banking areas, purchases exceeded sales only for banks in Atlanta, Jacksonville, Jackson, Baton Rouge, and Chattanooga. The others showed a net sales position, the greatest being in Miami, Birmingham, Tampa-St. Petersburg, Columbus, and Knoxville areas (in that order of importance).

Evidently, a large proportion of the buying is concentrated. In fact, banks with more than \$100 million in deposits, or about 20 percent of the purchasers, were responsible for 90 percent of all purchases. On the selling side, concentration was less severe, with about one-half the sales accounted for by the largest banks.

There are two reasons for these differences in concentration. Big banks buy in larger amounts, and more frequently than small banks. On the other hand, small institutions sell as often as larger ones.

The questionnaires indicate that many bankers are most active on Fridays, taking advantage of the three-day weekend. By Friday, they can also estimate their reserve needs more precisely than at the beginning of the period. The early part of the month and just before the end of the two-

week settlement period for country banks are other active times. Less activity was reported by several banks around mid-month, when their deposits temporarily rose.

Federal Funds Borrowing

While more banks sell than buy, Federal funds are an important borrowing source for many. Federal funds usually serve as an alternative to the discount window. Other forms of borrowing from commercial banks and the sale of capital notes and promissory notes cover longer-term needs and are used only by a few large banks.

A larger number borrowed through the Federal

funds market in 1966 than at the discount window, 141 and 116, respectively. In addition, a substantial number borrowed from commercial banks for more extended periods than through Federal funds.

These alternatives were not mutually exclusive, except for 60 that relied solely on Federal funds and 40 that depended on the discount window only. Fifty-eight borrowed in the Federal funds market and from the Federal Reserve Bank of Atlanta during the year. The number (chiefly smaller institutions) buying Federal funds and borrowing from commercial banks for longer periods was comparatively small.

1966 Federal Funds Trading Patterns and Sources of Bank Borrowings

	Percent of Sales	Percent of Purchases
Federal Funds Trading Patterns		
1. By type of security		
a. Unsecured	70	92
b. Secured by Government securities, including repurchase agreements	28	4
c. Other collateral	2	4
Total	100	100
2. By type of agent		
a. Banks acting as your correspondent	81	39
b. Banks for whom you act as correspondent	4	13
c. Banks with whom you have no correspondent relationship	1	19
d. Federal funds brokers	14	29
Total	100	100
3. By method of transfer		
a. Transfer of balances at the Federal Reserve	73	90
b. Debits (credits) on correspondent balance at commercial banks	27	10
Total	100	100
4. By location		
a. New York City	46	66
b. Elsewhere outside the Sixth District	31	22
c. Same city as your bank	1	1
d. Elsewhere within the Sixth District	22	11
Total	100	100
	Number of Banks	Percent of Total
Sources of Borrowings		
1. General use of alternative instruments	141	27.2
a. Federal funds	116	22.4
b. Discount window	64	12.4
c. Commercial banks (other than Federal funds)	9	1.7
d. Capital notes	5	1.0
e. Promissory notes		
2. Specific combinations		
a. No borrowing from any source	284	54.9
b. Federal funds only	60	11.6
c. Federal funds and discount window	58	11.2
d. Discount window only	40	7.7
e. Commercial banks (other than Federal funds) only	35	6.8
f. Miscellaneous combinations	40	7.7

1966 Borrowing Activity By All Member Banks
Deposit Size (\$ Millions)

Source	Under \$10		\$10-25		\$25-50		\$50-100		Over \$100		Grand Total	
	Amount* (\$ Thous.)	Per- cent	Amount* (\$ Thous.)	Per- cent	Amount* (\$ Thous.)	Per- cent	Amount* (\$ Thous.)	Per- cent	Amount* (\$ Thous.)	Per- cent	Amount* (\$ Thous.)	Per- cent
Purchases of Federal funds	524	29.5	2,708	30.7	4,313	55.9	9,215	54.6	149,435	72.9	166,195	69.2
Borrowings from Federal Reserve Bank	1,154	64.9	2,750	31.2	3,250	42.1	4,654	27.5	55,250	27.0	67,058	27.9
Commercial banks	99	5.6	2,263	25.7	148	1.9	3,023	17.9	11	**	5,544	2.3
Promissory and capital notes	0	0.0	1,097	12.4	0	0.0	0	0.0	141	**	1,238	0.5
Total	1,777	100.0	8,818	100.0	7,711	100.0	16,892	100.0	204,837	100.0	240,035	100.0

*Daily average volume.

