MONTHLY REVIEW

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SIXTH FEDERAL RESERVE DISTRICT

TENN ALA GA MISS LA FLA

FEDERAL RESERVE BANK OF ATLANTA

JANUARY 1969

What Kind of Year? The Southeast in 1968

Records set by the national economy are by now taken as a matter of course. However, when records are broken in an area that has a lower per capita income than the national average, it is news one does not tire of hearing. And when, because of such a lag, "catching up" becomes an important objective, fresh evidence that the region is growing faster than the rest of the country is doubly welcome.

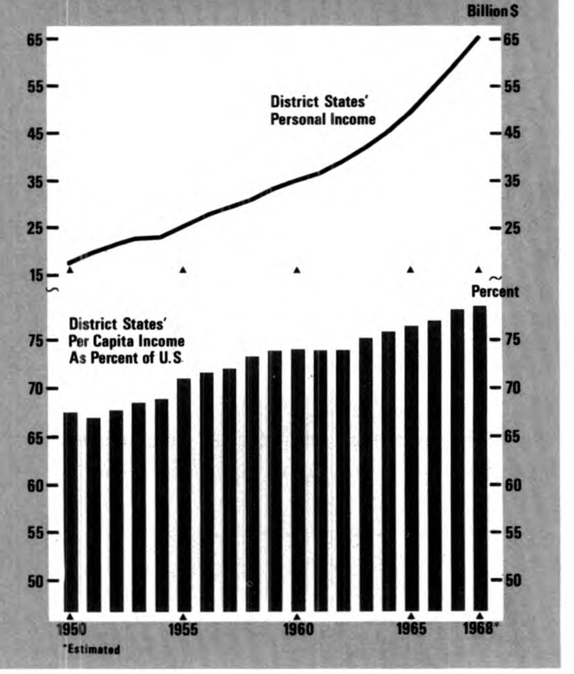
These statements are highly descriptive of what happened to the economy of the Southeast during 1968. All sorts of new records were set—in employment, in income, as well as in construction. Moreover, the rate of gain in personal income in the Sixth District was more rapid than in the rest of the nation. Personal incomes in the District were up about 10 percent from 1967, according to this Bank's estimates, based on the first ten months' data.

Although these figures showed again that the Southeast is one of the faster growing areas of the country, one should not exaggerate the magnitude of last year's growth. In no individual District state did the growth rate in 1968 differ sharply from the 9-percent gain in the national average. According to preliminary estimates, income was up 12 percent in Florida, 11 percent in Georgia, 10 percent in Mississippi, 9 percent in Louisiana, and 8 percent in Alabama and Tennessee from the year before.

With the Southeast's economic structure looking increasingly like the nation's, it is not surprising that the movement of the District economy throughout the year also followed closely that of the nation. As in other parts of the country, business activity here was a little less ebullient toward the latter part of 1968 than earlier in the year. Aside from national income, two prominent District indicators that slowed down in autumn were employment and bank debits (a measure of checkbook spending).

The response to the imposition of the tax surcharge around mid-year and to the slowed growth of Federal spending was very much milder, however, than predicted nationally and implicitly for the Southeast as well. When the tax increase went into effect, many observers had forecast a substantial slowdown in second half 1968; some went so far as to say that a recession in early 1969 was a distinct possibility. Yet, to the surprise of even those who were bullish about the outlook in the Southeast, that region's economy continued to expand with little let-up. Economic activity in the closing months of 1968, in fact, remained sufficiently strong to cause many economic gains for 1968 as a whole to exceed those of 1967. Certainly, this was true for the best regional economic yardstick available—personal income.

Income growth continued and per capita incomes inched closer to the national average in 1968.



