

# MONTHLY REVIEW

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FEDERAL RESERVE BANK OF ATLANTA

# The Euro-Dollar Market: An Element in Monetary Policy

The very rapid expansion of the Euro-dollar market during the last decade and its present size have earned it a prominent position in international financial affairs. Although a variety of factors have figured in the market's formation, the relative absence of governmental regulation and freedom from institutional rigidities have been the *sine qua non* for its existence and growth. Conversely, the broad international character of the market and the wide freedom under which it operates have added to the complexity of monetary policy decisions in many countries. This article explores some of the interaction of the Euro-dollar market with monetary policy variables in the United States, specifically bank reserves and credit availability, interest rates and interest rate policy, balance of payments and gold flows, and official foreign exchange operations.

## A Definition of Euro-dollars

Euro-dollars are generally interest-bearing bank deposits, denominated in U.S. dollars, that are placed with banks outside the United States. Such deposits are created, for example, when a British exporter holding a dollar deposit at a bank in the United States transfers it to a foreign bank or branch of a U.S. bank in London. The ex-

porter then receives a dollar claim on the London bank, usually as a time deposit. The London bank in turn becomes the owner of the original dollar demand deposit at the bank in the U.S. The original dollar deposit remains in the American banking system, but a Euro-dollar deposit is created abroad. The London bank may either lend the funds acquired to a nonbank customer or re-deposit them with another Euro-dollar bank. Often the Euro-dollar deposit is used for purchasing other currencies to finance trade or for other purposes. Although the number of times the funds are traded does not change the total volume of deposits in the U.S., each new owner may shift the original deposit from one U.S. bank to another.

Balances denominated in other major currencies (e.g., British pounds and Swiss francs) are also deposited in banks outside their country of issue and are traded in essentially the same manner as Euro-dollars. Such funds are often intertwined with Euro-dollar transactions in the broader Euro-currency market. However, dollars constitute the dominant trading currency. Actually, the Euro-dollar market is not simply a European phenomenon since banks all over the globe participate; for example, Canadian and Japanese banks are particularly active.

## Origin and Characteristics

The Euro-dollar market is a highly competitive, flexible money market in which short-term funds often move very rapidly. In fact, the ability to

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bypass institutional and regulatory rigidities appears to have been an important stimulant to the market's origin and early growth. It is generally believed that the Euro-dollar market started when banks from several East European countries began placing dollar deposits in Continental banks for fear that accounts in U.S. banks might be attached. Other Western Europeans soon began to participate in the market because of the convenient location and lower cost of these funds, which could be obtained more cheaply than in the United States.

The market received a boost in 1957 when the United Kingdom, to protect sterling from market pressures, restricted sterling acceptance credits to financing only British foreign trade. In order not to lose other established business, British banks switched to offering dollar credits and acquired the funds from the Continental dollar market.

Two aspects of U.S. banking regulation have also given impetus to the market's growth. The interest rate ceilings on time deposits imposed under Regulation Q encouraged a flow of funds into the Euro-dollar market after 1958 when rates in that market rose substantially above the maximum that U.S. banks were permitted to pay on time deposits in this country.<sup>1</sup> The ability of Euro-dollar banks to pay attractive rates on very short maturities has also drawn funds from U.S. banks, prohibited from paying interest on demand and time deposits of less than 30 days' maturity.

In addition to these considerations, certain as-

<sup>1</sup>On October 15, 1962, foreign official time deposits were exempted by law from the interest rate regulation provisions of Regulation Q for a three-year period. In 1965 the exemption was renewed until October 15, 1968.

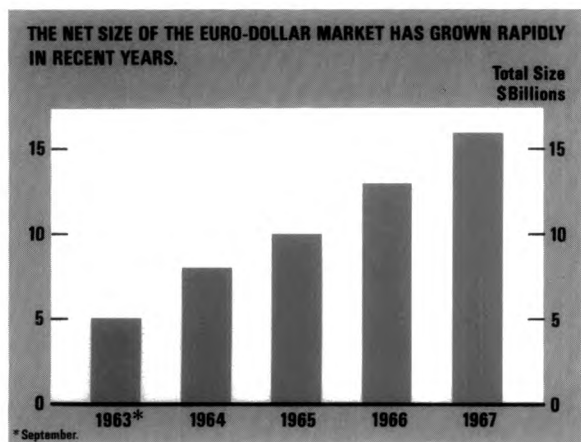
pects of U.S. banking regulations have also stimulated U.S. banks' demand for Euro-dollar funds. Thus, exemption of liabilities to foreign branches of U.S. banks from Regulation Q interest ceilings has permitted banks to pay higher rates for Euro-dollars when limited by Regulation Q in bidding for domestic funds. Furthermore, even if rates on relevant domestic instruments are below Regulation Q ceilings, the absence of reserve requirements and FDIC charges against liabilities to foreign branches may provide an incentive to acquire such funds even at slightly higher rates.

The return to nonresident convertibility in many European countries in 1958 and further reduction in exchange controls also enhanced the market's growth. With these developments, international transactions could transpire in a relatively freer atmosphere than formerly. Furthermore, it became possible for some persons to conduct international transactions under fewer constraints than characterized domestic operations.

Apart from the relative absence of governmental regulation, the Euro-dollar market has developed considerable institutional flexibility. Transactions among banks are usually made by telephone or telex and later confirmed in writing. These interbank transactions are unsecured and thereby rest on the strength of a borrower's reputation. Transactions can be easily tailored to desired maturities, especially in short-term ranges. With such facilities, redeposits of Euro-dollar funds between banks can build up very rapidly into a long chain, sometimes within a few hours.

Borrowers can often obtain Euro-dollars at lower rates than in domestic markets, while lenders usually earn higher rates on Euro-dollar deposits than on competitive investments. This possibility exists because banks dealing in Euro-dollars operate on much narrower margins than in their activities in domestic currencies. They are able to do so because of the wholesale nature of the market and because the extra overhead cost of adding Euro-dollar operations to already established foreign exchange operations is small.

The wide variety of sources and uses of Euro-dollar funds reflects and enhances the versatility of the market. Funds are contributed by corporations and individuals, commercial banks, central banks, and, at times, the Bank for International Settlements. They are used for financing commercial transactions and foreign investment of U.S. corporations, improving the liquidity of head offices of American banks with overseas branches, and making loans to security dealers and brokers in the United States.



This institutional framework and the relative freedom from governmental regulation have thus made possible a market in which funds are readily available at attractive rates to a wide variety of borrowers. Consequently, the Euro-dollar market has not only exposed banks in domestic markets to considerable competition in the borrowing and lending of short-term funds but has probably facilitated the flow of funds from one country to another as lenders search for higher returns. Thus, the Euro-dollar market has broadened considerably the dimensions under which monetary policy customarily operates.

### Interaction of the Euro-dollar Market with U.S. Policy Variables

Monetary policy seeks to fulfill its aims through open market purchases and sales, mainly of U.S. Government securities, discount operations, and changes in reserve requirements. By coordinating these instruments, the Federal Reserve System influences bank reserves, interest rates, and the general availability of credit in a continuous effort to achieve orderly economic growth and stable prices. Open market and discount operation and reserve requirement changes may also affect the international flow of capital and the balance of payments. In addition, the System attempts to influence short-term international capital flows and to smooth out abrupt changes in foreign exchange rates through foreign currency operations.