**Less than 0.1 percent.

Not only was the Federal funds market used more extensively than the discount window, but it was the most important source of borrowed money. Daily average Federal funds borrowings amounted to \$166 million, compared with \$67 million for the discount window.

Borrowing choice, however, varied a great deal with the size of bank. The smallest banks (under \$10 million) obtained 65 percent of their borrowed money from the window, 30 percent in Federal funds, and the remainder from commercial banks for more extended periods; whereas the largest ones (over \$100 million in deposits) got one-fourth at the window and three-fourths in Federal funds. For banks borrowing in the Federal funds market during 1966, even the smallest

group bought more Federal funds last year than they borrowed at the window.

It should be noted that many banks do not borrow at all. In fact, 55 percent of the respondents indicated that they had not borrowed during 1966. Evidently, many banks still have an aversion to borrowing.

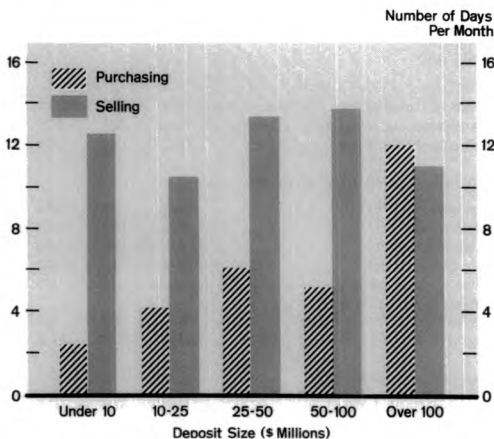
Many different reasons were given by banks for not borrowing in the Federal funds market. One-half, primarily smaller ones, said they normally have excess reserves. Since a sizable number of small banks are active borrowers, a better explanation is probably lack of familiarity with the mechanics or opportunities of Federal funds, although only 18 percent of the nonbuyers cited this reason.

The major explanation given for not selling Federal funds was a preference for other investments. Although this aversion might result from unfamiliarity with the mechanics, relatively few noted this specifically. Yet, this was probably far more important than indicated because so many other banks listed increased awareness as the main reason for entering the market. Undoubtedly, the choice of city correspondent was a corollary influence, since some correspondents have not been aggressive in acquainting their country banks with the market. One-fifth of the banks did not sell funds because they seldom have excess reserves.

It appears, therefore, that lack of familiarity among those still inactive probably remains the biggest stumbling block to entry. As awareness of the market spreads, a further substantial growth and development in coming years is almost a certainty.

HARRY BRANDT AND PAUL A. CROWE

Large banks buy more frequently, but sell about as often as small banks.



