MONTHLY REVIEW

IN THIS ISSUE:

- The Consumer Conundrum
- State and Local Government Finances in the Sixties
- Southern Municipals Feel the Pinch
- District Business Conditions

FEDERAL RESERVE BANK OF ATLANTA

JUNE 1968

The Consumer Conundrum

Predicting consumer behavior is like trying to answer a riddle, but much more difficult. Once a riddle's intended deception and play on words are uncovered, an answer is usually derived. In contrast, precise explanations of consumer behavior are more elusive and changes more frequent. However, certain rules of thumb are useful in anticipating what consumers will do. Comparing consumers' behavior in certain periods with their expected behavior is helpful in identifying unusual or specific factors or situations that influence spending and saving habits. This approach is useful in analyzing the cautious spending mood and increased saving of consumers, relative to income, since late 1966.

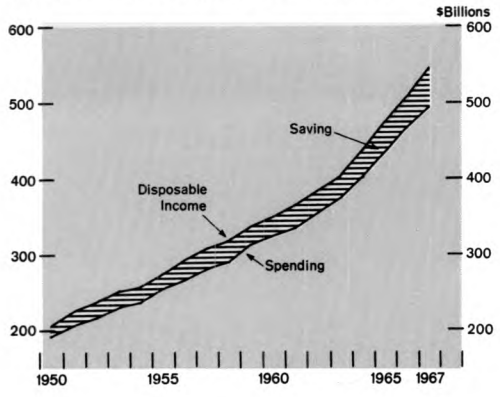
A recognition of specific factors underlying recent consumer behavior may also shed light on spending and saving prospects in coming months. With the nation's economy already operating at full employment and prices accelerating, the release of an additional $5 to $6 billion in consumer spending by a return to more normal saving patterns would add appreciably to inflationary pressures. Whether consumers begin spending more freely depends on those factors that contributed to last year's cautious mood, as well as the strength or weakness of those that normally have the greatest effect on spending.

Personal saving and the saving rate—the proportion of disposable personal income not spent—are used here as summary measures of consumer behavior. Although this selection was arbitrary, our analysis concerning saving can be turned around and applied equally to spending, since personal saving is the difference between disposable income and spending.

The Past as a Guide

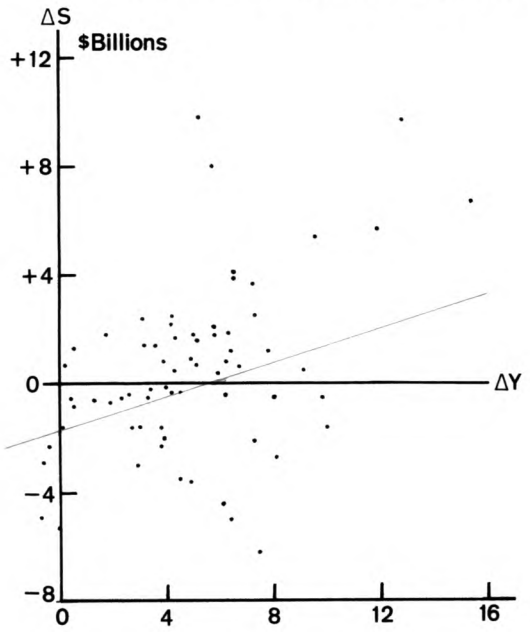
If a representative group of consumers were asked why they save and what proportion of their incomes they normally "put aside," the most striking conclusion would probably be the variety of answers given. Some people save for retirement and vacations; others, for education or major purchases such as a home or an automobile; and still others, for additional reasons. Even if individuals

Consumer spending follows closely the trend in disposable income. Thus, personal saving, the difference between income and spending, is determined largely by the trend in income. Since late 1966, the saving gap has widened.



Monthly Review, Vol. LIII, No. 6. Free subscription and additional copies available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

The changes in income and the associated changes in saving for each quarter from 1950-66 are shown by the dots. The solid line is an estimated regression which shows the best relationship pattern between income and saving changes. The regression can be used to approximate roughly quarterly changes in saving when the income change is known. The wide scatter of dots around the line is an indication of the influence of factors other than income on saving behavior.



Regression equation: $\Delta S = -1.81 + 0.31\ \Delta Y$
R^2: 0.19

ΔS = quarter-to-quarter change in personal savings at an annual rate.

ΔY = quarter-to-quarter change in disposable personal income at an annual rate.

with identical incomes were questioned, their answers would differ because of personal characteristics and preferences and long-range goals.

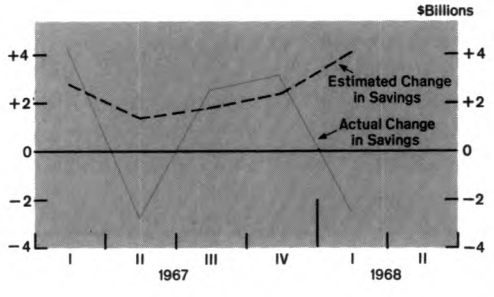
Many of these individual differences in savings behavior cancel out, however, when all consumers are considered collectively. Total personal saving follows fairly closely the trend in total disposable personal income. Going back to 1950, for example, the trend in saving and spending has paralleled closely the movement in disposable income. Long-term movements in such economic aggregates, however, conceal many shorter-term but important reactions. These can be examined in more detail by studying the relationship between quarter-to-quarter changes in personal saving and income. If a change in income were the only factor causing a change in saving, a plotting of the data would fall along a straight line, its slope being determined by the proportion of the change in income saved at various income levels. The scatter of dots in an actual plotting of saving-income changes for 1950-66 indicates that this is not the case.

A statistical technique such as a regression line can be used to show the most representative or normal relationship between a change in income and a change in saving. The relationship which best describes quarterly changes in saving and income for the 1950-66 period is plotted as the solid line. Approximately one-half of the quarter-to-quarter changes in saving were decreases, while disposable income declined in only three quarters. Consequently, the regression line goes through the negative portion of the chart measuring changes in saving. According to the regression relationship, changes in saving would be positive if the annual rate of income change were above about $5.5 billion and negative if below that amount. If disposable income increased at an annual rate of $10 billion during a particular quarter, a gain in the annual rate of saving of $1.3 billion would be expected. Similarly, if disposable income jumped by only $2 billion, saving would be expected to decline about $1.2 billion.

Over the entire 1950-66 period our quarterly estimates of changes in saving based on changes in income would have been only a rough approximation of the changes in saving which actually occurred. Only about one-fifth of the variation in changes in saving could be explained by income changes.

By using the "normal" relationship between a change in income and a change in saving as derived from our regression equation for the 1950-66 period, we can estimate what quarterly saving changes would have been in 1967 had income changes been the sole influence on consumers' saving decisions. The wide up-and-down swings in actual changes in saving in recent quarters compared with the smoother uptrend in the estimated values indicates the influence of other factors besides income on saving behavior. The combined impact of these additional factors was in the di-

Recently, actual quarterly changes in saving have fluctuated more than would be expected from estimates based on income changes only.

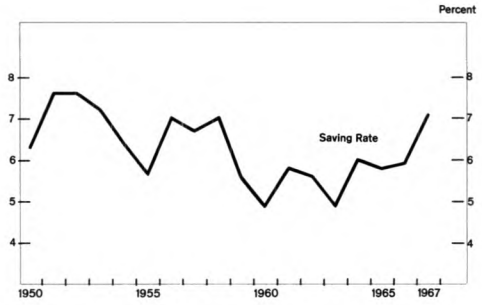


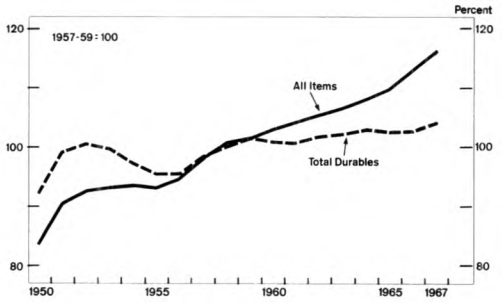
rection of more saving, since the actual change was above the estimated change for three of the five quarters.

The saving rate, in contrast with changes in the level of saving, is a better indicator of the influence of factors other than income on consumer behavior. Since the saving rate measures the proportion of income saved, the effect of income on saving is included implicitly. The saving rate would remain constant if consumers responded to a change in income by deciding to save the same proportion of their incomes as previously. A rise in the saving rate indicates a collective decision to save more or spend less, relative to a given income level.