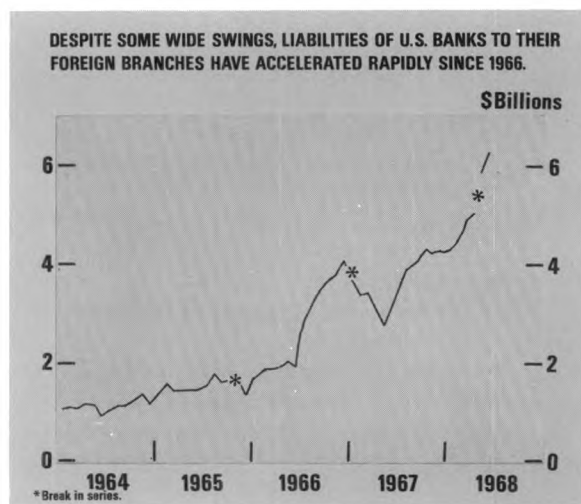
Because transactions in the Euro-dollar market influence bank reserves, interest rates, and credit availability, they are having an increasing effect on domestic credit conditions and monetary policy decisions. Furthermore, the complex interaction of the Euro-dollar market with international capital flows and foreign exchange transactions has made it a conspicuous factor in policy decisions directed toward influencing the balance of payments and in central bank cooperation.

**Bank Reserves and Credit Availability** The System aims the bulk of its operations at changing bank reserves, a variable which the Euro-dollar market may affect in contrasting ways. In recent years the practice of borrowing Euro-dollars through foreign branches has enabled some American banks to increase their liquidity temporarily; i.e., the Euro-dollar market has provided some banks with an additional source of short-term funds. As previously mentioned, foreign branches of U.S. banks solicit Euro-deposits without the interest rate restrictions applying to privately-

held time deposits in the U.S., and acquisitions of such funds by head offices are free from interest restrictions, reserve requirements, and FDIC charges. Since U.S. banks cannot pay interest on deposits of less than 30 days' maturity and are restricted from paying interest above Regulation Q ceilings on time deposits, the absence of these restrictions on liabilities to foreign branches gives those banks with branches greater flexibility in acquiring short-term funds.

During severe credit stringency in the latter part of 1966, banks with foreign branches bid heavily in the Euro-dollar market to offset losses of short-term funds in the U.S. through CD run-offs. In fact, liabilities to foreign branches doubled to \$4 billion during the period. Thus, the availability of Euro-dollar funds to some banks served to cushion them partly from restrictive monetary policy.

Although takings of Euro-dollars fell off nearly \$1 billion in the first half of 1967 with a more stimulative monetary policy, this activity seems to have reached a permanently higher level than that existing prior to 1966 and increased even further in 1968 against the background of tightening credit conditions. By midyear, these takings totaled approximately \$6 billion. Apparently, banks able to acquire Euro-dollar funds now look at this market as an important alternative to CD's and Federal funds as a source of liquidity. In fact, the desire to gain access to this market has stimulated a rush to establish new foreign branches by banks whose operations have not been extended abroad previously. Some reports indicate that banks without foreign branches are even exploring methods to acquire Euro-dollar



funds without establishing foreign branches. In addition, U.S. banks borrow Euro-dollars to keep their name in the market or to offset the loss of deposits to competitors who might be bidding in the market.

Although the acquisition of Euro-dollars through foreign branches may improve the availability of funds to individual banks, it does not necessarily increase total reserves in the U.S. banking system. Nevertheless, it does reduce required reserves by the amount needed against ordinary deposits, thereby enabling banks to utilize their reserves more fully for acquiring earning assets. Of course, total reserves may be redistributed away from other banks in favor of banks with foreign branches.

Under certain circumstances, total reserves could increase. For instance, central banks may draw dollars from the Federal Reserve under existing swap credit arrangements to intervene in the foreign exchange markets. Some of these funds may enter the Euro-dollar market. Similarly, the Bank for International Settlements may draw on its swap lines with the System for the express purpose of placing funds in the market. When such operations constitute the source of Euro-dollar funds acquired by commercial banks in the U.S., total reserves increase unless offset by domestic monetary policy.

Neither does the flow of funds into the Euro-dollar market change total reserves in the U.S. banking system, since Euro-dollar banks or their customers still maintain an underlying demand deposit in banks in the United States. However, increased Euro-dollar transactions may change the deposit structure of some banks by substituting a more volatile demand deposit for a typically less volatile time deposit. As a result, banks may have to maintain a more liquid position against the potential increase in deposit volatility. The higher volatility stems from the rapid rate at which Euro-dollar funds change hands and is consequently reflected in the shift of the underlying balances from one U.S. bank to another.

**Interest Rates** Although influencing the reserve position of U.S. banks constitutes the major thrust of U.S. monetary policy, the System is also instrumental in modifying the behavior of interest rates for both domestic and international reasons.

Changes in the structure of international interest rates concerns monetary policy chiefly through its impact on interest-sensitive capital flows which may affect the balance of payments. At least two considerations suggest the Euro-

dollar market may have enhanced the interest-sensitivity of international short-term capital flows. First, the Euro-dollar market provides an additional channel for international flows of funds that may supplement rather than substitute for other channels. It has been pointed out that some U.S. resident funds that probably would not have been invested in other foreign money market assets flowed into Euro-dollars, in part because Euro-dollar investments require no forward cover against foreign exchange risks.<sup>2</sup> Furthermore, some foreign funds deposited in Euro-dollars might not be directly invested in the United States (e.g., funds held by Eastern European banks) and some borrowers of Euro-dollars might not have equal access to the U.S. money market. Second, the size, competitiveness, and flexibility of the Euro-dollar market have facilitated the movement of liquid funds between countries. Thus, by increasing the degree of financial intermediation between national money markets, the Euro-dollar market may have added significantly to the responsiveness of short-term capital flows to interest differentials between the United States and money markets abroad.

The apparent increase in the sensitivity of short-term capital flows to interest differentials created considerable difficulty for U.S. monetary management in the early 1960's. In addition to several other factors, higher rates in the Euro-dollar market than on comparable short-term investment media in the United States contributed to the disturbing outflow of liquid funds from this country. U.S. monetary policy was designed to reduce these interest incentives, including those related to conditions in the Euro-dollar market, by several means: First, it did not permit U.S. short-term interest rates to decline to levels permitted in previous U.S. business contractions. Second, it raised Regulation Q to discourage an outflow of funds abroad from U.S. CD's. Finally, time deposits held by foreign official institutions were exempted from Regulation Q interest ceilings to allow banks to pay internationally competitive rates to retain such deposits.

Flows of funds between the United States and the Euro-dollar market may have a more direct

<sup>2</sup>An investor selling one currency (e.g., dollars) and purchasing another currency (e.g., pounds) for the purpose of making a temporary investment in the latter currency will ordinarily engage in a parallel transaction to sell forward the proceeds of the investment at its maturity date for the original currency at a fixed rate. This forward cover thereby protects the investor from the risk of loss arising from a future change in the exchange rates of the two currencies. Because U.S. residents investing in Euro-dollars make no currency conversion, no forward cover is needed.

impact on interest rates in the United States. For instance, when investors reduce holdings of U.S. money market instruments (e.g., Treasury bills and CD's) to place funds in Euro-dollars, rates for such instruments could conceivably be affected.

**Balance of Payments and U.S. Gold Flows** The System's international policy is concerned directly with capital flows between the U.S. and foreign countries and also considers the broader developments affecting long-run balance in our international payments and changes in the U.S. gold stock.

The impact of the Euro-dollar market on the U.S. balance of payments and gold flows has been complex. Under the liquidity definition, shifts of American-held funds to the Euro-dollar market add to the balance-of-payments deficit, since such shifts increase liquid claims on residents of this country. For example, higher yields on Euro-dollar deposits in the early 1960's attracted funds from U.S. residents, primarily corporations, and added to the liquidity deficits. Subsequent balance-of-payments programs constraining capital outflows of U.S. corporations have tended to retard this type of outflow since 1965.