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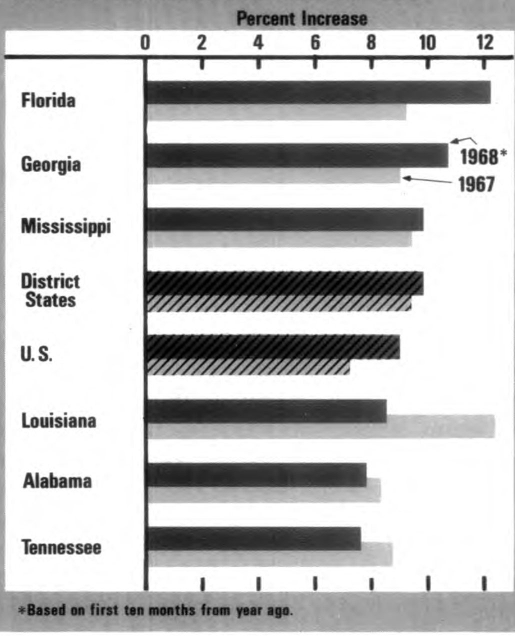
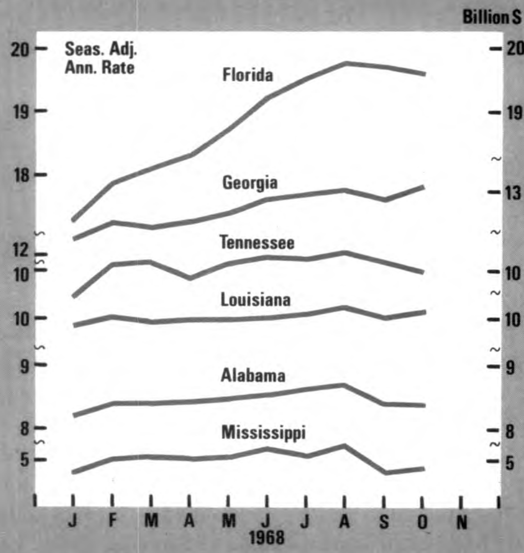
During 1968, rates of personal income gains did not differ too much from state to state.



Income expansion in most states slowed during the latter part of the year.



Lessons Learned

What lessons can we learn from this experience? One lesson that 1968 taught Southerners was not to exaggerate the likely short-run impact on the economy of changes in governmental policies. We might note that the forces that have stimulated Southern economic growth over the long term have been largely private, with much of the push coming from manufacturers and distributors who were attracted to the Southeast. This development, of course, continued during 1968.

A less obvious but very important private contributor to what happened in the economy last year was the consumer. Nationally, he more or less shrugged off the tax increase by curtailing his saving more than his spending. Southerners acted in the same way. Thus, the private sector and, above all, the consumer affected last year's economic results even more than usual. Without help from the consumer, 1968 still might have been a fairly good year, but because of his role it was a very good one.

Success Qualified

Can we, therefore, conclude that it was an unqualified success? We think not. Indeed, 1968 was disappointing in a way. Why? What can be wrong when the economy enjoys one of its biggest expansions in history? Inflation.

What happened to consumer prices in Atlanta is probably typical of the Southeast as a whole. In Atlanta, consumer prices were up more than 4 percent from 1967. As a result much of last year's dollar gains was "fictional."

Why this happened is no mystery. Wage increases in many instances exceeded gains in productivity. With effective demand growing faster than goods and services could be produced, these costs and others were frequently passed on to consumers. At the same time, skilled labor was extremely scarce. For that matter, workers of almost every description were in short supply, as unemployment was at the lowest rate in over 15 years. Although slightly higher in the District than in the nation, the percentage of unemployed hovered at or below the 4-percent "full" employment level almost all year. Thus, inflation and labor shortages were two important developments the Southeast shared with the nation.

Of sorts, this was a repetition of what happened in 1966. Then, too, inflationary pressures and labor shortages were quite common.

In one other important respect, though, 1968 was different from 1966—at least in degree. Credit, which the Southeast typically imports on balance, seemed more ample than in 1966. This was especially true for funds available from nonbanking institutions for financing residential construction. Loanable funds from banks, too, were not in short supply last year, as banks enjoyed rapid deposit gains. However, there were exceptions, partly because of special local circumstances. The other articles of this issue discuss these and other significant developments that made last year both "great" and "disappointing."

HARRY BRANDT

Consumer Surprises

Consumer spending advanced rapidly throughout most of 1968. Instead of spending less after the tax increase went into effect in July, consumers sharply increased their spending by saving a smaller proportion of their income. In addition, consumers stepped up the use of instalment credit. That Southerners behaved—or, based on their failure to react to higher taxes as expected, misbehaved—in the same way is evidenced by the trend of instalment credit at commercial banks during 1968.

Consumer Borrowing Accelerates

The use of instalment credit generally parallels the trend in consumer income and spending, since many types of purchases are partially credit financed. Thus, when consumers decided to save more and spend less of their increasing income in early 1968, the growth in instalment debt slowed. Later in the year, as consumers began spending a larger proportion of their income, the use of instalment credit accelerated.