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		Latest Month (1967)	One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT									
INCOME AND SPENDING									
Personal Income (Mil. \$, Annual Rate)	Oct. 57,583	57,789r	58,584r	53,190	Manufacturing	Nov. 157	158	159	1
Manufacturing Payrolls	Nov. 203	200	201	194	Nonmanufacturing	Nov. 149	148	149	1
Farm Cash Receipts	Oct. 130	129	161	130	Construction	Nov. 106	106	108	1
Crops	Oct. 103	99	174	100	Farm Employment	Nov. 92	82	88	
Livestock	Oct. 147	161	152	153	Unemployment Rate				
Instalment Credit at Banks* (Mil. \$)					(Percent of Work Force)	Nov. 2.9	3.0	2.9	2
New Loans	Nov. 276	325r	324	277	Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov. 42.0	42.4	42.4	42
Repayments	Nov. 263	279	268	235	FINANCE AND BANKING				
Retail Sales	Oct. 167p	175	164	162	Member Bank Loans	Nov. 273	270	271	2
					Member Bank Deposits	Nov. 209	205	200	1
					Bank Debits**	Nov. 202	205r	202r	1
PRODUCTION AND EMPLOYMENT									
Nonfarm Employment	Nov. 137	137	136	134	GEORGIA				
Manufacturing	Nov. 136	136	135	136	INCOME				
Apparel	Nov. 166	165	165	168	Personal Income (Mil. \$, Annual Rate)	Oct. 11,241	11,260r	11,342r	10,3
Chemicals	Nov. 132	132	131	131	Manufacturing Payrolls	Nov. 204	200	203	1
Fabricated Metals	Nov. 151	151	151	150	Farm Cash Receipts	Oct. 127	141	158	1
Food	Nov. 114	114	113	113	PRODUCTION AND EMPLOYMENT				
Lbr., Wood Prod., Furn. & Fix.	Nov. 104	104	103	107	Nonfarm Employment	Nov. 136	135	135	1
Paper	Nov. 118	118	118	115	Manufacturing	Nov. 131	130	130	1
Primary Metals	Nov. 128	124	126	131	Nonmanufacturing	Nov. 139	138	138	1
Textiles	Nov. 105	105	105	107	Construction	Nov. 129	128	128	1
Transportation Equipment	Nov. 179	178	178	177	Farm Employment	Nov. 53	54	50	
Nonmanufacturing	Nov. 137	137	137	134	Unemployment Rate				
Construction	Nov. 125	125	124	128	(Percent of Work Force)	Nov. 3.6	3.6	3.7	
Farm Employment	Nov. 62	56	54	68	Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov. 40.5	41.0	41.6	4
Unemployment Rate					FINANCE AND BANKING				
(Percent of Work Force)	Nov. 3.9	4.0	4.1	3.5	Member Bank Loans	Nov. 263	265	268	2
Insured Unemployment					Member Bank Deposits	Nov. 212	215	213	1
(Percent of Cov. Emp.)	Nov. 2.1	2.4	2.4	1.7	Bank Debits**	Nov. 231	225	217	2
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov. 41.1	41.1	41.4	41.3	LOUISIANA				
Construction Contracts*	Nov. 177	179	151	188	INCOME				
Residential	Nov. 189	184	160	129	Personal Income (Mil. \$, Annual Rate)	Oct. 8,761	8,593r	8,669r	7,9
All Other	Nov. 166	176	144	238	Manufacturing Payrolls	Nov. 185	187	181	
Electric Power Production**	Oct. 146	147	146	142	Farm Cash Receipts	Oct. 149	143	236	
Cotton Consumption**	Oct. 114	108	107	117	PRODUCTION AND EMPLOYMENT				
Petrol. Prod. in Coastal La. and Miss.**	Nov. 251	241	274	212	Nonfarm Employment	Nov. 128	128	127	
					Manufacturing	Nov. 121	121	121	
					Nonmanufacturing	Nov. 129	129	129	
					Construction	Nov. 140	139	132	
					Farm Employment	Nov. 63	60	55	
					Unemployment Rate				
					(Percent of Work Force)	Nov. 4.8	5.0	5.0	
					Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov. 42.4	42.7	42.0	4
					FINANCE AND BANKING				
					Member Bank Loans*	Nov. 228	231	231	
					Member Bank Deposits*	Nov. 164	164	163	
					Bank Debits/**	Nov. 173	176	172	
					MISSISSIPPI				
					INCOME				
					Personal Income (Mil. \$, Annual Rate)	Oct. 3,991	4,016r	4,429r	3,
					Manufacturing Payrolls	Nov. 224	221	216	
					Farm Cash Receipts	Oct. 118	85	156	
					PRODUCTION AND EMPLOYMENT				
					Nonfarm Employment	Nov. 139	138	138	
					Manufacturing	Nov. 146	145	144	
					Nonmanufacturing	Nov. 136	136	135	
					Construction	Nov. 137	132	132	
					Farm Employment	Nov. 46	45	38	
					Unemployment Rate				
					(Percent of Work Force)	Nov. 4.9	4.9	5.3	
					Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov. 41.2	41.2	40.8	4
					FINANCE AND BANKING				
					Member Bank Loans*	Nov. 316	314	306	
					Member Bank Deposits*	Nov. 230	232	231	
					Bank Debits/**	Nov. 214	207	215	