The liquidity balance, however, remains unchanged by the movement of foreign-held funds from U.S. money market assets into Euro-dollars. Such movement merely transfers ownership of liquid claims on U.S. residents from one foreigner to another. But if a shift of funds from U.S. assets, whether by American residents or foreigners, into Euro-dollars results in increased central bank holdings of dollars, the official settlements deficit is enlarged.

An offsetting influence to short-term outflows, however, has been the substitution of Euro-dollar funds for U.S. bank loans to foreigners. The relatively low cost and ready availability of funds have encouraged foreign banks, traders, and overseas subsidiaries of U.S. corporations to turn to Euro-dollars for short- and medium-term financing rather than obtain funds directly from U.S. banks. The resulting reduction in U.S. capital outflows redounds to the benefit of the U.S. payments balance in the short-run. Of course, earnings foregone on U.S. bank loans to foreigners, which would benefit the balance of payments in the long-run, are also lost if Euro-dollar banks making these loans are not branches of U.S. banks.

To the extent that Euro-dollars have provided financing for overseas investments of U.S. corporations that might otherwise have been difficult to obtain in light of balance-of-payments pro-

grams, future reflows of earnings from direct investments abroad will continue to benefit the U.S. payments balance.

The Euro-dollar market has influenced the composition of U.S. balance-of-payments deficit financing and likely has reduced the U.S. gold outflow in several ways. When short-term liabilities of U.S. residents fall into the hands of foreign official institutions, they become more direct potential claims on U.S. gold. The Euro-dollar market has provided a profitable investment outlet for private liquid dollar funds that might otherwise have been sold to foreign central banks or used to acquire other foreign currencies. Additional dollar funds remain with private foreigners because banks in the Euro-dollar market maintain dollar working balances and contingency reserves for their Euro-dollar operations.

U.S. banks' acquisition of foreign dollar holdings via the Euro-dollar market has probably been another factor in reducing the dollar holdings of central banks. Rapid increases in U.S. banks' demand for Euro-dollars have at times induced Euro-dollar banks to secure additional dollars from foreign central banks. Since such transactions shift dollars from foreign central banks to private hands, the balance of payments calculated on the official settlements basis benefits.

**Foreign Exchange Operations** Since the early 1960's, the Federal Reserve System has actively engaged in foreign exchange operations, primarily through the central bank swap network. The Euro-dollar market has played a progressively more important role in these operations in recent years. The large size of the market and the substantial participation by commercial banks of several countries means that significant changes in the supply of or demand for Euro-dollar funds may place severe pressure on foreign exchange rates, thereby entailing central bank intervention.

For instance, the year-end "window-dressing" operations of certain European commercial banks, mainly in Germany and Switzerland, at times have created disturbing seasonal pressures in the foreign exchange markets. These banks often liquidate temporarily Euro-dollar investments so that a high proportion of their liquid assets will be denominated in their domestic currencies at the end of the year.

Such liquidations usually place upward stress on the exchange rates for German marks and Swiss francs. At the same time, the resulting shortfall in the supply of funds to the Euro-dollar market puts upward pressure on interest

rates there and tends to pull funds away from investments in other currencies.

To counteract these overall pressures, the Federal Reserve, as well as other central banks, has on occasion provided forward cover in various foreign currencies to induce a reflow of funds back into the Euro-dollar market. In addition, the Bank for International Settlements has drawn dollars under its swap arrangement with the System for placement in the market to ease some of the strains. Furthermore, through the central bank swap network, the System has provided temporary dollar reserves to central banks whose currencies have come under pressure as a result of the developments in the Euro-dollar market.

At times funds may be pulled out of the Euro-dollar market because of political or financial crises. The resulting pressures in the Euro-dollar and foreign exchange markets often resemble those accompanying window-dressing operations. Consequently, the Federal Reserve

and other central banks have cooperated in a similar manner to mitigate strains, although the exact form of cooperation is usually tailored to meet individual circumstances.

## Conclusions

Besides its importance in international capital flows and its relation to the U.S. balance of payments, the Euro-dollar market has increasingly merited the attention of U.S. monetary authorities because of its expanding effect on the domestic financial scene as well. Approximately \$6 billion in U.S. bank Euro-dollar liabilities to foreign branches at the end of the first half of 1968 suggests that this influence is no longer negligible. Despite the difficulties in disentangling and measuring the effects of the Euro-dollar market on other financial variables, it has become unavoidably necessary to appraise its influence in U.S. monetary policy decisions.

JOHN E. LEIMONE

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## APPENDIX

The following T-account analysis traces the creation of Euro-dollars, redepositing, liquidation, and their use by head offices of U.S. banks with foreign branches.

### Example I: Creation of Euro-dollars

#### Step 1.

A London exporter sells goods in the United States and receives payment which is deposited with a bank in the U.S. (U.S. Bank A).

U.S. Bank A		London Exporter	
Assets	Liabilities	Assets	Liabilities
	+ \$100 demand deposit due London exporter	+ \$100 demand deposit with U.S. Bank A	

#### Step 2.

The London exporter deposits the dollars with a Euro-dollar bank (Euro-bank I) to earn an attractive interest rate. He receives a dollar-denominated time deposit from Euro-bank I and in exchange Euro-bank I receives ownership of the original deposit in the United States which it deposits with its correspondent, U.S. Bank B.

U.S. Bank A		London Exporter	
Assets	Liabilities	Assets	Liabilities
-\$100 reserves lost to U.S. Bank B	-\$100 demand deposit to London exporter	-\$100 demand deposit with U.S. Bank A	+\$100 time deposit with Euro-bank I

U.S. Bank B		Euro-Bank I	
Assets	Liabilities	Assets	Liabilities
+ \$100 reserves gained from U.S. Bank A	+ \$100 demand deposit due Euro-bank I	+ \$100 demand deposit with U.S. Bank B	+ \$100 time deposit due London exporter

As can be seen, total demand deposits in the United States remain unchanged, although the ownership of the U.S. demand deposit has shifted from the London exporter to Euro-bank I. But a new bank deposit liability in the form of a dollar denominated time deposit due the London exporter has been created. This time deposit constitutes a Euro-dollar deposit.

#### Step 3.

Euro-bank I may hold its newly acquired dollar deposit in the U.S. for reserves or working balances, redeposit it with another Euro-dollar bank, or lend it to a nonbank customer. Let us suppose the new deposit is lent to a German importer.

Euro-bank I		German Importer	
Assets	Liabilities	Assets	Liabilities
+ \$100 loan to German importer	-\$100 demand deposit with U.S. Bank B	+ \$100 demand deposit with U.S. Bank B	+ \$100 loan from Euro-bank I

#### Step 4.

The German importer then uses the loan to pay for the goods purchased from an American exporter, who then deposits the receipts in his account with U.S. Bank C. Total demand deposits in U.S. banks still remain unchanged.

U.S. Bank B		German Importer	
Assets	Liabilities	Assets	Liabilities
-\$100 reserves lost to U.S. Bank C	-\$100 demand deposit due German importer	-\$100 demand deposit with U.S. Bank B	-\$100 due American exporter

U.S. Bank C		American Exporter	
Assets	Liabilities	Assets	Liabilities
+ \$100 reserves gained from U.S. Bank B	+ \$100 demand deposit due American exporter	+ \$100 demand deposit with U.S. Bank C	-\$100 claim on German importer

Of course, the loan could have been used by the German importer to pay a non-American resident—for instance, a French exporter. The French exporter could still have deposited the dollars with a bank in the U.S. or, alternatively, with another Euro-dollar bank. For various reasons, however, the latter instance appears to be limited in reality.