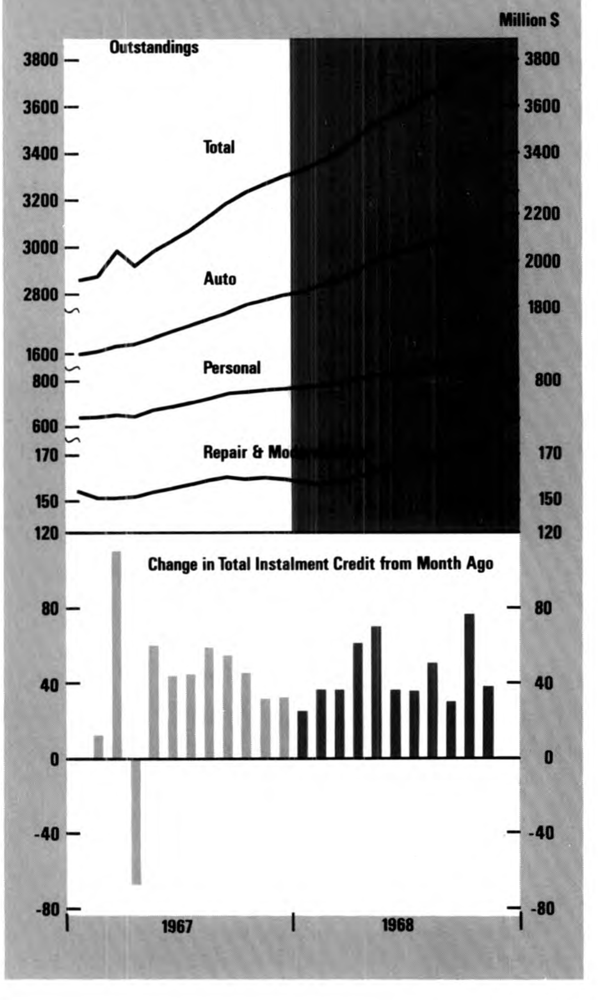
Outstanding instalment debt at Sixth District banks rose steadily through 1968. District consumers owed \$3.2 billion in instalment credit to commercial banks at the beginning of the year. By the end of November, the figure had jumped to about \$3.8 billion. The rate of advance was fastest during the second quarter. The advances in October and November suggest the fourth quarter will also be strong.

Automobile Credit Sets the Pace

Instalment credit is used to finance expenditures for a variety of goods and services. Sales of most consumer durable goods, such as automobiles, furniture, and appliances, to name a few, are usually partially credit financed. In addition, loans for repairing and modernizing houses, and personal loans for, among other purposes, medical bills, vacations, and education are also popular.

Although each of these categories of borrowing advanced last year, loans to purchase automobiles were largely responsible for the overall growth in instalment credit. Automobile loans account for about 53 percent of the total instalment debt outstanding at banks; they were

Instalment lending at commercial banks rose sharply in 1968; automobile loans set the pace.



responsible for about the same percentage of the net increase in the volume of outstanding credit in most months last year.

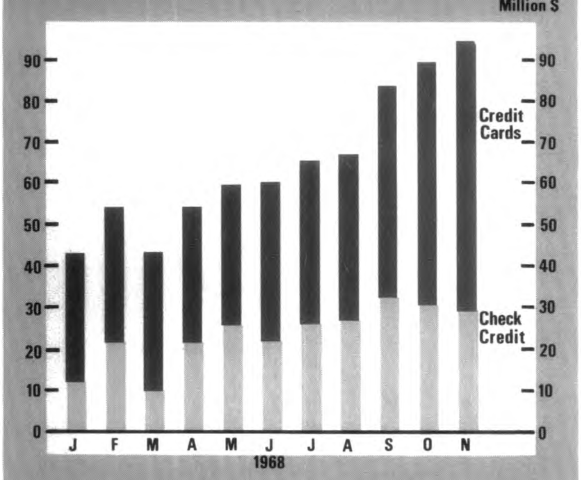
The pattern of auto credit was largely a result of the increase in sales. New car sales, after a rather slow start at the beginning of the year, gained momentum rapidly and set a new national record of about 9.6 million new car sales. The trend of automobile loans at District banks is partial evidence that Southerners participated in this surge to buy more automobiles.

Overall spending, based on bank debits, also advanced sharply in 1968, rising 14 percent for the first 11 months of the year over the comparable 1967 period. Florida's 18-percent gain was the largest; Miami, Fort Lauderdale, and Palm Beach experienced the biggest percentage gains. Alabama, Georgia, and the District portions of Mississippi and Tennessee posted gains about in line with the regional average. The District portion of Louisiana, on the other hand, experienced the smallest, although respectable, gain of 9 percent as bank debits in New Orleans rose only 7 percent.