Consumers saved on average about 6 percent of their disposable income each quarter over the 1950-66 period. This rate was pulled up by an unusually high rate in 1951-53, 1956-58, and the final quarter of 1966. Since the beginning of the current economic expansion in 1961, the rate has averaged lower, around 5.0-5.5 percent of disposable income. Thus, the maintenance of a saving rate of 7 percent or above during 1967 was a significant shift in consumer behavior.

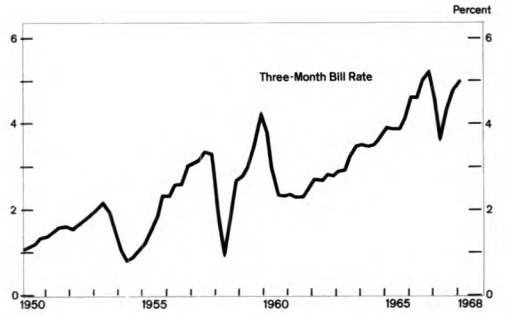
Movements in the saving rate indicate the influence of many factors other than income on saving and spending behavior.

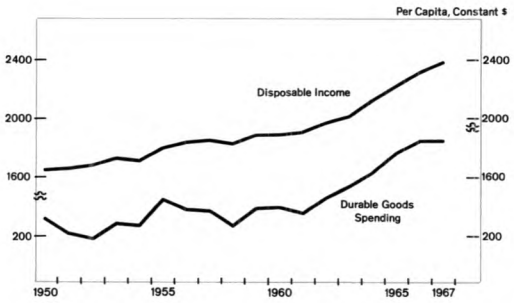




Sharp rises in the saving rate correspond to periods of accelerating consumer prices.

Although no clear pattern between interest rates and saving behavior can be established, the sharp rise in recent quarters reinforces the tendency to save more, relative to income.





The rise in real per capita income and spending on durable goods also affects the decisions of consumers to save more or less in certain quarters.

Consumer Behavior in 1967

Since normality as we have used it refers largely to statistical aggregates and averages, one could argue that special circumstances are more the rule than exception in a series that fluctuates as widely as the saving rate. Last year these special circumstances included uncertainty, accelerating inflation late in the year, and large accumulated stocks of durable goods in the hands of consumers. A review of periods of high saving in the past may reveal similar circumstances.

The high saving rate last year bears a close resemblance to the period of increased saving during the Korean War. This earlier period, similar to last year, was characterized by large military expenditures, rapid gains in income, and accelerated price advances. This suggests that consumers are more reluctant to spend in periods of growing uncertainty, although incomes may actually be expanding faster. Adding to consumer uncertainty last year and probably having a retarding effect on consumer spending were the discussions surrounding the income tax surcharge.

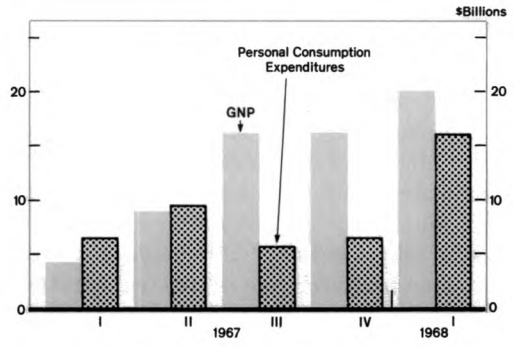
And current peace overtures, which would be expected to have the opposite effect, may be associated with the recent upturn in sales.

Accelerated increases in prices may also have added to consumer uncertainty last year and retarded spending. Generally, it is assumed that expectations of higher prices cause a faster tempo of spending in order to avoid higher prices later. That consumers in some instances, however, have saved at a high rate when price advances quickened casts some doubt on this proposition. Last year's rise in the saving rate occurred at the same time prices were accelerating, as was the case during the Korean War. Another period of increased saving, 1956-58, was also a time of rapid advances in prices. This relationship between prices and saving suggests that consumers initially react to an upturn in prices by spending less or saving more and later adjust their spending to the higher price level. This reaction on the part of consumers would also be consistent with their desire to achieve a certain level of real savings. If prices rise, they save more in order to maintain this goal.

In addition to the possible effect of prices on consumer behavior, the rising trend of interest rates may have induced a higher rate of saving during 1967. Consumers may find it more attractive to allocate a larger proportion of their incomes to acquiring financial assets and therefore refrain from spending as much on goods and services. Although it is difficult to establish a clear relationship between the movement of the saving rate and interest rates over a long timespan, such as from 1950-67, rising interest rates in recent quarters, when coupled with the other special circumstances, may have induced consumers to save more.

Consumers now have more flexibility than in years past in deciding whether to save more or less of their income in certain quarters. With advances in real per capita income, consumers can satisfy their basic needs with a smaller proportion of their income. Thus, they have more discretion in the types or timing of purchases made. Generally, consumers have reacted to advances in real income by increasing their outlays on durable goods sales (automobiles and household furnishings) and services (vacations and education). Expenditures on durable goods and some services, however, may be postponed easily if circumstances change. In a period following rapid gains in sales and the resulting accumulation of durable goods in the hands of consumers, the decision may well be to postpone further purchases and to save more if other circumstances change.

Personal consumption expenditures, as indicated by the changes, rose substantially more in the first quarter of 1968 than in previous recent quarters; this increase accounted for a major portion of the $19-billion rise in gross national product.



Last year's subdued consumer spending was consistent with these propositions. Durable goods, nondurable goods, and service expenditures, which had all advanced sharply in recent years, rose less rapidly last year. The rate of increase in prices was also faster in each of these sectors.

The sharp rise in durable goods spending in 1965 and the slower growth last year were related to spending on automobiles. New car sales dropped from a record of 9.3 million units in 1965 to only 7.8 million in 1967. A slower rate of gain in expenditures for household durable goods also contributed to the poor showing of durables last year.

In 1968

Although these same factors, rising prices and interest rates, would suggest a continuation of such behavior, consumer spending advanced rapidly and the saving rate declined in the first quarter of 1968. Consumer spending rose $17 billion and accounted for over 80 percent of the gain in GNP. The healthy first-quarter gain was based broadly as well, with all major categories of spending increasing. Half of the $17-billion advance occurred in the nondurables category, which showed large gains in food and clothing. Spending on durables also improved, for both automobiles and furniture, and service expenditures continued to expand.

These increases reflect mainly the growth in income accompanying the expansion in the overall economy. The advance in minimum wages in February and a sharp spurt in social security benefits in March contributed to the first quarter's large gain. This substantial increase accrued mainly to lower income persons. It would therefore be expected to have a stimulating effect on

spending and a reduction in the aggregate saving rate since those with lower incomes normally spend a larger proportion of their income.

On balance, a drop in the saving rate to the more normal level of 5.0-5.5 percent of recent years seems unlikely in the immediate future. Consumer spending since the end of the first quarter appears to be expanding less rapidly than income gains might suggest. Consequently, the saving rate probably has not retreated from its unusually high level of recent quarters. Until special circumstances—such as the Vietnam conflict, inflation, and rising interest rates—are overcome, consumers may continue to behave cautiously. If the income tax surcharge is enacted, consumers could respond by spending a higher proportion of their incomes. Thereby, part of the expected effect of a cutback in consumer spending would be offset.

JOE W. MCLEARY

Bank Announcements

The **First-Palmetto Bank,** Palmetto, Georgia, a nonmember bank, began to remit at part on May 1 for checks drawn on it when received from the Federal Reserve Bank.

On May 22 **The First National Bank of Trion,** Trion, Georgia, opened as a member bank and began to remit at par. Officers are F. H. Boney, president; Hugh E. Overfield, executive vice president and cashier; and A. J. Strickland, Sr., vice president. Capital is $150,000; surplus and other capital funds, $60,000.

The **St. Johns River Bank,** Jacksonville, Florida, a new nonmember bank, opened on May 24 and began to remit at par. Officers are J. C. Spink, Jr., president; Carl L. Hasty, vice president; and Bruce M. Johnson, cashier. Capital is $750,000; surplus and other capital funds, $750,000.

The **Marine National Bank of Jacksonville,** Jacksonville, Florida, a member bank and the successor of Central National Bank of Jacksonville, opened on May 27 and began to remit par. Daniel S. Goodrum is president, and John G. Adicks, cashier. Capital is $1,050,000; surplus and other capital funds, $450,000.