### Example II: Liquidation of Euro-dollars

#### Step 1.

The German importer acquires dollars in the foreign exchange market with which to pay off its Euro-dollar loan from Euro-bank I. These dollars are in the form of a demand deposit at U.S. Bank D.

U.S. Bank D		German Importer	
Assets	Liabilities	Assets	Liabilities
	+ \$100 demand deposit due German importer	+ \$100 demand deposit with U.S. Bank D	

Step 2. The German importer pays his Euro-dollar loan.

Euro-bank I		German Importer	
Assets	Liabilities	Assets	Liabilities
-\$100 loan to German importer	+\$100 demand deposit with U.S. Bank D	-\$100 demand deposit with U.S. Bank D	-\$100 loan from Euro-bank I



Step 3.

Euro-bank I repays its deposit liability to the London exporter who redeposits the funds with its bank in the U.S. (U.S. Bank A). The funds are kept in the United States for working balances.

U.S. Bank D		Euro-bank I	
Assets	Liabilities	Assets	Liabilities
- \$100 reserves lost to U.S. Bank A	- \$100 demand deposit due Euro-bank I	- \$100 demand deposit with U.S. Bank D	- \$100 time deposit due London exporter

U.S. Bank A		London Exporter	
Assets	Liabilities	Assets	Liabilities
+ \$100 reserves gained from U.S. Bank D	+ \$100 demand deposit due London exporter	- \$100 time deposit with Euro-bank I	+ \$100 demand deposit with U.S. Bank A

Example III: Redeposits

Step 1.

Following step 2 in example 1, Euro-bank I may have re-deposited the Euro-dollar funds with Euro-bank II instead of lending them to a nonbank customer. It would then acquire a dollar-denominated time deposit on Euro-Bank II which in exchange would acquire ownership of the dollar-deposit in the United States. Euro-bank II would then shift the deposit to its own correspondent in the United States (U.S. Bank E) until it decides to redeposit the funds with still another Euro-bank or lend them to a nonbank customer.

U.S. Bank B		Euro-bank I	
Assets	Liabilities	Assets	Liabilities
- \$100 reserves lost to U.S. Bank E	- \$100 demand deposit due Euro-bank I	- \$100 demand deposit with U.S. Bank B	+ \$100 time deposit with Euro-bank II

U.S. Bank E		Euro-bank II	
Assets	Liabilities	Assets	Liabilities
+ \$100 reserves gained from U.S. Bank B	+ \$100 demand deposit due Euro-bank II	+ \$100 demand deposit with U.S. Bank E	+ \$100 time deposit due Euro-bank I

Example IV: Use of Euro-dollars by Head Offices of U.S. Banks

Step 1.

A London exporter sells goods in the United States and receives payment which is deposited with U.S. Bank A.

U.S. Bank A		London Exporter	
Assets	Liabilities	Assets	Liabilities
	+ \$100 demand deposit due London exporter	+ \$100 demand deposit with U.S. Bank A	

Step 2.

The London exporter deposits the dollars with a Euro-dollar bank which is actually a foreign branch of U.S. Bank B. He receives a dollar-denominated time deposit on the foreign branch which in turn receives the ownership of the deposit at U.S. Bank A.

U.S. Bank A		London Exporter	
Assets	Liabilities	Assets	Liabilities
	- \$100 demand deposit due London exporter	- \$100 demand deposit with U.S. Bank A	
	+ \$100 demand deposit due foreign branch of U.S. Bank B	+ \$100 time deposit with foreign branch of U.S. Bank B	

Foreign branch of U.S. Bank B	
Assets	Liabilities
+ \$100 demand deposit with U.S. Bank A	+ \$100 time deposit due London exporter

Step 3.

The foreign branch lends the Euro-dollar funds to its head office in the United States. Thus, the original deposit is shifted from U.S. Bank A to U.S. Bank B. Although total deposits in the U.S. remain unchanged, one important change has occurred. Whereas, U.S. Bank A had to hold required reserves against the original deposit (e.g., 15 percent), U.S. Bank B does not need to hold required reserves against its newly acquired deposit because it constitutes a liability to its own foreign branch. Consequently, free reserves in the U.S. banking system increase by the amount of reserves that would be required on an ordinary deposit of an equivalent amount (e.g., \$15), although total reserves in the system remain unchanged.

U.S. Bank A		Foreign branch of U.S. Bank B	
Assets	Liabilities	Assets	Liabilities
- \$100 reserves (\$85 free reserves + \$15 required reserves) to U.S. Bank B	- \$100 demand deposit due foreign branch of U.S. Bank B	- \$100 demand deposit with U.S. Bank A	+ \$100 claim on U.S. Bank B

U.S. Bank B	
Assets	Liabilities
+ \$100 reserves gained from U.S. Bank A (\$100 free reserves)	+ \$100 deposit liability with foreign branch

# Our Challenged Financial Institutions

“Will the heavy cashing in of certificates of deposit and the withdrawal of savings from our financial institutions experienced in 1966 be repeated in 1968?” Recent discussions thrive on this topic. The longer-run deposit flows at thrift institutions—so relevant to a thorough understanding of current developments—have been largely ignored. Yet every now and then historical trends and shifts away from them make for interesting review.

A case in point is the changing role of the leading financial institutions in the Southeast. Long an important source of funds for financing the region’s growing economy, these institutions have undergone some rather dramatic changes in their development since 1963. Here again, the changes can be best understood by reviewing the longer-run developments in insured commercial banks, insured savings and loan associations, domestic life insurance companies, and credit unions in Sixth District states.

## Over the Last Two Decades

In a nutshell, financial institutions in the District states have grown from a total of 2,415 institutions with assets of \$11.2 billion in 1947 to 5,025 institutions with assets of \$52.7 billion in 1966. In more general terms, the number of financial institutions has doubled, and their assets have increased almost five times since 1947.

## Credit Unions

If an award for the most outstanding advancement in financial institutions were given, it would go to credit unions. The successful promotion of savings and the provision of short- to intermediate-term cash instalment loans have contributed to their growing popularity. Although credit unions still hold only a very small portion of the total assets in financial institutions, they increased their share from less than one-third of one percent in 1947 to just over two percent in 1966. The numbers may be small, but represent an outstanding growth rate. There are now over three and one-half times as many credit unions in the District states with over 31 times as many assets as in 1947.

## Domestic Life Insurance Companies

Domestic life insurance companies have not only helped many people to assure their future economic security but have been an important source of long-term funds for financing the District’s expanding economy. Like credit unions, domestic life insurance companies have experienced a relatively consistent pattern of growth throughout the entire period. While they have increased their share of total assets in these selected financial institutions from 8 percent in 1947 to 12 percent in 1966, they have doubled in number and multiplied their assets sevenfold.