Revolving Credit—A New Dimension

Increasingly more Southern consumers added a new dimension to their borrowing last year—revolving bank credit. Although not entirely new, the bank credit card and check-credit plans have recently been introduced by a growing number of banks. Overall about 125 District banks now offer some type of prearranged credit privilege to their customers. Banks in Alabama, Georgia, and Tennessee were especially active in entering the credit card business last year. Recently, several major banks in Florida entered through franchise and agency-type arrangements with other banks or groups of banks. In each state, the major recent impetus has come from the agency and franchise arrangement.

Revolving credit at banks increased rapidly; the major impetus coming from bank credit cards.



As yet, outstanding balances under various types of credit card plans account for less than 3 percent of total bank instalment credit. The growth was rapid in 1968, however. Outstanding balances under these plans more than doubled during the first 11 months of 1968, increasing from $43 million in January to nearly $95 million at the end of November. Most of this growth came from bank credit cards instead of check-credit plans.

New Surprises?

Although predicting consumer behavior is not precise, over the years certain important relationships have been identified that help explain consumer behavior. Typically, the trend in consumer spending and saving is closely related to the trend in disposable personal income. Whether incomes accelerate or slow down, spending will usually respond accordingly. But sometimes the extent and direction of the responses are not as expected because of the influence of other variables—such as accumulated wealth and savings, price changes and expectations, and consumer attitudes.

The experience of 1968 taught us that these other variables may be of overriding importance to short-run changes in consumer behavior. The decisions of consumers to save more earlier in the year may have been an attempt to hedge against the tax increase when it did appear. In addition, the continuing rapid advance in prices may have induced spending in anticipation of additional price rises.

Early in 1969, increased social security taxes and the effects of making up the increased income tax that was retroactive back to April 1968 may dampen consumer spending. The surcharge is scheduled to expire in July 1969; whether it is extended will depend largely on the strength of overall demand and price pressures. It appears, therefore, that consumers will again be important in determining economic activity in 1969. Whatever the outcome, 1969 will undoubtedly hold some new surprises.

JOE W. MCLEARY

Prosperity Slows Industrial Growth

Viewed from the emulous tradition of the South, the overall performance of the District's industrial sector last year was nothing to crow about. To be sure, the District's economy managed to stay on the growth path in 1968, thus participating in the nation's record eight consecutive years of prosperity. But the overall growth, measured in terms of nonfarm employment, did not outperform that of the nation; nor did it outpace its own 1967 record. It just paralleled the average growth of the nation in 1968.

As was the case for the nation as a whole, expansion of District industry was hampered by capacity limitations imposed by supplies of capital and labor, particularly of labor. Throughout the year, the District's overall idle labor force was down to an almost irreducible minimum rate—3.3 to 4 percent—and even lower in the large metropolitan areas. In addition, the Southeast's economy was influenced by a slowing down in some phases of the national economy and by some industrial disturbances that were nationwide in scope.

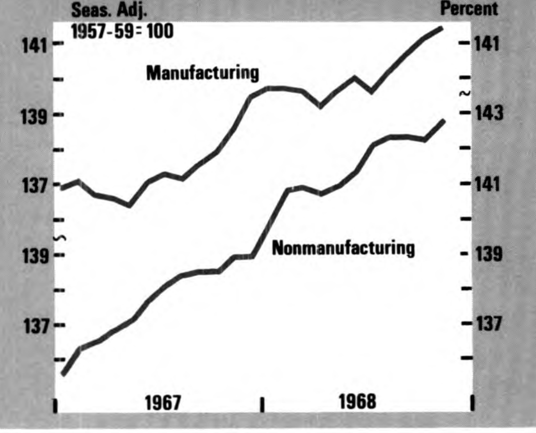
In retrospect, the District's economy resumed a vigorous expansion at the end of 1967. But this expansion was soon held back by limits on labor resources. By January 1968, the District's overall unemployment rate had already declined to 3.7 percent, and the manufacturing sector's average workweek had climbed to 41 hours. Labor market conditions remained tight throughout 1968.

District Industry Feels the Pinch

The broadly diversified industrial base of the District economy was not without mixed blessings last year. While the District's industries as a whole benefited from the nation's long uninterrupted prosperity, they also shared with the rest of the nation some of the industrial disturbances. The labor union contract of the nation's steel industry was due for renewal last July, and the District's primary metal industry employment underwent another seesaw game. When the widely expected steel strike was finally averted in July, the subsequent slowdown in steel production forced a curtailment in the District's primary metal employment in the latter half of 1968. Because of its heavy concentration of steel mills, Alabama's industrial economy in general, and Birmingham's in particular, were adversely affected by the general sluggishness in steel business in the last half of the year. This downward trend was finally reversed in November.