State and Local Government Finances In the Sixties

Everyone who can read must be aware that Federal Government spending has shot up drastically in the last few years, largely because of the war in Vietnam. Many do not realize, however, that state and local governments' purchases of goods and services are very nearly as great as those of the Federal Government. Indeed, if it were not for national defense expenditures, state and local governments would far outweigh the Federal Government. Furthermore, state and local government purchases of goods and services have grown faster during the postwar period than Federal Government purchases, even when defense spending is included.

The table below shows annual rates of growth, 1948-67, for certain major components of the gross national product. State and local government purchases of goods and services, rising at an average annual rate of 9.7 percent, were exceeded only by Federal Government purchases for national defense. Federal purchases for functions other than national defense have grown much more slowly than state and local purchases—more slowly, in fact, than total GNP.

Sector	1948-67 Annual Rate of Increase*
Total gross national product	6.0
Personal consumption expenditures	5.6
Total government purchases	9.5
Federal	9.3
National defense	10.6
Other	5.9
State and local	9.7

* Initial to terminal year, compound interest tables.

Source: Department of Commerce, Office of Business Economics.

Because state and local governments play a large role in our economy, what they spend their money on and where the money comes from are important. How the states in our area, the Sixth Federal Reserve District, compare with those in other parts of the country is also important. Typically, the comparisons included in this article are: (a) between fiscal 1960 and 1966 (the latest year for which complete data on state and local government finances are available); and (b) between the averages for Sixth District states and the nation in 1966.

Expenditures

State and local governments have assumed a larger share of all governmental activity. What have they spent the money for? Although spending on all public functions has risen, the biggest increase has come in education, particularly higher education. From 1960 to 1966, total spending on education by all state and local governments rose 78 percent; spending for higher education, 125 percent. At the other end of the scale, spending on highways increased only 36 percent, and financial administration and general control, 43 percent. The "social" services, i.e., public welfare, hospitals and health, and housing and urban renewal, have grown only about as fast as total spending, i.e., about 55 or 56 percent.

Table I shows the breakdown by function. Total expenditures include not only the "general" government functions but three other types of activity undertaken by some governmental units: the operation of local utilities (water supply systems, electric power, gas supply, and transit systems), state liquor stores, and insurance trust funds (for employee retirement plans, unemploy-

Table I

Expenditures of State and Local Governments, 1960 and 1965-66

	1960 $ Billions	Percent of Total Exp.	Percent of General Exp.	1965-66 $ Billions	Percent of Total Exp.	Percent of General Exp.	1960-66 Percent Change
Total expenditure	61.0	100.0		94.9	100.0		55.6
General expenditure	56.2	85.1	100.0	82.8	87.2	100.0	59.5
Education	18.7	30.7	36.0	33.3	35.1	40.2	78.1
(Local schools)	(15.2)	(24.9)	(29.3)	(25.1)	(26.4)	(30.3)	65.1
(Higher education)	(3.2)	(5.2)	(6.2)	(7.2)	(7.6)	(8.7)	125.0
Highways	9.4	15.4	18.1	12.8	13.5	15.5	36.2
Public welfare	4.4	7.2	8.5	6.8	7.2	8.2	54.5
Hospitals & health	3.8	6.2	7.3	5.9	6.2	7.1	55.3
Police & fire protection	2.8	4.6	5.4	4.2	4.4	5.1	50.0
Sewerage and sanitation	1.7	2.8	3.3	2.6	2.7	3.1	52.9
Parks and recreation	0.8	1.3	1.5	1.2	1.3	1.4	50.0
Housing & urban renewal	0.9	1.5	1.7	1.4	1.5	1.7	55.6
Financial administration and general control	2.1	3.4	4.0	3.0	3.2	3.6	42.9
Interest on general debt	1.7	2.8	3.3	2.7	2.8	3.3	58.8
Other	5.6	9.2	10.8	8.9	9.4	10.7	58.9
Utility expenditure	4.1	6.7		6.0	6.3		46.3
Liquor stores	1.0	1.6		1.2	1.3		20.0
Insurance trust expenditure	4.0	6.6		4.8	5.1		20.0
Employee retirement	1.3	2.1		2.2	2.3		69.2
Unemployment compensation	2.4	3.9		1.9	2.0		−20.8
Other	0.4	0.7		0.7	0.7		75.0

Source: **Governmental Finances in—**, Department of Commerce, Bureau of the Census.

ment compensation, workmen's compensation programs, etc.).

No major changes in the ranking of these functions occurred over the six-year period. Education was, and remains, by far the largest recipient of state and local funds, followed by highways, public welfare, and local utilities. The other functions retained their relative positions, with one exception: Expenditures for insurance trust programs took a considerably smaller share of total expenditures in 1966 than in 1960, reflecting the generally increasing prosperity of the Sixties that resulted in declining payments for unemployment compensation.

Some of the functions listed in Table I are shared by state governments with local government units. For example, many state governments spend some money directly on local schools, as well as provide, through grants or shared revenues, much of the money local governments spend on schools; and, in many states, local governments provide part of the support for higher education (through support of city colleges or local private institutions). Highways, predominantly a state function, constitute the largest single item of state government *direct* expenditure. If intergovernmental payments (from state to local governments) are added, however, education is still the largest expenditure in total state government *general* expenditure. Highways are in any case the second largest item in local government spending.

Although in the 50 states public welfare is divided roughly equally between state and local governments, in the Sixth District states it is overwhelmingly a state function. Even in those states outside the District where it is mainly a function of local governments, notably California and New York, by far the largest part of the money spent is derived from state funds rather than local. Spending on health and hospitals is about evenly divided in the nation between state and local governments, but in Sixth District states, except for Louisiana, most of the money is spent by local governments. Furthermore, the money comes from *local* funds, both here and nationally. Police protection is predominantly a local function, as are fire protection and sewerage and sanitation entirely.

The various states are not equally wealthy. Per

capita personal income varied in 1965 from a low of $1,625 (in Mississippi) to a high of more than $3,400 (in Connecticut). Direct comparisons of dollar expenditures between states is therefore not very meaningful. A better measure of the effort going into various state and local government functions is expenditure per $1,000 of personal income.

The comparisons of Sixth District states and the nation in Table II are not entirely predictable. Alabama, Louisiana, and Mississippi spend considerably more in relation to income than the average state, while Florida, Georgia, and Tennessee are not very far above the national average. To a large extent, the same pattern was observable in 1960, except that Alabama was then much closer to the U. S. average.

Within the overall total, the emphasis varied widely. The greatest efforts in education were made in Alabama, Louisiana, and Mississippi, with Louisiana putting the greatest emphasis on local schools and Mississippi the most effort, relative to income, on higher education. The other three states spent less, relative to income, than the average state. Even those District states that spend the most on education in proportion to income lag behind many states outside the District in their total educational programs. For example, Iowa, with only a slightly larger population under 18 years old, spends about the same amount per $1,000 of personal income on local schools as Mississippi, yet its total expenditure on local schools is more than twice as large as Mississippi's. Connecticut, with a similar school-age population, spends a good deal less in relation to personal income (partly because private schools educate an unusually large proportion of the school population), yet almost twice as much in total. This means, of course, that those states spend much more *per pupil* than Mississippi. The riddle is explained by the differences in per capita income—Mississippi, $1,625; Iowa, nearly $2,700; and Connecticut, over $3,400. The poorer states, even with a relatively greater effort, cannot do as much as the wealthier ones. Nevertheless, states such as New Mexico, Utah, and Wyoming spend far more proportionately on education (over $100 per $1,000 of personal income) than does any of the Sixth District states.