		Latest Month (1967)	One Month Ago	Two Months Ago	One Year Ago
ENNESSEE					
INCOME					
Personal Income (Mil. \$, Annual Rate)	Oct.	9,002	9,179r	9,222r	8,484
Manufacturing Payrolls	Nov.	202	196	197	195
Farm Cash Receipts	Oct.	109	107	139	118
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Nov.	138	137	137	136
Manufacturing	Nov.	144	143	142	146

		Latest Month (1967)	One Month Ago	Two Months Ago	One Year Ago
FINANCE AND BANKING					
Nonmanufacturing	Nov.	134	134	134	132
Construction	Nov.	159	157	158	159
Farm Employment	Nov.	67	57	58	75
Unemployment Rate (Percent of Work Force)	Nov.	4.2	4.2	4.2	3.4
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.7	40.2	40.7	41.1
Member Bank Loans*	Nov.	252	254	245	237
Member Bank Deposits*	Nov.	184	186	182	173
Bank Debits**	Nov.	224	228	232	202

For Sixth District area only. Other totals for entire six states. **Daily average basis. r-Revised. p-Preliminary.
 Sources: Personal income estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U. S. Dept. of Labor and cooperating state agencies; cotton consumption, U. S. Bureau of Census; construction contracts, F. W. Dodge Corp.; petrol. prod., U. S. Bureau of Mines; industrial use of elec. power, Fed. Power Comm.; farm cash receipts and farm emp., U.S.D.A. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.