While the exact nature of the economic impact arising from the de-escalation of the U. S. Manned Space Flight program is yet to be assessed, several areas in the District have been affected, in varying degrees, by reduction in spending on space exploration. Huntsville, Alabama, where the Marshall Space Flight Center is located; New Orleans, where a big test facility is located; and Cape Kennedy, the launching site, have reported-

Growth of District manufacturing employment leveled off in first half 1968. Employment strength shifted in the second half from nonmanufacturing to manufacturing.



ly lost employment in space-work related areas. Defense activities in the District, as measured by the amount of defense prime contract awards, however, were only slightly down from the 1967 level in the first half of 1968. Its share of the nation's total awards appears to have changed little last year.

Overall Growth of Industry

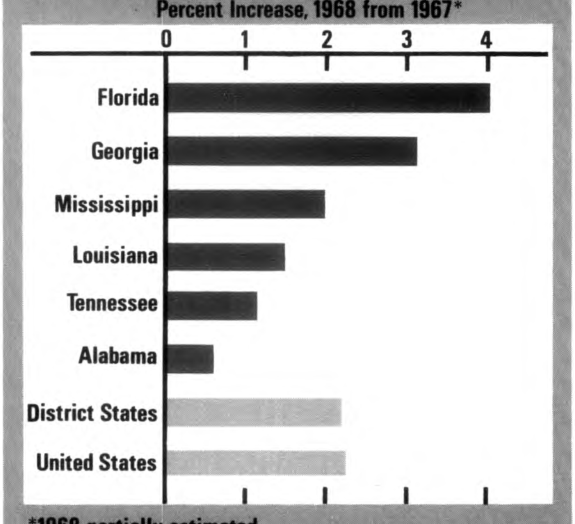
Even though overall growth in the District industries, as measured by growth of nonfarm employment, matched that of the U.S., District business activity did not follow the ebb and flow of the national economy in exact timing and magnitude. During the first six months of 1968, the District outpaced the nation in nonmanufacturing job gains, while it was outperformed by the nation in manufacturing job increases. Beginning in July, however, District employment strength shifted to manufacturing.

For the entire year, a rapid expansion in the District's trade, public utilities, and Federal and local government employment accounted for most of the increases in nonmanufacturing employment. Within the manufacturing sectors, the fabricated metals and transportation equipment industries scored the largest employment gains—about 5 percent each. Resurgence in construction activity and a strong demand for consumer durables helped to boost fabricated metal employment. Transportation equipment continued to benefit from a strong demand for both military and civilian aircraft.

To overcome limitations imposed by high capacity use, the chemical and paper and pulp industries last year continued a high level of capital spending on both plant expansion and modernization. Sizable gains in employment in these plants last year were in a large part attributable to such spendings.

The textile and apparel industries each added 1 percent to their working forces. It appears that decreases in defense orders for textile products were more than offset by strong consumer demand. However, increased importing of textile products undoubtedly continued to exert dampening effects on textile employment.

There was a wide divergence in employment growth among District states in 1968.



*1968 partially estimated.

Lumber, wood, and furniture seem to have enjoyed a strong business. Although employment gains were moderate, trade sources revealed that the Southern lumber and wood industry sold its products as fast as it could produce them. Food and food processing jobs registered a moderate loss from the 1967 level.

As usual, there was a wide divergence in the employment growth rates among the District's six states. This ranged from a 4-percent rate in Florida to less than 1 percent in Alabama. Georgia scored the second fastest gain and Mississippi reported the third in nonfarm employment.

Last year the overall growth of District industries was hampered largely by capacity limitations resulting from the nation's prolonged prosperity. However, as the national economy moves toward correcting the current inflationary boom, it appears that the District industries as a whole will show another moderate gain in employment during 1969.

C. S. Pyun

A Good Year For Agriculture

The rapid pace of economic activity in 1968 has left its mark on the agricultural sector. Personal incomes advanced during the year, allowing consumers to maintain high levels of consumption on most items—including food. This strong demand has aided District farmers, pushing the index of prices received for both livestock and crops well above 1967 levels.

Livestock

The major strength in livestock prices came when egg prices advanced sharply in the second and third quarters. This recovery occurred even though total District egg production through November was fractionally above the previous year's output. Higher prices for red meats encouraged some consumers to purchase more poultry, strengthening broiler prices throughout the first half of the year. Despite seasonal declines since July and the continued high-level output, prices have remained above those of 1967.