Spending on highways was greater than the national average in all six states, as might be expected in states with relatively large areas and low incomes. This was particularly true in Alabama, Louisiana, Mississippi, and Tennessee. Public welfare spending was very high in Louisiana, which has a long tradition of state involvement in welfare programs, and moderately high in Alabama and Mississippi, the states with the lowest per capita incomes. Florida was considerably below the national average, probably because of the ceiling imposed by state law on monthly welfare payments. Recent legislation has removed that ceiling, and the picture is likely to change. Finally, Georgia and Mississippi devoted relatively more government resources to health and hospitals than the other four states,

Table II

Expenditures per $1,000 of Personal Income, 1965-66

All State and Local Governments and Those of Sixth District States[1]
(Dollars)

Item	U.S. Average	Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee
Total general expenditure	154.90	179.30	159.50	155.65	201.86	202.30	165.79
Education	62.24	70.60	61.36	61.84	72.21	73.10	60.16
Local schools	46.92	46.98	46.89	46.72	52.28	49.51	43.43
Higher education	13.48	17.39	12.91	12.97	16.88	20.74	14.36
Highways	23.88	35.31	24.22	24.31	35.92	44.58	36.93
Public welfare	12.63	19.15	9.23	13.29	28.09	19.62	11.41
Health and hospitals	11.05	12.09	14.77	17.22	11.92	17.22	14.41
Personal income per capita	2,760	1,922	2,438	2,174	2,085	1,625	2,038

[1]Sources: **Governmental Finances in 1965-66,** U.S. Department of Commerce, Bureau of the Census; **Business Statistics,** 1967, Department of Commerce, Office of Business Economics; and **Current Population Reports: Population Estimates,** Department of Commerce, Bureau of the Census. Expenditure data for state governments are for the fiscal year ended June 30, 1966, except for Alabama and Texas, whose fiscal years end September 30 and August 31, respectively. Data for local governments are for fiscal years ending at some date within the 12 months preceding June 30, 1966. Most of them have fiscal years that are the same as calendar years. For this reason, the divisor used was the latest revision of 1965 personal income.

Table III

Revenues of State and Local Governments, 1960 and 1965-66

	1960 $ Billions	Percent of Total Rev.	Percent of General Rev.	1965-66 $ Billions	Percent of Total Rev.	Percent of General Rev.	1960-66 Percent Change
Total revenue	60.3	100.0		97.6	100.0		61.9
General revenue	50.5	83.7	100.0	83.0	85.0	100.0	64.4
Intergovernmental	7.0	11.6	13.9	13.1	13.4	15.8	87.1
General revenue from own sources	43.5	72.1	86.1	69.9	71.6	84.2	60.7
Taxes	36.1	59.9	71.5	56.7	58.1	68.3	57.1
Individual income	2.5	4.1	5.0	4.8	4.9	5.8	92.0
Corporate income	1.2	2.0	2.4	2.0	2.0	2.4	66.7
Sales & gross receipts	11.8	19.6	23.4	19.1	19.6	23.0	61.9
Property	16.4	27.2	32.5	24.7	25.3	29.8	50.6
Other	4.2	7.0	8.3	6.2	6.4	7.5	47.6
Charges and miscellaneous	7.4	12.3	14.7	13.2	13.5	15.9	78.4
Utility revenues	3.6	6.0		5.1	5.2		41.7
Liquor stores	1.3	2.2		1.6	1.6		23.1
Insurance trust receipts	4.9	8.1		8.0	8.2		63.3
Employment retirement	2.1	3.5		3.7	3.8		76.2
Unemployment compensation	2.3	3.8		3.3	3.4		43.5
Other	0.5	0.8		0.9	0.9		80.0
Memo: Total receipts from own sources	(53.3)	(88.4)		(84.5)	(86.6)		(58.5)

Source: **Governmental Finances** in—, Department of Commerce, Bureau of the Census.

although the other four were also above the national average.

Nationwide, about a quarter of state and local government expenditure represents capital outlay and about three quarters current operations. Naturally, the proportion is much higher in highway expenditures, running about two-thirds; sewerage, about one-half; and local utilities, about one-third. Practically none of the spending for public welfare is for capital outlay, and only small amounts for health and hospitals. Only about 15 percent of local school expenditure is for capital outlay, but for higher education the percentage is more than one-quarter. The pattern in Sixth District states is quite similar, except that in Alabama, Florida, Georgia, and Tennessee capital outlay for higher education ranged around one-third, while in Louisiana and Mississippi it was only about one-fifth.

Revenues

To finance their expenditures, state governments in general rely mainly on sales and gross receipts taxes, including both the general sales tax (the largest source) and selective excise taxes on motor fuels, alcoholic beverages, tobacco, insurance, etc. Local governments rely principally on the property tax. Table III shows combined state and local government revenues for all states.

Total revenue consists of "general" revenue, plus revenue from specific business- or insurance-type activities—local utilities, liquor stores, and insurance trust funds. General revenue consists of intergovernmental revenue—in this context, payments by the Federal Government and its agencies in the forms of grants-in-aid, reimbursements or cost-sharing payments for services performed, and payments in lieu of taxes, such as those made by TVA—and general revenue from own sources. The latter includes revenue from taxes and from current charges, such as university tuition fees, highway and bridge tolls and fees, hospital charges, airport and harbor fees, and miscellaneous revenue from fines, interest earnings, and sale of property.

Taxes in general have increased less than total revenue and so have become a less important source of revenue over the years, even though tax rates have been raised fairly frequently. Charges and miscellaneous revenue, on the other hand, have become a more important source of revenue. Some individual taxes have grown more rapidly than others. As more states have turned to the

personal income tax, this revenue source has grown proportionately more than any other. It is still one of the least important taxes, though, contributing less than 5 percent of total revenue in 1966. Corporate income taxes are even less important.

Sales and gross receipts taxes and property taxes have contributed most to the growth in the dollar volume of revenue and remain the two largest tax producers. The former, under the influence of rising incomes and tax rates, has grown equally as fast as total revenue, but property tax revenues have increased more slowly. This fact helps to explain the financial difficulties many local governmental units—cities, counties, school districts, and special purpose districts—have been having. Even though property value should rise more or less in proportion to income, in practice tax assessments are revised only at intervals of several years and, in many cases, local governmental units assess property at only a fraction of market value. Various other devices, such as homestead exemption, tend to prevent the base for the property tax from expanding as rapidly as population and the demand for government services. Since the property tax is the principal and, in some cases, the only tax source of local governments, they have felt the pinch severely. To meet this problem, some states have allowed cities and counties to impose their own sales taxes or to share in the state sales tax. In a few cases, cities have even been permitted to levy income taxes.

In spite of the rapid growth in revenue from their own sources, state and local governments would have suffered if it had not been for greatly increased intergovernmental payments from the Federal Government, which increased by $6.4 billion from 1960 to 1966, or one-sixth of the increase in total revenue. This reflects an expansion of Federal programs in aid of education, road building, housing, medical care, and welfare programs for the indigent. A comparison of Tables I and III shows that total expenditures were higher in both 1960 and 1966 than total receipts from own sources. Furthermore, the gap has been widening, from a $7.7-billion deficit in 1960 to $10.4 billion in 1966. The $13.1 billion received from the Federal Government in 1966 more than made up the deficit and allowed state and local governments to build up cash resources.

States in the Sixth Federal Reserve District differ from the national average in several respects. In all but one of them (Florida), state and local governments derive much larger percentages of their revenue from the Federal Government; in all of them, property taxes are less important; and all but one (Louisiana) relies more heavily on sales and gross receipts taxes than is true nationwide. Table IV shows the breakdown. The figures in parentheses refer to state governments only.

Alabama relied most heavily on Federal Government assistance in 1965-66, followed by Mississippi and Tennessee. Florida was below the national average. Florida's peculiar position reflects partly the fact that a higher per capita income makes it easier to obtain revenues internally and partly a state Supreme Court decision that, until recently, hampered local governments in undertaking public housing programs, for which Federal funds are available only on a matching basis.

Revenue from fees, charges for government-provided services, and miscellaneous sources is relatively more important among District local governments than nationally. This is probably accounted for by the inflexibility of the property tax as a source of income, as was mentioned earlier; and cities, in particular, have turned to various fees and charges, such as utilities taxes, garbage collection fees, etc.

Recent tax changes in District states have almost all been, as might be expected, in the direction of raising taxes. For example, the 1967 Alabama legislature increased the cigarette tax (to 9 cents a pack), the severance tax on certain forest products, auto license fees, and the tax on fire insurance underwriters. Jefferson County, where Birmingham is located, was allowed to levy license taxes on businesses not presently subject to them by the state or county, and an additional sales tax, at one-fourth the state rate, is to be levied in the county in place of the county's own sales tax. The Florida legislature, meeting in special session early this year, approved a tax package to pay for an expanded educational program. Among the taxes increased were those on alcoholic beverages, utility gross receipts, retail sales, cigarettes, and motor carrier fees. The Louisiana and Mississippi legislatures, similarly, are now considering tax increases to pay for upgrading the educational systems.