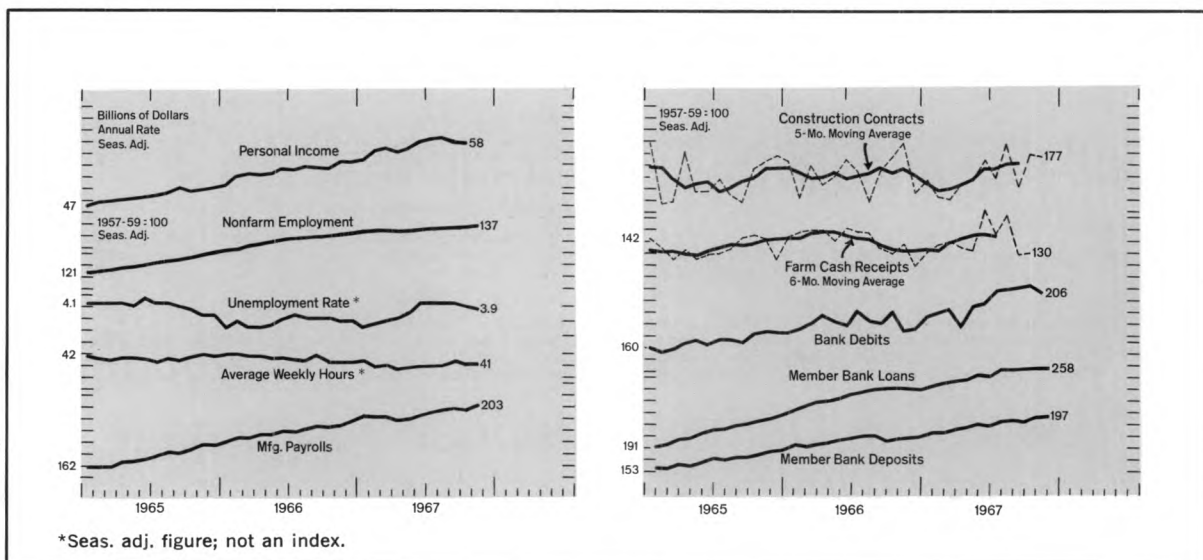
Debits to Demand Deposit Accounts

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

	Percent Change						Percent Change										
			Year-to-date						Year-to-date								
	November 1967	October 1967	November 1966	Oct. 1967	Nov. 1966	from 1966	November 1967	October 1967	November 1966	Oct. 1967	Nov. 1966	from 1966					
TANDARD METROPOLITAN STATISTICAL AREAS†																	
Birmingham	1,456,672	1,485,326	1,413,307r	-2	+3	+7	Lakeland	117,530	119,591	111,769	-2	+5	+5				
Gadsden	63,897	67,319	65,334r	-5	-2	-4	Monroe County	30,538	31,726	31,500	-4	-3	+5				
Huntsville	182,803	186,172	178,262r	-2	+3	+1	Ocala	53,726	64,605	50,030	-17	+7	+5				
Mobile	498,340	514,726	471,559r	-3	+6	+7	St. Augustine	19,892	20,037	17,145	-1	+16	+3				
Montgomery	320,013	311,005	285,449r	+3	+12	+4	St. Petersburg	327,596	337,992	284,878	-3	+15	+12				
Tuscaloosa	99,454	103,942	89,380	-4	+11	+10	Sarasota	109,954	111,082	95,241	-2	+11	+4				
Ft. Lauderdale—							Tampa	724,788	738,633	655,151	-2	+11	+9				
Hollywood	637,693	657,205	560,244r	-3	+14	+9	Winter Haven	57,723	60,385	48,842	-4	+18	+4				
Jacksonville	1,448,610	1,510,856	1,333,454r	-4	+9	+6	Athens	73,487	74,672	73,811	-2	-0	+3				
Miami	2,425,602	2,350,435	1,993,743	+3	+22	+11	Brunswick	43,726	44,513	38,870	-2	+12	+6				
Orlando	539,345	561,105	491,497r	-4	+10	+7	Dalton	91,029	91,823	77,245	-1	+18	-0				
Pensacola	188,394	198,064	182,957r	-5	+3	+8	Elberton	13,665	15,158	15,140	-10	-10	+10				
Tallahassee	145,725	137,386	132,308	+6	+10	+14	Gainesville	69,748	78,185	65,812	-11	+6	+6				
Tampa—							Griffin	34,716	37,471	31,793	-7	+9	+8				
St. Petersburg	1,384,368	1,418,658	1,228,910r	-2	+13	+11	LaGrange	20,090	22,667	21,798	-11	-8	-4				
W. Palm Beach	413,953	400,560	366,415r	+3	+13	+4	Newnan	23,076	27,796	22,481	-17	+3	+2				
Albany	94,262	95,389	88,426	-1	+7	-2	Rome	75,853	77,522	73,619	-2	+3	+1				
Atlanta	4,981,648	4,959,800	4,308,703r	+0	+16	+10	Valdosta	58,015	60,514r	50,584	-4	+15	+16				
Augusta	292,474	307,844	263,851r	-5	+11	+10	Abbeville	11,026	11,642	14,349	-5	-23	-1				
Columbus	223,521	235,784	205,676r	-5	+9	+10	Alexandria	131,320	132,870	114,242	-1	+15	+13				
Macon	264,007	259,927	235,978r	+2	+12	+12	Bunkie	8,857	8,174	8,808	+8	+1	+17				
Savannah	268,936	267,941	245,292r	+0	+10	+10	Hammond	36,260	36,432	34,496	-0	+5	+15				
Baton Rouge	534,383	564,246	482,530r	-5	+11	+10	New Iberia	37,915	37,519	34,351	+1	+10	+2				
Lafayette	125,405	143,987	117,810	-13	+6	+6	Plaquemine	11,388	11,891	10,298	-4	+11	+11				
Lake Charles	151,437	142,864	126,036	+6	+20	+13	Thibodaux	23,310	21,262	21,895	+10	+6	+2				
New Orleans	2,327,214	2,403,779	2,117,213r	-3	+10	+3	Biloxi-Gulfport	99,261	102,164	93,943	-3	+6	+8				
Jackson	669,695	654,504	560,828r	+2	+19	+10	Hattiesburg	54,613	56,581	54,412	-3	+0	+1				
Chattanooga	618,369	594,557	553,841r	+4	+12	+7	Laurel	32,373	33,740	32,116	-4	+1	-4				
Knoxville	469,973	487,539	427,736r	-4	+10	+7	Meridian	65,497	66,951	62,894	-2	+4	+2				
Nashville	1,782,918	1,748,701	1,534,631r	+2	+16	+19	Natchez	38,025	37,686	34,952	-1	+9	+7				
OTHER CENTERS																	
Anniston	63,228	65,874	61,483	-4	+3	+1	Pascagoula—										
Dothan	63,738	65,732	58,297	-3	+9	+10	Moss Point	56,624	55,600	51,584	+2	+10	+6				
Selma	51,390	49,022	43,660	+3	+16	+13	Vicksburg	45,104	43,946	47,766	+3	-6	+3				
Bartow	33,173	33,381	38,143	-1	-13	-7	Yazoo City	32,914	27,324	27,962	+20	+18	+6				
Bradenton	63,357	73,832	60,448	-14	+5	+20	Bristol	76,026	83,624	72,222	-9	+5	+6				
Brevard County	240,771	223,049	202,136r	+8	+19	+7	Johnson City	74,608	79,133	70,487	-6	+6	+9				
Daytona Beach	88,121	90,616	76,841	-3	+15	+8	Kingsport	165,268	159,003	149,340	+4	+11	+6				
Ft. Myers—							SIXTH DISTRICT, Total					30,949,097	31,216,753r	27,925,068	-1	+11	+8
N. Ft. Myers	77,735	78,519	66,769	-1	+16	+10	Alabama†	3,988,632	4,082,810r	3,783,194r	-2	+5	+7				
Gainesville	91,245	87,171	79,792	+5	+14	+8	Florida†	9,247,298	9,260,031	8,134,020	-0	+14	+9				
							Georgia†	8,018,266	8,058,421	7,087,764r	-0	+13	+9				
							Louisiana**	3,939,545	4,094,865	3,712,400r	-4	+6	+4				
							Mississippi**	1,445,323	1,423,863	1,314,280r	+2	+10	+9				
							Tennessee**	4,310,033	4,296,763	3,893,410r	+0	+11	+12				