Both nationally and in the District, beef and pork production expanded cyclically in 1968. But per capita consumption also increased, causing higher prices than were expected. Hog prices averaged below 1967 levels, particularly in the first quarter. However, prices remained high relative to historical standards, peaking at $21 per pound at North Georgia markets in July.

District dairy producers have also experienced a relatively good year. Milk production declined slightly in 1968 and prices advanced. Milk producers in Federal order markets received price increases for manufacturers grade milk in April. These higher prices pushed dollar sales from dairy products above year-earlier levels.

Crops

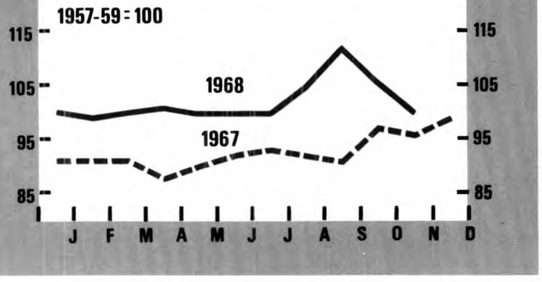
In the crop sector, prices were generally good, but it was a frustrating production year for many farmers, particularly in Georgia. Dry weather late in the growing season significantly cut yields of most major crops. Cotton yields dropped to only 322 pounds per acre, 76 pounds below 1967's poor crop and the lowest level for any major cotton producing state. Since planted cotton acreages advanced nearly 50 percent in response to modifications of the cotton acreage control program, Georgia's total output was up 16 percent.

Elsewhere, District cotton farmers expanded acreages 36 percent, and generally better yields pushed output up nearly 50 percent. Despite this sharp gain, prices advanced. Projected U. S. domestic cotton consumption and exports of 12 million bales during the 1968-69 marketing year exceeded 1968's production by over one million bales. Hence, relatively small carryover stocks will be depleted further. Estimates of cash receipts from cotton sales exceed earlier levels; however, the contribution of government payments from the cotton program declined significantly.

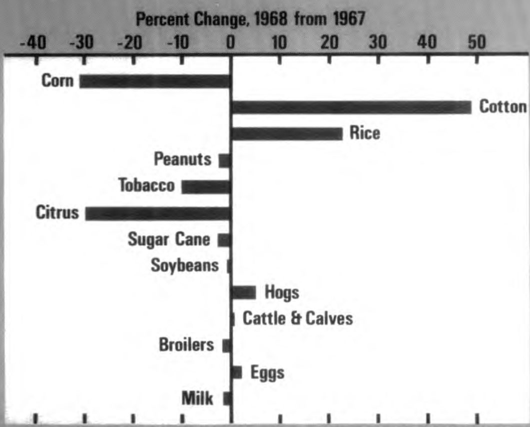
Incomes to rice farmers were also significantly higher in 1968. Because of very strong export demands for rice, acreage allotments were expanded by 20 percent, and farmers responded by increasing plantings by that amount. Price support levels remained unchanged and yields were increased slightly.

Florida citrus producers also had a banner year in 1968. Lower production and strong consumer demand during the 1967-68 season caused very high prices and pushed total cash receipts to record levels. Peanut, sugarcane, and tobacco output dropped in 1968. The declines are attri-

Prices received by District farmers remained well above year-earlier levels.

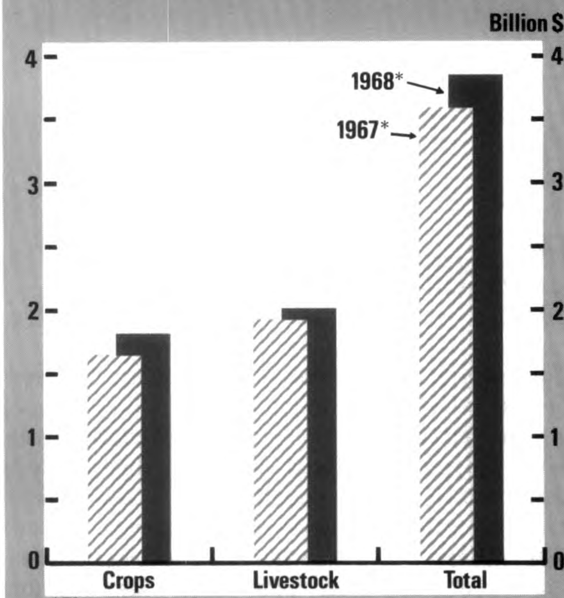


Changes in District production of farm commodities showed mixed trends.*



*Livestock changes are for the first 10 months of 1967 and 1968. Crop changes are based on the U. S. D. A. December 1, 1968, estimates.