# Asset Value and Number of Selected Financial Institutions

in Sixth District States 1947, 1957, 1966

INSURED COMMERCIAL BANKS, INSURED SAVINGS AND LOAN ASSOCIATIONS, DOMESTIC LIFE INSURANCE COMPANIES AND CREDIT UNIONS

	Asset Value (\$ Millions)			Number of Institutions		
	1947	1957	1966	1947	1957	1966
Alabama	1,499.1	2,712.2	6,248.6	334	540	713
Florida	2,124.2	6,750.0	16,324.2	419	872	1,218
Georgia	2,026.0	3,864.3	8,737.9	508	762	905
Louisiana	2,012.2	3,995.9	7,821.2	440	734	879
Mississippi	897.6	1,473.6	3,358.2	261	343	434
Tennessee	2,600.7	4,892.2	10,251.0	453	669	876
District states	11,159.8	23,688.2	52,741.1	2,415	3,920	5,025

## INSURED COMMERCIAL BANKS

	Asset Value (\$ Millions)			Number of Institutions		
	1947	1957	1966	1947	1957	1966
Alabama	1,341.2	1,949.2	3,936.2	219	239	267
Florida	1,816.7	4,393.7	9,246.6	180	265	444
Georgia	1,801.5	2,751.1	5,745.9	311	353	394
Louisiana	1,735.8	3,002.1	5,327.7	159	181	219
Mississippi	834.6	1,165.2	2,465.3	202	192	190
Tennessee	2,058.5	3,054.4	6,031.4	289	291	294
District states	9,588.3	16,315.7	32,753.1	1,360	1,521	1,808

## INSURED SAVINGS AND LOAN ASSOCIATIONS

	Asset Value (\$ Millions)			Number of Institutions		
	1947	1957	1966	1947	1957	1966
Alabama	41.4	281.0	935.7	26	35	55
Florida	229.9	1,977.7	5,982.7	49	94	135
Georgia	147.0	752.4	2,103.1	51	83	104
Louisiana	163.1	639.3	1,755.4	67	81	102
Mississippi	22.9	188.5	534.4	23	34	37
Tennessee	97.3	492.1	1,375.3	35	46	66
District states	701.6	4,331.0	12,686.6	251	373	499

## DOMESTIC LIFE INSURANCE COMPANIES

	Asset Value (\$ Millions)			Number of Institutions		
	1947	1957	1966	1947	1957	1966
Alabama	110.2	432.4	1,195.4	11	43	50
Florida	69.2	297.7	782.2	20	26	31
Georgia	70.2	312.0	712.7	13	33	30
Louisiana	108.4	305.5	592.3	77	112	109
Mississippi	39.3	109.0	308.4	11	24	26
Tennessee	437.5	1,280.1	2,617.0	10	22	29
District states	834.8	2,736.7	6,208.0	142	260	275

## CREDIT UNIONS

	Asset Value (\$ Millions)			Number of Institutions		
	1947	1957	1966	1947	1957	1966
Alabama	6.3	49.6	181.3	78	223	341
Florida	8.4	80.9	312.7	170	487	608
Georgia	7.3	48.8	176.2	133	293	377
Louisiana	4.9	49.0	145.8	137	360	449
Mississippi	0.8	10.9	50.1	25	93	181
Tennessee	7.4	65.6	227.3	119	310	487
District states	35.1	304.8	1,093.4	662	1,766	2,443

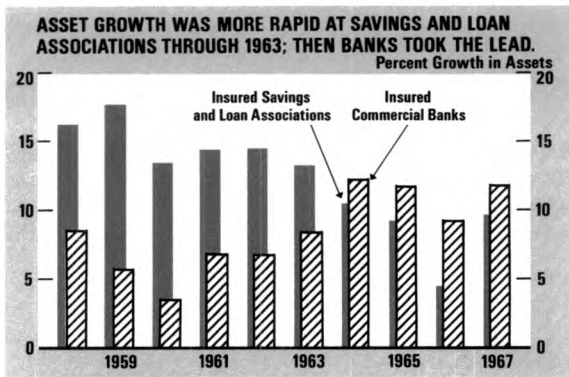
## Insured Commercial Banks

The most dominant financial institution offering the most diverse line of financial services is the commercial bank. Since 1947 insured commercial banks in the District states have more than tripled their assets, but their share of total assets in all four types of financial institutions has dropped from 86 to 62 percent. Partially behind these seemingly unlikely results lies the fact that in 1947 commercial banks were already an established and accepted part of our financial structure, while most other institutions were still struggling to become an integral part.

More important in the long run is that commercial banks have demonstrated their adaptability to a changing environment. They have offered new and more attractive ways to save, changed the composition of their asset portfolio to meet the needs of an expanding economy, and increased their customer services. Especially since 1963, they have taken a more competitive attitude toward attracting savings funds, and the effect on their growth is impressive.

## Insured Savings and Loan Associations

Insured savings and loan associations, with over three-fourths of their asset portfolio in high yielding mortgages, have typically been able to offer a relatively high return to their depositors. They have also shown a much better rate of asset growth than commercial banks, their share of total financial assets in the District states climbing from 6 to 24 percent since 1947. In brief, their growth over the last 20 years has been nothing short of fantastic—from 251 associations



with total assets of just over \$700 million in 1947 to 499 associations with total assets of over \$12 billion in 1966.

During much of this period savings and loan associations paid a substantially higher return to their depositors than commercial banks, were less vulnerable to deposit losses during periods of restrictive monetary policy, and were not subject to regulatory ceilings on deposit rates. However, these advantageous aspects of the savings and loan association over the commercial bank have been sharply reduced in the last few years.

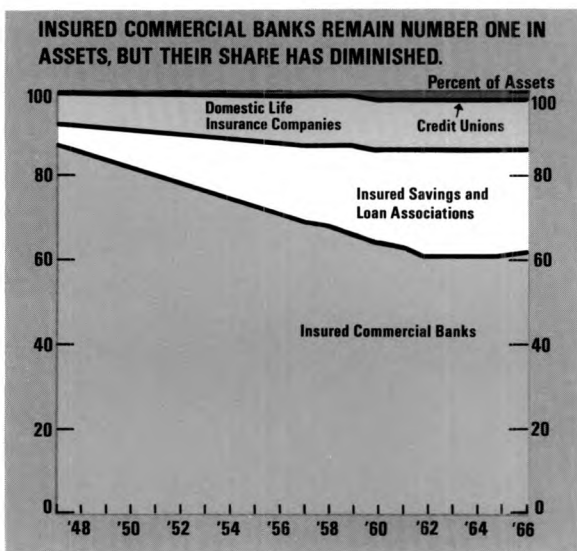
## The Picture Changes

During the 1963-66 period credit unions and domestic life insurance companies have continued to grow and expand, following the path begun in 1947. But in the realm of commercial banks and savings and loan associations, the scene is quite changed.

Since 1963 commercial banks in the District states have consistently shown a greater rate of asset growth than savings and loan associations. In fact, commercial banks have increased slightly their share of total assets in selected District state financial institutions, while the share held by savings and loan associations slipped somewhat.

How can the turnabout in the relative growth patterns of savings and loan associations and commercial banks be explained? First of all, it did not happen overnight. Several rather obvious trends in the relationship between commercial banks and savings and loan associations which, as they developed, tended to bring about this change.

For some time the historical differential between rates paid by savings and loan associations and those offered by commercial banks had been shrinking. By 1966 this differential was almost nonexistent, and in some cases commer-



cial banks were offering higher returns on certain forms of time deposits than savings and loan associations. This intensified competition for savings was the continuation of a longer-range trend, an influencing factor in the slowdown of savings flows into savings and loan institutions during 1964 and 1965.

Rates on time and savings deposits increased sharply in 1966, as financial institutions fought to maintain their competitive position in a period of "tight" money and rising market interest rates. Under these circumstances savings and loan associations were put to a disadvantage. Why? Because commercial banks, which hold a relatively larger portion of their portfolio in short-term assets, could adapt their investments more rapidly to current market interest rates. Consequently, savings and loan associations lost funds to both the security markets and to commercial banks. However, a good part of the impact apparently came from the high return certificates of deposits offered by commercial banks.