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

District Business Conditions



Restraining influences have given way to a more vigorous economic expansion. Employment rose significantly in November, following the adverse effects of earlier strikes. Businessmen borrowed more freely from banks in December, and consumer lending threw off its lackadaisical performance of the past few months. Construction activity continued to outpace comparable year-before levels, and the agricultural outlook for 1968 brightened.

A gain of 26,000 nonfarm jobs in November pushed the unemployment rate below 4.0 percent, with Georgia and Alabama registering the largest increases. The growth in manufacturing jobs and payrolls was centered in the primary metals, lumber-furniture, and apparel industries. Advances in construction, trade, and government jobs set the pace in the nonmanufacturing sector. Increases in crude petroleum production and steel output provide direct measures of rising industrial output.

District bankers experienced a busy December, judging by the sizable increases in credit extended. Loan growth picked up considerably, and demand deposits continued to expand at a more-than-seasonal rate. Overall, deposit gains were dulled somewhat by moderately heavy losses of large denomination CD's.

The Federal Reserve System raised reserve requirements, effective January 11 for reserve city banks and January 18 for all other member banks. Reserve requirements against aggregate demand deposits beyond the first \$5 million were increased from 16½ to 17 percent at reserve city banks and from 12 to 12½ percent at other member banks. The action will affect slightly more than one-half the District's member banks and absorb about \$32 million of reserves.

Consumer spending apparently picked up in late 1967. Preliminary reports from large District banks indicate that consumers borrowed more freely in December, possibly reversing their earlier caution toward increased debt. October and November instalment loan extensions declined for most categories.

A strong gain in dollar volume of residential contracts, coupled with continued strength in non-residential building, brought total construction volume almost up to that of the first eleven months of 1966. Net inflows to savings institutions slowed further, and mortgage money costs rose in November.

The outlook for 1968 is favorable for most agricultural products. Revisions in the acreage control programs will result in significant advances in cotton plantings. Soybean acreages will probably advance but not as rapidly as in the past. Corn plantings may decline slightly, and only minor adjustments in other major crops are expected. Lower feed grain prices should stimulate red meat production, restraining cattle and hog prices. Recent adjustments in broiler and egg production brighten the poultry outlook for the first six months of 1968.

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