So far in 1968, bills have been introduced in the Mississippi legislature to raise taxes on gasoline, cigarettes, soft drinks, and coffee and tea, and to remove sales tax exemptions in certain classes of sales. In Louisiana, increases have been proposed for the gasoline, cigarette, and corporation franchise taxes. In 1967 Tennessee raised the cigarette, corporate income, alcoholic beverages, realty transfer, and inheritance and gift taxes; increased motor vehicle registration fees; and raised assessments on real property. In 1968

Table IV

Percentage Distribution of General Revenue, 1965-66

Sixth District States and Local Governments

Item	U.S. Average	Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee
Total general revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Intergovernmental	15.8 (26.1)	27.6 (36.4)	14.1 (23.5)	20.5 (29.4)	21.7 (26.9)	23.7 (33.6)	22.8 (32.6)
Own sources	84.2 (73.9)	72.4 (63.6)	85.9 (76.5)	79.5 (70.6)	78.3 (73.1)	76.3 (66.4)	77.2 (67.4)
Taxes	68.3 (62.8)	53.5 (54.5)	65.4 (67.7)	60.4 (62.7)	57.4 (54.7)	57.4 (55.8)	61.1 (60.8)
Individual income	5.8 (9.2)	n.a. (6.3)	†	5.3 (8.2)	2.0 (2.5)	1.3 (1.9)	0.7 (1.0)
Corporate income	2.4 (4.3)	1.9 (2.7)	†	3.9 (6.1)	2.1 (2.6)	2.1 (3.1)	3.1 (4.8)
Sales & gross receipts	23.0 (36.3)	n.a. (38.8)	n.a. (50.6)	n.a. (43.9)	n.a. (25.9)	n.a. (42.9)	n.a. (42.2)
Property	29.8 (1.7)	9.7 (2.7)	25.6 (1.8)	18.0 (0.2)	12.4 (1.5)	15.7 (0.8)	18.1 (*)
Other	7.5 (11.3)	n.a. (4.1)	n.a. (15.4)	n.a. (4.3)	n.a. (22.0)	n.a. (7.2)	n.a. (11.7)
Charges & miscellaneous	15.9 (10.9)	18.9 (9.0)	20.5 (8.8)	19.1 (7.9)	20.9 (18.5)	18.9 (10.6)	16.0 (6.6)

†This tax prohibited by state constitution. *Back taxes only, negligible. n.a. Not available.

Source: **Governmental Finances in 1965-66,** U.S. Department of Commerce, Bureau of the Census.

Note: Figures in parentheses refer to state governments only.

counties and cities have been authorized to increase locally-levied sales taxes.

Indebtedness

Since 1963 state and local governments, thanks largely to increased payments from the Federal Government, have been running a surplus of total revenues over total expenditures. In spite of this, their debt has continued to mount, increasing almost as fast as expenditures. The result has been a very considerable increase in their holdings of cash and securities. For example, in fiscal 1966, the surplus of revenues over expenditures of all state and local governments was $2.7 billion. The increase in total debt during the year was $7.5 billion. The result: Cash and security holdings up by $10.2 billion.

This does not mean that state and local governments are borrowing money in order to sit on a hoard of coins and bonds. Most of the $10.2-billion increase went into reserves for insurance or annuity programs or into sinking funds for retiring existing debt. For example, $1.4 billion represented an increase in the balances of state unemployment compensation funds in the Federal Treasury; holdings of employee retirement system funds rose $3.5 billion; other insurance trust funds (such as workmen's compensation) increased their holdings by $0.1 billion; and "long-term debt offsets" (i.e., sinking funds, etc.) rose by $1.5 billion. These uses of funds are usually required by law, so that they must really be added to expenditures to get a true picture of demands on available funds. Of the rest of the $10.2 billion, $1.2 billion represented accumulation of the proceeds of bond issues prior to disbursement on their intended projects and $2.5 billion went to "all other" purposes, apparently a build-up of cash balances.

None of the Sixth District states differed significantly from this pattern, but in other ways, some were quite out of the ordinary. Florida, for example, has a constitutional provision that prohibits the state government from issuing bonds, except for suppressing insurrection or repelling invasion. Nevertheless, Florida's debt, and particularly the state government debt, has increased much faster than the U.S. average. This has been

possible through the device of "authorities" and other state agencies. What the state constitution does prohibit is the pledging of the state's full faith and credit, or the taxing power. Thus, debt issued by state agencies such as the Turnpike Authority or the universities, which depend for their servicing on non-tax revenues accruing to those agencies, does not violate the constitution. Interest costs tend to be higher on such borrowing than on general obligations of a state, however.

Georgia has an almost identical provision in its constitution, except that the state had some general obligation debt when the constitution was amended, and a very small amount remains outstanding. The debt of these two states, both state and local, has grown faster since 1960 than that of the other four District states, which have no such constitutional prohibition.

Conclusion

The constantly increasing demands of the public—for schools, roads, aid to the handicapped; for parks, social insurance, fire and police protection; and for all of the governmental services we so often take for granted—have put a severe strain on state and local government finances. The strain has been met partly by increasing taxes and fees, partly by larger subsidies from the Federal Government, and partly by assuming more debt. Many local governments in particular, relying so heavily on the property tax, are in desperate straits. The strain is not likely to go away. On the contrary, it is much more likely to become more intense. Now, as never before, new solutions are needed for an old problem.

LAWRENCE F. MANSFIELD

Southern Municipals Feel the Pinch

A prominent and frequent issuer of municipal bonds in the Sixth Federal Reserve District[1] offered a $25-million, Aa-rated issue for bidding on May 28, 1968. The proceeds were intended to finance construction projects for state-supported educational institutions. No bids were received because of a 4½ percent bidding limit, according to the press. A county in an adjoining state received a best bid for a $10-million issue of Baa-rated tax revenue warrants at a net interest cost of 5.403 percent. These issues came when market yields for top-grade municipals were the highest since the early 1930's and following a week in which ". . . the tax-exempt market plunged to new lows as jaded investors sat on the sidelines."

Once more, southern municipals felt the pinch of restrictive monetary policy, as they had in the last half of 1966. Why?

One of the notable aspects of prolonged, relatively steady economic growth, with restrained price increases, is that more and more participants accept it as normal. That is to say, when all forces of fiscal and monetary policy are exerted in the direction of a gradual move from substantial underemployment as in the early 1960's toward full employment, users become accustomed to obtaining funds or real resources readily and without sharp increases in prices or costs of money. In such a situation basic differences in savings flows, acceptability of credit, changes in preferences for investments, and differences in competitive command over financial resources in the marketplace are less noticeable. As the curve of achieved growth approaches the ceiling of maximum potential in a real sense, these temporarily submerged differences surface once more and combine to intensify differences in market factors rather than accommodate them. In short, when the economy is at or near full employment and real resources have to be reallocated, they get shifted from relatively weaker to relatively stronger economic sectors. The job gets done in the financial markets, and at the margin the decision of the markets can be extremely painful. The record in the last two decades of state and local borrowing in the Sixth District provides a prime example of these forces in operation.

During the postwar period the Southeast has met its basic regional payments deficit in a variety of ways. Direct corporate investment in branch plants, distribution facilities, and regional communications centers was an important factor, as were Federal Government disbursements in excess of taxes collected in the region. Export or corporate capital instruments also played a part, but the most important identifiable categories of exported liabilities were mortgages[2] and municipal securities.

[1]The terms "Sixth Federal Reserve District," "Sixth District states," and "southeastern states" as used in this article include Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. The term "municipals" or "municipal securities," unless otherwise qualified, refers to the general category of tax-exempt state and local government securities.

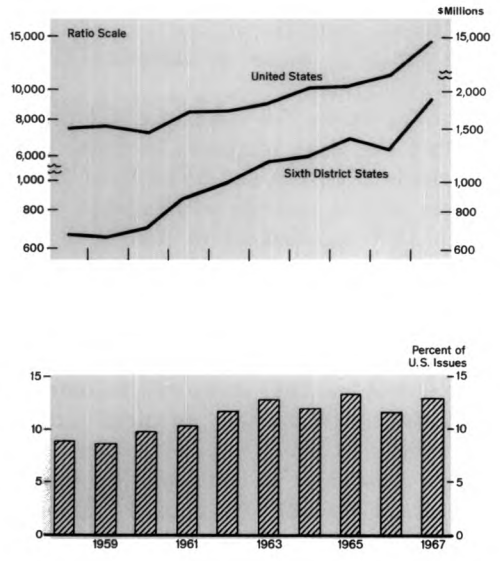
[2]See *Monthly Review*, this Bank, October and November 1967, for quantitative estimates and institutional data pertaining to importation of capital by the mortgage banking community.