Despite the Federal Home Loan Bank Board's disapproval and savings and loan associations' limited ability to adapt their portfolios to cover increased dividend costs, many continued to raise dividend rates. As the situation worsened, it be-

came more and more obvious that stronger and more direct controls were needed. In September 1966 Congress directed the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board to pursue policies aimed at restraining the escalation of rates and re-establishing a more normal inflow of savings to financial institutions. At the same time they gave the Federal Home Loan Bank Board the power to fix the maximum rates payable on different types of savings deposits by savings and loans associations.

Before 1966 closed, the flow of savings to our financial institutions had improved considerably. In 1967 both savings and loan associations and commercial banks enjoyed a healthy rate of asset growth. With the prevailing financial conditions of early 1968, however, saving inflows began to slow down, and a repeat of the 1966 performance was feared. Presently, this fear has subsided, as savings flows have been better than expected originally. What the future will bring in this regard remains to be seen. But past experience indicates that we can expect our financial institutions to continue meeting the challenges and needs of an expanding District economy.

DOROTHY F. ARP

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## Bank Announcements

The **Fort Rucker National Bank**, Fort Rucker, Alabama, opened for business on July 1 as a member bank and began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Officers include James D. Phillips, president, and Walter Rex Blount, assistant vice president and cashier. Capital is \$300,000; surplus and other capital funds, \$500,000.

On the same date, July 1, two nonmember banks—**Farmers and Merchants Bank**, Monticello, Florida, and

The **Citizens Bank**, Tifton, Georgia—began to remit at par.

The **Regency Square Barnett Bank**, Jacksonville, Florida, opened on July 16 as a newly organized non-member bank and began to remit at par. William M. White is president; James C. Griffis, vice president and cashier. Capital is \$350,000; surplus and other capital funds, \$185,000.

# District Business Conditions

## Seasonally Adjusted

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

	Latest Month (1968)	One Month Ago	Two Months Ago	One Year Ago		Latest Month (1968)	One Month Ago	Two Months Ago	One Year Ago
<b>SIXTH DISTRICT</b>									
<b>INCOME AND SPENDING</b>									
Personal Income (Mil. \$, Annual Rate) . . . . .	May 64,760	64,198r	63,963r	58,863	Manufacturing . . . . .	June 163	160	160	159
Manufacturing Payrolls . . . . .	June 229	226	219	203	Nonmanufacturing . . . . .	June 157	156	155	151
Farm Cash Receipts . . . . .	May 135	148	154	132	Construction . . . . .	June 108	107	105	102
Crops . . . . .	May 170	152	183	119	Farm Employment . . . . .	June 91	88	80	95
Livestock . . . . .	May 151	154	148	140	Unemployment Rate (Percent of Work Force) . . . . .	June 2.9	2.6	2.7	3.0
Instalment Credit at Banks* (Mil. \$)					Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	June 41.9	41.5	40.2	42.9
New Loans . . . . .	June 316	317	322	308	<b>FINANCE AND BANKING</b>				
Repayments . . . . .	June 278	270	293	277	Member Bank Loans . . . . .	June 295	289	289	261
Retail Sales . . . . .	June 183p	180r	168r	170	Member Bank Deposits . . . . .	June 227	223	221	198
					Bank Debits** . . . . .	June 241	222	228	190
<b>PRODUCTION AND EMPLOYMENT</b>									
Nonfarm Employment . . . . .	June 141	141	140	138	<b>GEORGIA</b>				
Manufacturing . . . . .	June 140	140	139	137	<b>INCOME</b>				
Apparel . . . . .	June 171	172	170	168	Personal Income (Mil. \$, Annual Rate) . . . . .	May 12,563	12,496r	12,415r	11,393
Chemicals . . . . .	June 134	133	133	131	Manufacturing Payrolls . . . . .	June 233	229	216	206
Fabricated Metals . . . . .	June 159	156	156	152	Farm Cash Receipts . . . . .	May 145	152	147	133
Food . . . . .	June 116	114	113	115	<b>PRODUCTION AND EMPLOYMENT</b>				
Lbr., Wood Prod., Furn. & Fix. . . . .	June 104	104	104	104	Nonfarm Employment . . . . .	June 140	141	140	138
Paper . . . . .	June 123	122	121	120	Manufacturing . . . . .	June 135	134	133	133
Primary Metals . . . . .	June 126	131	130	129	Nonmanufacturing . . . . .	June 143	144	144	141
Textiles . . . . .	June 110	109	109	108	Construction . . . . .	June 144	143	148	139
Transportation Equipment . . . . .	June 187	181	177	183	Farm Employment . . . . .	June 52	52	52	59
Nonmanufacturing . . . . .	June 141	141	141	138	Unemployment Rate (Percent of Work Force) . . . . .	June 3.9	3.3	3.3	3.8
Construction . . . . .	June 127	129	132	123	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	June 40.9	40.8	40.1	40.5
Farm Employment . . . . .	June 62	62	61	65	<b>FINANCE AND BANKING</b>				
Unemployment Rate (Percent of Work Force) . . . . .	June 4.0	3.7	3.7	4.1	Member Bank Loans . . . . .	June 288	284	288	260
Insured Unemployment (Percent of Cov. Emp.) . . . . .	June 1.8	1.8	1.9	2.2	Member Bank Deposits . . . . .	June 225	227	226	203
Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	June 41.3	41.1	40.3	40.9	Bank Debits** . . . . .	June 274	251	249	232
Construction Contracts* . . . . .	June 194	207	147	181r	<b>LOUISIANA</b>				
Residential . . . . .	June 202	240	194	193r	<b>INCOME</b>				
All Other . . . . .	June 187	180	107	171	Personal Income (Mil. \$, Annual Rate) . . . . .	May 9,963	9,952r	9,927r	9,176
Electric Power Production** . . . . .	May 153	151	149	143	Manufacturing Payrolls . . . . .	June 201	201	194	186
Cotton Consumption** . . . . .	June 108	107	109	111	Farm Cash Receipts . . . . .	May 155	170	151	142
Petrol. Prod. in Coastal La. and Miss.**	June 225	227	219	223	<b>PRODUCTION AND EMPLOYMENT</b>				
<b>FINANCE AND BANKING</b>									
Loans*					Nonfarm Employment . . . . .	June 130	131	131	128
All Member Banks . . . . .	June 276	273	274	251	Manufacturing . . . . .	June 121	121	121	119
Large Banks . . . . .	June 242	241	242	225	Nonmanufacturing . . . . .	June 132	133	133	130
Deposits*					Construction . . . . .	June 138	149	160	135
All Member Banks . . . . .	June 208	208	207	189	Farm Employment . . . . .	June 62	64	59	66
Large Banks . . . . .	June 178	181	182	169	Unemployment Rate (Percent of Work Force) . . . . .	June 4.9	4.7	4.5	4.8
Bank Debits*/** . . . . .	June 238	223	227	200	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	June 42.3	43.1	41.2	42.0
<b>ALABAMA</b>									
<b>INCOME</b>									
Personal Income (Mil. \$, Annual Rate) . . . . .	May 8,417	8,395r	8,374r	7,900	<b>FINANCE AND BANKING</b>				
Manufacturing Payrolls . . . . .	June 201	199	200	180	Member Bank Loans* . . . . .	June 233	232	235	224
Farm Cash Receipts . . . . .	May 132	144	150	136	Member Bank Deposits* . . . . .	June 170	169	169	160
<b>PRODUCTION AND EMPLOYMENT</b>									
Nonfarm Employment . . . . .	June 126	127	126	125	Bank Debits*/** . . . . .	June 192	182	184	168
Manufacturing . . . . .	June 125	128	127	125	<b>MISSISSIPPI</b>				
Nonmanufacturing . . . . .	June 126	126	126	125	<b>INCOME</b>				
Construction . . . . .	June 113	115	114	115	Personal Income (Mil. \$, Annual Rate) . . . . .	May 5,038	5,005r	5,041r	4,643
Farm Employment . . . . .	June 64	66	69	66	Manufacturing Payrolls . . . . .	June 264	260	256	224
Unemployment Rate (Percent of Work Force) . . . . .	June 4.9	4.6	4.5	4.6	Farm Cash Receipts . . . . .	May 153	146	132	139
Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	June 41.8	40.7	41.1	40.9	<b>PRODUCTION AND EMPLOYMENT</b>				
<b>FINANCE AND BANKING</b>									
Member Bank Loans . . . . .	June 256	251	254	235	Nonfarm Employment . . . . .	June 142	142	142	139
Member Bank Deposits . . . . .	June 197	199	200	183	Manufacturing . . . . .	June 151	151	150	146
Bank Debits** . . . . .	June 213	202	211	184	Nonmanufacturing . . . . .	June 138	138	138	136
<b>FLORIDA</b>									
<b>INCOME</b>									
Personal Income (Mil. \$, Annual Rate) . . . . .	May 18,694	18,265r	18,083r	16,485	Construction . . . . .	June 134	141	143	137
Manufacturing Payrolls . . . . .	June 285	277	264	259	Farm Employment . . . . .	June 53	49	51	56
Farm Cash Receipts . . . . .	May 188	165	188	128	Unemployment Rate (Percent of Work Force) . . . . .	June 4.8	4.7	4.3	5.1
<b>PRODUCTION AND EMPLOYMENT</b>									
Nonfarm Employment . . . . .	June 158	156	156	152	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	June 41.1	40.8	39.8	40.8
<b>FINANCE AND BANKING</b>									
Member Bank Loans* . . . . .	June 328	327	327	298	<b>INCOME</b>				
Member Bank Deposits* . . . . .	June 239	240	237	222	Personal Income (Mil. \$, Annual Rate) . . . . .	May 5,038	5,005r	5,041r	4,643
Bank Debits*/** . . . . .	June 235	211	228	203	Manufacturing Payrolls . . . . .	June 264	260	256	224
					Farm Cash Receipts . . . . .	May 153	146	132	139