Dollar sales by farmers in the six District states were well above the same period a year ago.



*First ten months.

buted to reduced acreages of sugarcane and tobacco, while lower yields cut peanut output. Total receipts from these crops were down.

Soybean acreages were expanded further, but yields in all District states except Louisiana and Mississippi declined—the first decline in total output since 1962. Even though support prices remained unchanged at $2.50 per bushel, prices averaged the lowest since 1963. Many farmers sold their crops at lower prices because they lacked the necessary storage facilities to place beans under loan. In addition, production in recent years has exceeded domestic utilization plus exports. Total utilization will increase in the coming year, but carryover stocks by September 1969 are expected to reach approximately 300 million bushels—a 4-month supply.

District corn acreages were cut by 8 percent. Output is estimated at only 150 million bushels —32 percent below last year—and the acreage yield, 39 bushels per acre, is down 14 bushels from 1967. Since most of the corn produced by District farmers is fed to the producers' own livestock, it does not enter normal commercial marketing channels. However, corn that is sold will command lower prices, since national supplies of feed grains are quite large.

Farm Income

Through October, total cash receipts from farm marketings were nearly 8 percent above last year's record level. By October, Florida farmers had already sold over $1 billion in farm commodities and Georgia producers, despite the disappointing crop year, may also record their third consecutive $1-billion year. Government payments were lower in 1968, primarily because cotton program payments were cut significantly.

Total cash incomes received by all District farmers in 1968 will be greater than a year earlier. Even though production costs have risen, total net farm income advanced in 1968, and the gain may equal or exceed the 5.5-percent gain estimated for all U. S. farmers. In addition, the net income per farm will show even greater advances, since the number of farm operators has declined. Florida producers will probably record the largest gain in per farm net incomes, while Georgia and Tennessee farmers may not match their last year's net income levels.

Reports of few delinquencies and unplanned renewals on farm loans mirror the relatively strong financial position of most farm borrowers. The availability of farm credit was fairly good in 1968. Total deposits at nonreserve city member banks and all nonmember banks were nearly 8 percent greater on June 30, 1968, than on the same date a year ago. Total farm loans outstanding rose 12 percent during the same period. Some tightening occurred at nonmember banks because total deposits grew much less rapidly than loans. However, the increase in loan-to-deposit ratios indicated that these banks were able to accommodate the stronger loan demand. Interest rates on farm loans advanced slightly.

ROBERT E. SWEENEY

Construction Stars

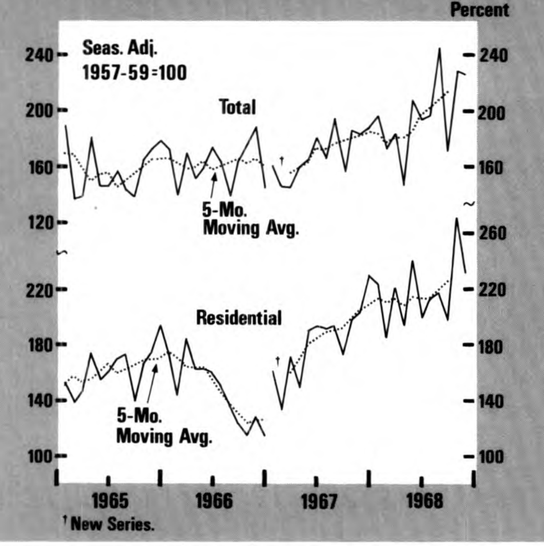
Contrary to widespread expectations, construction in 1968 turned out to be a Cinderella sector of the national economy. Construction in the Sixth District not only matched this national performance but exceeded it by a comfortable margin. Although regional breakdowns on current outlays are not available, construction contract data provide an acceptable proxy. Through November, the dollar volume of District contracting had exceeded the comparable 1967 period by 17 percent, while the U. S. volume had expanded 14 percent. In both the U. S. and regionally, rising material and labor costs played a large part in total dollar-volume gains. Still, increases in total floor area were substantial.

Residential construction was the star of the drama in Southeastern construction gains, accounting for more than half of total dollar volume. Rising costs also accounted for a more-than-desirable share of the 23-percent increase, but total dwelling units also increased considerably.

Within this overall regional boom in residential construction, there were some notable shifts from the recovery pattern of 1967. For example, outside the District's standard metropolitan statistical areas, residential construction showed a small year-to-year decline. Within metropolitan areas, largely because of a surge in multifamily projects, both the number of dwelling units and the dollar volume of contracts increased sharply. South Florida metropolitan areas produced the major portion of the total District gain.