In the 1958-67 period, governmental units of the six-state area issued more than $16 billion in debt securities and increased the annual volume of such issues by 120 percent between 1958 and 1967. They very nearly tripled the pace of issues for new capital, which at an estimated level of $663 million in 1958 rose in 1967 to $1.9 billion. During only one of ten years did the dollar volume of total new issues decline; this occurred in 1966 and was concentrated in the second half.

The chart below covering ten years of municipal securities issues compares the experience of the six southeastern states with that of the country in terms of annual dollar volume of total issues. Several contrasts are immediately evident. While yearly swings in volume of southern issues for new capital are much sharper than for the United States, this would probably be true in most regional groupings for purely statistical reasons. More significant is that in every year except three the increases were much greater for the six states, a performance to be expected from a region growing considerably faster than the United States. When new debt issues for the six states are viewed as a proportion of national offerings of municipals for new capital, the relationship is somewhat more stable except in 1959, 1964, and 1966 and exhibits a strong growth trend.

The variation pattern illustrates that marginal borrowers fare best when the supply of loanable funds is expanding. Indeed, the function of monetary policy, acting on the supply side, is to coax such borrowers into the market for funds when *real resources* are not optimally employed. Although there are many highly rated southeastern borrowers during all phases of the cycle, many more projects will be pursued when money and other costs are low or falling. Certainly, the supply side of both resource and funds markets met these conditions between early 1960 and mid-1965. It seems a fair presumption that the year-to-year variations in southern municipal issues were largely demand influenced. Their behavior in 1966 and 1967, however, suggests the reemergence of two sets of difficulties. The first may be viewed as inherent in a basically weak borrowing position in the markets' hierarchy. The second is related to the response to cyclical swings in which difficulties in meeting some borrowing needs may persist, alongside sharp expansion in other types of borrowing.

Municipal bond issues for new capital expanded more rapidly in the Sixth District states than in the United States between 1959 and 1963. The pace of southeastern borrowing slowed more in the credit restriction of 1966, but its recovery was much sharper than that of the U.S. Even before 1966, however, the Southeast's borrowing for new capital as a percent of total U.S. issues had become more subject to changing market conditions.



Relative weakness as a borrower in the markets' hierarchy may stem from a variety of features of a securities issue. Many of these are well known and require little elaboration—for example, type of issue, degree of flexibility in the self-imposed limitations on borrowing, history of past market experience, and ratio of outstanding debt to the taxable property or income base. These characteristics, along with many others, are capable of analysis, evaluation, and reduction to a simplified rating. Size of issue and frequency of market trips, however, may largely determine the market or sector in which borrowing is possible and cost is minimized. Because of its high proportion of smaller borrowing entities, the Southeast is more heavily dependent upon nonregional underwriters for those issues large enough to be marketable in the national market. Its dependence is reinforced by the limited resources of local investment bankers.

In view of the very large increases in offerings for new capital by the six southeastern states between 1960-65, it is clear that whatever the structural difficulties may have been, they impacted on cost rather than availability of funds. Moreover, interest cost increases were quite gradual during this period, so that there was minimum incentive to raise or remove interest rate ceilings long on the legislative books or little reason to anticipate that it would be required shortly. After all, commercial banks were not only aggressive underwriters and investors in general obligations but were actively seeking to broaden their participation in revenue issue underwriting. Other institutional investors ex-

hibited similar increasing appetites for tax-exempt securities, and individuals were more and more attracted to higher yielding industrial tax-exempts. For the Southeast, long a marginal borrower, a broadening market appreciation of the rising incomes, property values, and general improvement of debt servicing ability completed the illusion of competitive muscle in the market.

Southern Municipals Come to Life

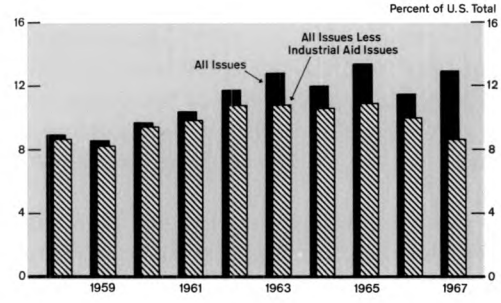
The sharp rebound of dollar volume of new capital offerings in 1967 attests to the continuing pressures for expanded capital expenditures for virtually all types of local services in this region. Undoubtedly, a significant part of the 44-percent overall increase between 1966 and 1967 represented postponements from 1966 and revival of issues abandoned in prior years, as interest costs declined sharply between September 1966 and March 1967. Issues for water and sewers, hospitals and health, airports, parks and recreation, and public utilities were among those showing the greatest year-to-year percentage increases. In dollar terms, however, the overwhelming increase was in industrial development bonds, which in 1967 totaled almost $600 million versus $158 million in 1966. This brings us to the second set of difficulties pointed out above, *i.e.*, response to cyclical intensification of basic weaknesses in the borrowing hierarchy.

The steady uptrend in share of new capital issues of municipals began to falter as early as 1964. Clearly, the last four years have witnessed the re-emergence of market discrimination with respect to borrowers, and in the sharp credit restriction period of 1966 the impact on southeastern borrowers was greater than on the country as a whole.

The influence of interest rates on aggregate borrowing, regional differences, and composition of securities issues is far from certain. In order to evaluate the impact of credit restraint on municipal borrowers in 1966, this Bank in cooperation with the Federal Reserve System surveyed representative borrowers about their response in 1966. Of 103 large southeastern governmental units, 27 issued bonds totaling $707 million in 1966. Their issues accounted for about 11 percent of such issues reported by 983 units surveyed nationally, about in line with recent relationships. Fourteen units delayed, reduced, or abandoned bond flotations, with eight giving higher interest rates as their reason. Two units cancelled plans for borrowing $15 million, and three others reduced their 1966 issues by postponing $51 million into 1967.

Two of the large units which delayed their

Industrial aid municipals have played a much greater role in maintaining the Southeast's share of total borrowing for new capital in the last five years.



borrowing in 1966 reported the opposite reaction, however. These units borrowed about $6 million more than they originally intended, because they expected interest rates to rise further. On balance, however, the direct impact of higher interest rates reduced borrowing by the sampled units by about $60 million, or 13 percent of intended borrowing.

Preliminary data from respondents indicate a somewhat smaller proportion of "smaller" borrowing units postponed or cancelled borrowing because of rising interest rates. Of 47 that reported a total of about $60 million in planned offerings, 21 indicated interest rates were judged too high, and three additional respondents gave interest rates in excess of statutory limitations. However, one gave court proceedings as the reason for postponement, while ten reported referendum difficulties. Almost one-fourth cited delay in receipt of matching grants or authorizations from various Federal agencies. There is no indication, of course, how many units needed to borrow but may not have planned to do so because interest rate levels had *already* passed practical limits in terms of statutory limits or favorable referenda.

Subtracting issues for industrial aid financing reveals that the large increases in dollar volume of municipals from the six states from 1964 onward were almost entirely attributable to these bonds. In 1966 the decline in total new capital issues would have been much greater except for the remarkable stability of industrials. In 1967 the increase from depressed 1966 would have amounted to 12 percent instead of the remarkable 44-percent increase in overall volume if the approximately $600 million industrial aid bonds are deducted.

It seems reasonable to conclude that continued high rates of growth in capital importation through tax-exempt securities has depended to

an ever increasing degree on these securities. In 1960, for example, this type of municipal accounted for about 1 percent of total issues in the six states. In 1965 and 1966 it had grown to 8 percent and in 1967 skyrocketed to 24 percent.

Where From Here?

Legislation severely limiting the use of industrial aid bonds is being processed currently in Congress. Under its terms the use of such financing would be reduced once more to a minor means of capital importation. As for other forms of tax-exempt financing, it seems likely that both market structure and cyclical difficulties will persist for a considerable time. It is true, of course, that this region will continue to benefit from the considerable improvement of its ability to service debt incurred for capital improvements. In those cases where interest rate ceilings and other limitations have been modified to achieve greater flexibility in borrowing for capital needs, it seems unlikely that such impediments would be reimposed. If one assumes that a better balance between fiscal and monetary policy in the future than in the immediate past is possible, then the Southeast may emerge from the current squeeze on financial resources much stronger than before.