	Latest Month (1968)	One Month Ago	Two Months Ago	One Year Ago
<b>TENNESSEE</b>				
<b>INCOME</b>				
Personal Income (Mil. \$, Ann. Rate)	May 10,085	10,085r	10,123r	9,266
Manufacturing Payrolls . . . . .	June 219	216	213	189
Farm Cash Receipts . . . . .	May 124	131	144	118
<b>PRODUCTION AND EMPLOYMENT</b>				
Nonfarm Employment . . . . .	June 139	139	139	136
Manufacturing . . . . .	June 148	148	148	144

	Latest Month (1968)	One Month Ago	Two Months Ago	One Year Ago
Nonmanufacturing . . . . .	June 134	134	135	132
Construction . . . . .	June 162	164	172	153
Farm Employment . . . . .	June 62	66	66	65
<b>FINANCE AND BANKING</b>				
Member Bank Loans* . . . . .	June 272	271	266	248
Member Bank Deposits* . . . . .	June 191	194	194	181
Bank Debits/** . . . . .	June 253	252	252	219

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

# Debits to Demand Deposit Accounts

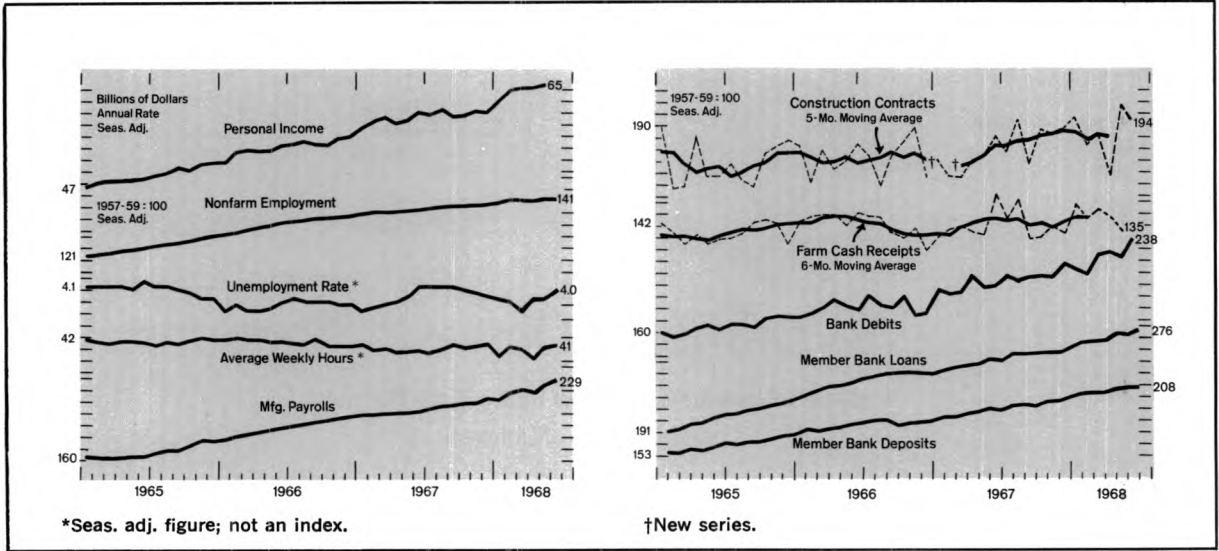
## Insured Commercial Banks in the Sixth District

(In Thousands of Dollars)

	Percent Change						Percent Change					
	Year-to-Date						Year-to-Date					
	June 1968 from 1968						June 1968 from 1968					
June 1968	May 1968	June 1967	May 1968	June 1967	from 1967	June 1968	May 1968	June 1967	May 1968	June 1967	from 1967	
<b>STANDARD METROPOLITAN STATISTICAL AREAS†</b>												
Birmingham . . . . .	1,628,938	1,712,518	1,554,774r	-5	+5	+7						
Gadsden . . . . .	66,728	66,519	60,567	+0	+10	+8						
Huntsville . . . . .	182,980	192,494	180,861	-5	+1	+4						
Mobile . . . . .	494,140	566,870	474,758	-13	+4	+10						
Montgomery . . . . .	293,039	354,149	297,788	-17	-2	+10						
Tuscaloosa . . . . .	97,071	116,406	95,342	-17	+2	+9						
<b>Ft. Lauderdale--</b>												
Hollywood . . . . .	775,910	827,759	619,595	-6	+25	+21						
Jacksonville . . . . .	1,556,183	1,653,747	1,540,194	-6	+1	+6						
Miami . . . . .	2,767,338	2,860,487	2,215,493	-3	+25	+23						
Orlando . . . . .	611,588	639,764	561,730	-4	+9	+14						
Pensacola . . . . .	207,983	225,175	213,244	-8	-2	+8						
Tallahassee . . . . .	150,213	168,022	136,626	-11	+10	+10						
<b>Tampa--</b>												
St. Petersburg . . . . .	1,461,115	1,603,757	1,308,491	-9	+12	+19						
W. Palm Beach . . . . .	485,686	504,521	392,177	-4	+24	+19						
Albany . . . . .	97,782	100,542	84,381	-3	+16	+14						
Atlanta . . . . .	5,530,541	5,776,176	5,215,702	-4	+6	+13						
Augusta . . . . .	295,369	334,140	293,979	-12	+0	+9						
Columbus . . . . .	235,089	249,277	218,494	-6	+8	+12						
Macon . . . . .	261,417	278,998	252,092	-6	+4	+11						
Savannah . . . . .	281,397	326,651	269,439	-14	+4	+10						
Baton Rouge . . . . .	610,404	642,031	562,703	-5	+8	+10						
Lafayette . . . . .	132,758	143,018	116,017	-7	+14	+13						
Lake Charles . . . . .	141,977	161,850	144,953	-12	-2	+8						
New Orleans . . . . .	2,389,935	2,659,028	2,431,359	-10	-2	+5						
Jackson . . . . .	663,706	624,512	609,962	+6	+9	+10						
Chattanooga . . . . .	624,345	660,204	601,845	-5	+4	+8						
Knoxville . . . . .	482,369	526,793	464,594	-8	+4	+9						
Nashville . . . . .	1,707,472	1,999,288	1,651,008	-15	+3	+12						
<b>OTHER CENTERS</b>												
Anniston . . . . .	70,059	77,691	67,454	-10	+4	+12						
Dothan . . . . .	63,598	70,142	61,108	-9	+4	+9						
Selma . . . . .	45,777	47,519	45,735	-4	+0	+7						
Bartow . . . . .	34,265	40,643	35,327	-16	-3	-2						
Bradenton . . . . .	74,306	78,513	76,953	-5	-3	+14						
Brevard County . . . . .	230,704	242,011	221,857	-5	+4	+8						
Daytona Beach . . . . .	91,129	100,727	94,708	-10	-4	+6						
<b>Ft. Myers--</b>												
N. Ft. Myers . . . . .	95,091	107,914	79,596	-12	+19	+30						
Gainesville . . . . .	94,124	101,935	84,423	-8	+11	+15						
Lakeland . . . . .	118,870	130,921	122,566	-9	-3	+6						
Monroe County . . . . .	36,593	40,155	33,977	-9	+8	+8						
Ocala . . . . .	60,658	61,694	55,784	-2	+9	+9						
St. Augustine . . . . .	22,269	23,955	19,862	-7	+12	+8						
Sarasota . . . . .	322,810	366,895	313,140	-12	+9	+3						
Tampa . . . . .	779,164	852,483	683,107	-9	+14	+23						
Winter Haven . . . . .	65,886	77,813	57,545	-15	+14	+13						
Athens . . . . .	84,794	86,312	72,170	-2	+17	+17						
Brunswick . . . . .	44,177	45,159	43,538	-2	+1	+12						
Dalton . . . . .	100,488	103,001	78,741	-2	+28	+25						
Elberton . . . . .	15,098	15,697	17,041	-4	-11	-7						
Gainesville . . . . .	68,325	73,709	76,151	-7	-10	-2						
Griffin . . . . .	35,181	29,989	32,279	+17	+9	+6						
LaGrange . . . . .	22,832	23,279	22,627	-2	+1	-1						
Newnan . . . . .	25,171	25,855	24,299	-3	+4	+6						
Rome . . . . .	77,051	79,749	71,011	-3	+9	+10						
Valdosta . . . . .	62,765	59,167	53,896	+6	+16	+10						
Abbeville . . . . .	11,414	10,928	11,742	+4	-3	+8						
Alexandria . . . . .	141,819	149,012	130,404	-5	+9	+5						
Bunkie . . . . .	6,267	6,697	7,160	-6	-12	+2						
Hammond . . . . .	35,653	40,942	38,309	-13	-7	-0						
New Iberia . . . . .	33,053	35,697	30,879	-7	+7	+4						
Plaquemine . . . . .	11,941	20,252	11,223	-41	+6	+21						
Thibodaux . . . . .	22,312	26,278	24,014	-15	-7	+7						
Biloxi-Gulfport . . . . .	108,011	113,005	100,794	-4	+7	+10						
Hattiesburg . . . . .	61,906	64,259	54,361	-4	+14	+10						
Laurel . . . . .	37,933	42,678	36,133	-11	+5	+16						
Meridian . . . . .	66,384	69,877	63,030	-5	+5	+4						
Natchez . . . . .	36,422	40,237	39,355	-9	-2	+6						
<b>Pascagoula--</b>												
Moss Point . . . . .	60,774	67,088	53,430	-9	+14	+20						
Vicksburg . . . . .	38,529	40,651	39,773	-5	-3	+4						
Yazoo City . . . . .	29,736	35,962	30,474	-17	-2	+6						
Bristol . . . . .	77,529	80,403	77,814	-4	-0	+16						
Johnson City . . . . .	77,952	85,547	77,925	-9	+0	+6						
Kingsport . . . . .	148,908	176,367	149,059	-16	-0	+9						
<b>SIXTH DISTRICT, Total</b>	<b>33,069,072</b>	<b>35,138,382r</b>	<b>30,457,180r</b>	<b>-6</b>	<b>+9</b>	<b>+12</b>						
Alabama† . . . . .	4,120,519	4,504,409	3,904,801	-9	+6	+11						
Florida† . . . . .	10,419,807	10,769,734	9,036,827r	-3	+15	+17						
Georgia† . . . . .	8,652,483	9,087,249	8,068,735r	-5	+7	+12						
Louisiana*† . . . . .	4,102,403	4,494,855	3,949,307r	-9	+4	+7						
Mississippi*† . . . . .	1,443,927	1,481,577	1,373,539	-3	+5	+9						
Tennessee*† . . . . .	4,329,993	4,800,558	4,123,971	-10	+5	+10						

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

# District Business Conditions



Widespread discussion of a probable slowdown in the nation's business activity is not supported so far by District economic data. A rise in the District's and the nation's unemployment rate can be explained by the entry of an unusually large number of teenagers into the labor force at the close of the school term. Most other measures remained healthy during May and June. Employment, retail sales, personal income, and bank deposits continued to advance, and the District's construction activity was stronger than the nation's. The outlook for livestock prices and crop production is favorable.

Nonagricultural employment continued to rise in June, but the unemployment rate jumped markedly. Both manufacturing employment and average weekly hours increased. Announced plans for the construction of new manufacturing plants rose sharply during second quarter. District textile and apparel firms raised their prices on several products recently, following an announced overall wage increase for textile employees.

Personal income advanced again in June, powered largely by the higher manufacturing payrolls resulting from more jobs and longer hours. A decline in new auto loans at District banks suggests a drop in June automobile sales, but the rise in personal income and a sharp jump in bank debits indicate an advance in other retail sales.

Time-deposit inflows picked up sharply at District banks in July. At the big banks this gain was centered in large denomination negotiable certificates of deposit. Experiencing only moderate loan demand, banks added to their investment portfolios during the last half of the month.

Total construction activity remains at a high level, in spite of record costs. Southern housing starts declined slightly in June. Single family structures showed the most weakness, reflecting a continued climb in mortgage interest rates on both old and new dwellings. Strength in multi-family starts partially offset the decline. The annual rate of permits for new housing units also dropped slightly further nationally, but the South increased to a rate higher than that of the previous (April) peak. Contracts in public utility and other nonbuilding categories also rose.

Improved growing conditions throughout the District brightened the outlook for crop production. Cotton prospects advanced sharply, reducing somewhat the possibility of very short supplies of quality cotton this fall and winter. Cotton prices remained strong, however. Livestock price levels are generally good with expected seasonal advances. In the fall months, prices for cattle, hogs, and eggs may remain near or above year-earlier levels.

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