HIRAM J. HONEA

Sixth District Statistics

Seasonally Adjusted

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

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Personal Income (Mil. $ Annual Rate)	Mar.	63,505	63,842r	61,926r	59,079
Manufacturing Payrolls	Apr.	219	221	220	200
Farm Cash Receipts	Mar.	154	146	158	139
Crops	Mar.	183	154	167	137
Livestock	Mar.	148	152	156	145
Instalment Credit at Banks* (Mil. $)					
New Loans	Apr.	332	305	293	261
Repayments	Apr.	304	269	266	265
Retail Sales	Apr.	169p	178r	168	158
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Apr.	140	141	141	137
Manufacturing	Apr.	139	140	140	137
Apparel	Apr.	170	171	169	168
Chemicals	Apr.	133	134	132	131
Fabricated Metals	Apr.	156	156	157	151
Food	Apr.	114	114	116	114
Lbr., Wood Prod., Furn. & Fix.	Apr.	105	105	106	105
Paper	Apr.	121	121	120	118
Primary Metals	Apr.	131	133	132	127
Textiles	Apr.	109	109	109	108
Transportation Equipment	Apr.	177	181	181	177
Nonmanufacturing	Apr.	141	141	141	137
Construction	Apr.	132	133	135	129
Farm Employment	Mar.	61	64	67	61
Unemployment Rate (Percent of Work Force)	Apr.	3.7	3.6	3.6	3.7
Insured Unemployment (Percent of Cov. Emp.)	Apr.	1.9	2.0	2.1	2.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	Apr.	40.3	41.0	41.2	40.7
Construction Contracts*	Apr.	147	184	173	160r
Residential	Apr.	194	222	186	150r
All Other	Apr.	107	151	162	168
Electric Power Production**	Mar.	149	155	152	143
Cotton Consumption**	Mar.	108	109	108	108
Petrol. Prod. in Coastal La. and Miss.**	Apr.	219	223	222	216
FINANCE AND BANKING					
Loans*					
All Member Banks	Apr.	274	268	267	248
Large Banks	Apr.	242	237	238	222
Deposits*					
All Member Banks	Apr.	207	204	204	187
Large Banks	Apr.	182	178	181	170
Bank Debits*/**	Apr.	226	225	210	208
ALABAMA					
INCOME					
Personal Income (Mil. $ Annual Rate)	Mar.	8,359	8,381r	8,192r	7,852
Manufacturing Payrolls	Apr.	199	197	197	177
Farm Cash Receipts	Mar.	150	150	156	146
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Apr.	126	127	127	125
Manufacturing	Apr.	127	128	128	124
Nonmanufacturing	Apr.	126	127	127	125
Construction	Apr.	115	116	119	117
Farm Employment	Mar.	69	62	68	68
Unemployment Rate (Percent of Work Force)	Apr.	4.5	4.4	4.3	4.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Apr.	41.0	41.4	41.3	40.6
FINANCE AND BANKING					
Member Bank Loans	Apr.	254	251	251	232
Member Bank Deposits	Apr.	200	196	195	183
Bank Debits**	Apr.	211	216	199	196
FLORIDA					
INCOME					
Personal Income (Mil. $ Annual Rate)	Mar.	18,020	17,863r	17,264r	16,490
Manufacturing Payrolls	Apr.	265	267	267	254
Farm Cash Receipts	Mar.	188	163	164	141
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Apr.	155	154	154	150
Manufacturing	Apr.	160	159	160	157
Nonmanufacturing	Apr.	154	154	153	149
Construction	Apr.	105	102	103	104
Farm Employment	Mar.	80	83	96	83
Unemployment Rate (Percent of Work Force)	Apr.	2.7	2.9	2.9	2.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	Apr.	40.4	40.8	41.1	42.6
FINANCE AND BANKING					
Member Bank Loans	Apr.	289	280	279	256
Member Bank Deposits	Apr.	221	216	215	194
Bank Debits**	Apr.	227	214	205	198
GEORGIA					
INCOME					
Personal Income (Mil. $ Annual Rate)	Mar.	12,240	12,484r	12,235r	11,406
Manufacturing Payrolls	Apr.	216	220	219	199
Farm Cash Receipts	Mar.	147	134	153	135
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Apr.	141	141	141	137
Manufacturing	Apr.	133	133	133	132
Nonmanufacturing	Apr.	144	145	145	139
Construction	Apr.	148	152	153	144
Farm Employment	Mar.	52	56	58	51
Unemployment Rate (Percent of Work Force)	Apr.	3.3	3.2	3.2	3.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Apr.	40.1	40.7	40.9	40.0
FINANCE AND BANKING					
Member Bank Loans	Apr.	288	282	279	258
Member Bank Deposits	Apr.	226	224	225	206
Bank Debits**	Apr.	247	256	236	230
LOUISIANA					
INCOME					
Personal Income (Mil. $ Annual Rate)	Mar.	9,836	10,008r	9,873r	9,260
Manufacturing Payrolls	Apr.	194	196	196	184
Farm Cash Receipts	Mar.	151	161	183	138
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Apr.	131	131	132	127
Manufacturing	Apr.	121	121	121	117
Nonmanufacturing	Apr.	133	133	134	129
Construction	Apr.	160	153	156	153
Farm Employment	Mar.	59	60	61	58
Unemployment Rate (Percent of Work Force)	Apr.	4.5	4.3	4.4	4.4
Avg. Weekly Hrs. in Mfg. (Hrs.)	Apr.	41.3	42.5	43.8	41.8
FINANCE AND BANKING					
Member Bank Loans*	Apr.	235	232	229	222
Member Bank Deposits*	Apr.	169	170	169	158
Bank Debits*/**	Apr.	184	182	176	180
MISSISSIPPI					
INCOME					
Personal Income (Mil. $ Annual Rate)	Mar.	4,966	5,008r	4,792r	4,708
Manufacturing Payrolls	Apr.	256	258	254	223
Farm Cash Receipts	Mar.	132	143	182	144
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Apr.	142	143	143	139
Manufacturing	Apr.	150	151	151	147
Nonmanufacturing	Apr.	138	140	140	135
Construction	Apr.	143	155	160	144
Farm Employment	Mar.	51	64	59	51
Unemployment Rate (Percent of Work Force)	Apr.	4.3	4.1	4.5	4.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	Apr.	40.4	41.1	41.0	40.3
FINANCE AND BANKING					
Member Bank Loans*	Apr.	327	332	340	300
Member Bank Deposits*	Apr.	237	235	242	220
Bank Debits*/**	Apr.	228	246	226	220

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
TENNESSEE					
INCOME					
Personal Income (Mil. $, Ann. Rate)	Mar.	10,084	10,098r	9,570r	9,363
Manufacturing Payrolls	Apr.	213	215	213	191
Farm Cash Receipts	Mar.	144	125	107	133
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Apr.	139	140	141	136
Manufacturing	Apr.	148	149	149	145
Nonmanufacturing	Apr.	134	136	136	132
Construction	Apr.	172	183	189	155
Farm Employment	Mar.	66	63	70	65
Unemployment Rate (Percent of Work Force)	Apr.	3.7	3.4	3.6	4.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	Apr.	39.7	40.7	40.6	40.0
FINANCE AND BANKING					
Member Bank Loans*	Apr.	266	260	257	243
Member Bank Deposits*	Apr.	194	189	188	178
Bank Debits*/**	Apr.	252	253	223	241

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

Debits to Demand Deposit Accounts

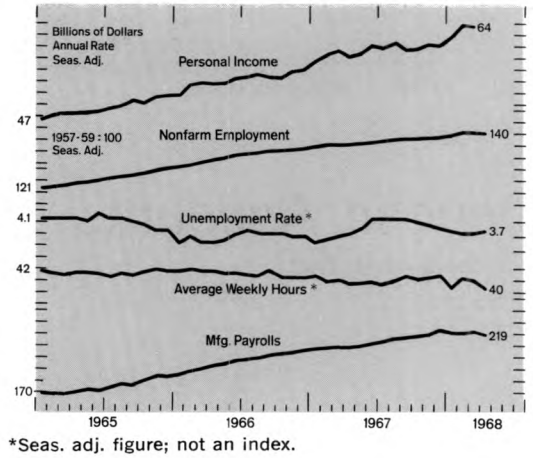
Insured Commercial Banks in the Sixth District

(In Thousands of Dollars)

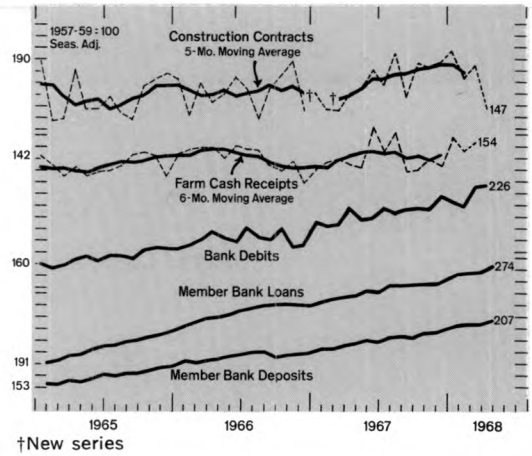
	Apr. 1968	Mar. 1968	Apr. 1967	Percent Change Year-to-Date 4 months 1968 from: Mar. 1968	Apr. 1967	Apr. 1968 from Apr. 1967
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham	1,622,014	1,736,159	1,499,339	−7	+8	+9
Gadsden	63,207	59,143	54,005	+7	+17	+7
Huntsville	190,022	179,606	161,831	+6	+17	+5
Mobile	542,422	481,726	472,919	+13	+16	+11
Montgomery	337,624	313,364	261,977	+8	+29	+11
Tuscaloosa	94,142	94,677	88,589	−1	+6	+8
Ft. Lauderdale—Hollywood	883,062	747,567	664,157	+18	+33	+19
Jacksonville	1,688,610	1,556,403	1,368,121	+8	+23	+7
Miami	2,952,952	2,623,786	2,187,790	+13	+35	+23
Orlando	663,884	574,387	550,433	+16	+21	+16
Pensacola	212,413	199,461	185,077	+6	+15	+10
Tallahassee	151,815	142,315	130,164	+7	+17	+11
Tampa—St. Petersburg	1,654,067	1,578,606	1,326,211	+5	+25	+20
W. Palm Beach	534,995	487,564	433,210	+10	+24	+18
Albany	99,185	91,481	78,292	+8	+27	+14
Atlanta	5,450,348	5,304,003	4,642,525r	+3	+17	+14
Augusta	346,529	301,762	266,429	+15	+30	+11
Columbus	241,981	223,814	201,852	+9	+20	+12
Macon	284,832	258,090	228,965	+10	+24	+14
Savannah	294,596	283,214	244,497	+4	+20	+11
Baton Rouge	632,861	558,276	544,427	+13	+16	+11
Lafayette	135,744	132,834	114,696	+2	+18	+16
Lake Charles	157,237	153,089	140,438	+3	+12	+10
New Orleans	2,529,585	2,512,241	2,250,552	+1	+12	+7
Jackson	672,106	714,623	589,292	−6	+14	+15
Chattanooga	657,254	624,020	554,743	+5	+18	+8
Knoxville	517,465	464,750	432,964	+11	+20	+10
Nashville	1,884,674	1,794,494	1,678,390	+5	+12	+13
OTHER CENTERS						
Anniston	71,896	66,721	58,653	+8	+23	+9
Dothan	67,420	63,177	58,086	+7	+16	+10
Selma	46,352	44,725	43,395	+4	+7	+8
Bartow	36,857	32,996	33,118	+12	+11	−4
Bradenton	88,024	82,389	71,919	+7	+22	+19
Brevard County	237,569	222,436	198,999	+7	+19	+10
Daytona Beach	103,041	84,736	95,025	+22	+8	+7
Ft. Myers—N. Ft. Myers	103,884	99,547	74,314	+4	+40	+32
Gainesville	96,150	94,424	79,351	+2	+21	+15
Lakeland	132,070	123,114	118,887	+7	+11	+7
Monroe County	42,040	39,786	36,284	+6	+16	+7
Ocala	65,507	58,586	57,198	+12	+15	+9
St. Augustine	23,029	18,915	19,931	+22	+16	+4
St. Petersburg	404,840	345,932r	358,004	+17	+14	+10
Sarasota	146,555	116,076	109,309	+26	+34	+28
Tampa	845,750	864,744r	646,239	−2	+31	+25
Winter Haven	73,301	69,945	61,897	+5	+18	+11
Athens	87,889	78,308	65,387	+12	+34	+17
Brunswick	45,487	42,071	37,495	+8	+21	+15
Dalton	105,450	95,329	81,428	+11	+30	+23
Elberton	15,692	14,420	14,162	+9	+11	−4
Gainesville	73,575	67,370	68,302	+9	+8	−1
Griffin	38,448	35,273	32,166	+9	+20	+10
LaGrange	21,813	23,738	20,417	−8	+7	−1
Newnan	23,063	25,929	23,852	−11	−3	+8
Rome	80,666	72,699	64,329	+11	+25	+10
Valdosta	58,583	54,661	50,813	+7	+15	+8
Abbeville	11,654	11,903	10,220	−2	+14	+12
Alexandria	146,326	135,110	128,602	+8	+14	+2
Bunkie	6,293	6,089	5,918	+3	+6	+6
Hammond	38,029	41,963	39,276	−9	−3	+3
New Iberia	37,604	36,330	34,149	+4	+10	+4
Plaquemine	12,398	12,476	10,628	−1	+17	+13
Thibodaux	25,531	20,781	19,868	+23	+29	+8
Biloxi-Gulfport	115,158	106,122	95,260	+9	+21	+12
Hattiesburg	59,362	55,755	53,813	+6	+10	+7
Laurel	37,646	36,873	29,963	+2	+26	+15
Meridian	61,240	63,380	57,012	−3	+7	+4
Natchez	39,870	38,537	34,808	+3	+15	+7
Pascagoula—Moss Point	65,189	59,632	46,566	+9	+40	+21
Vicksburg	42,982	41,007	36,755	+5	+17	+7
Yazoo City	34,202	29,650	32,903	+15	+4	+10
Bristol	80,829	79,463	60,473	+2	+34	+27
Johnson City	81,556	76,663	70,789	+6	+15	+7
Kingsport	177,628	181,021	152,199	−2	+17	+11
SIXTH DISTRICT, Total	34,558,925	32,756,556	28,938,619r	+6	+20	+13
Alabama‡	4,325,307	4,155,641	3,647,878	+4	+19	+11
Florida‡	11,167,563	10,181,260r	8,828,485	+10	+26	+17
Georgia‡	8,685,585	8,366,971	7,354,055r	+4	+19	+13
Louisiana*†	4,311,672	4,149,504	3,821,577	+4	+13	+8
Mississippi*†	1,486,756	1,492,029	1,305,516	−0	+14	+12
Tennessee*†	4,582,042	4,411,151	3,981,108	+4	+15	+12

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

District Business Conditions



*Seas. adj. figure; not an index.



†New series

The District's economy has slackened its pace of advances. With the unemployment rate at a low level, a worker shortage has inhibited nonfarm job growth. Consumer activity was more subdued during April than in recent months. Tapering off from April's high rate of gain, business lending rose only moderately in May. Virtually all indicators suggest the recovery in construction volume has topped out. Agricultural prospects have improved.

April's overall unemployment rate equalled that of March, and the rate for experienced workers, as measured by unemployment insurance claims, fell below 2 percent. Manufacturing employees took home smaller paychecks because of a reduction in jobs and a shorter workweek. District firms received fewer defense contracts in the first quarter than in the record high fourth quarter of 1967.

In April the income of individuals reversed the moderate dip recorded in March. Spending, as measured by bank debits, edged upward fractionally. A small advance in retail sales reflects in part more subdued automobile sales, compared with the buoyant activity during March. New consumer credit at commercial banks continued to exceed loan repayments, but April's rate was slower.

In May loan expansion at large banks moderated from the high April rate. Lending to construction and service firms provided much of the increase in business loans, while consumer and real estate loans were principal gainers in the nonbusiness categories. Large denomination certificates of deposit advanced slightly on the strength of those issued to state and local governments. Overall time-deposit growth slowed somewhat.

For the second consecutive month the five-month moving average of the index of District construction contracts was lower in April. The total was pulled down by a sharp 29-percent drop in nonresidential contracts and a considerable weakening in residential volume. Savings and loan associations continued to add to their outstanding loan commitments, in spite of further declines in new savings inflows. Associations in several metropolitan areas experienced a net loss of savings from March levels, and a growing number slowed their new mortgage lending pace.

Spring growing conditions have generally been good, except in local areas which have experienced unusual weather problems. Plantings in most areas are nearing completion. The index of prices received rose one percent in April; only broilers and some citrus products moved against the trend. Peach production in nine southern states is expected to be up 63 percent from last year.

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