At first glance, the performance of construction in this District presents a paradox. In our January 1968 *Review,* it was suggested that " . . . rising interest rates at home and abroad might once again produce a diversion of funds from savings institutions that would hinder the construction industry." Both short- and long-term yields rose higher in 1968 than in the "credit crunch" year of 1966. In fact, high-grade corporate bond yields at their lowest point in 1968 were more than 50 basis points higher than the peaks of 1966. The same pattern prevailed in long-term government bond yields. At the same time, the Southeast certainly had not suddenly overcome its basic capital deficit status. How then, do we account for a construction boom?

After a mid-1968 slowdown, construction contract volume resumed its sharp uptrend. Residential contracts were also strong in the second half.



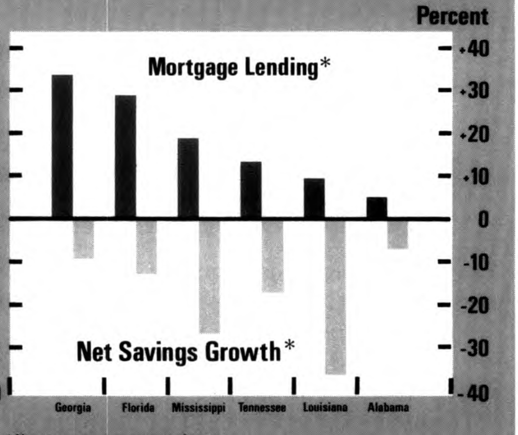
Resumption of a higher level of spending on highways was a substantial factor in the total increase. Several large public utility projects also added appreciably to volume, particularly after mid-year. The largest involved a plant in Alabama amounting to $145 million. New and expanded manufacturing plants, many of them financed with industrial revenue bonds, were also numerous. Even so, residential construction gains were so sharp, especially in Florida, that for the first time they accounted for more than half of total new construction contracts.

A summary explanation of the paradox of the erstwhile weakest sector turning in the strongest performance is easily stated: The residential construction sector and the financial institutions that support it are not the same ones we were looking at in 1966 when they bore a large share of credit restraint. Output of new housing had lagged behind growing needs since at least 1963, but in 1966 the gap was not acute to the point of overcoming buyer resistance to newly encountered mortgage rates of 7 percent and above. Although costs of new housing were rising rapidly even then, these costs had not been fully reflected in the prices of existing housing nor in rising rents. Vacancy and foreclosure rates were still relatively high, and financial institutions in a number of markets held unwieldy inventories of foreclosed properties. Substantial changes have occurred in all these factors, and perhaps the greatest change has come about in the attitude of the potential home buyer. He now views the cost of mortgage money as minor when compared to the rapidly rising cost of the house itself.

Nevertheless, these rising costs and inflation in land prices have been partly responsible for shifts in demand toward apartments. Higher rates of population growth have stimulated greatly increased apartment building in many areas, such as south Florida. Improvements in the quality and amenities in apartment complexes have also been favorable influences.

Strengthened demand factors, reflected in higher mortgage rates, enabled nonbank savings institutions to be more aggressive in bidding for savings flows. Moreover, net inflows in 1967 had been unusually large. By shifting from other types of lending and emphasizing single-family mortgages, many savings and loan associations were able to supply mortgage credit to this sector in spite of smaller net savings inflows in 1968 (relative to the unusually high 1967 flows). Toward the end of the year, however, apprehension about continued high rates in the money and capital markets had returned.

Savings and loan associations in all states increased their mortgage lending, and all experienced declines in rate of new savings flows.



*Year-to-year percentage changes through November 1968.

HIRAM J. HONEA

Changes in Par Status

Effective January 1, 1969, checks drawn on all banks in **Florida** may be cleared through the Federal Reserve System. This has been made possible by action of the 41st Legislature of the State of Florida providing for par clearance. The change will involve the conversion to par of these 24 banks:

Apalachicola State Bank, Apalachicola
Bank of Blountstown, Blountstown
The Bank of Bonifay, Bonifay
Branford State Bank, Branford
Cedar Key State Bank, Cedar Key
Gadsden State Bank, Chattahoochee
Levy County State Bank, Chiefland
Florida Bank at Chipley, Chipley
Dixie County State Bank, Cross City
Bank of Graceville, Graceville
Bank of Greenville, Greenville
Havana State Bank, Havana
High Springs Bank, High Springs
Hamilton County Bank, Jasper
Bank of Jay, Jay
Farmers and Dealers Bank, Lake Butler
Columbia County Bank, Lake City
The State Exchange Bank, Lake City
The Citizens Bank of MacClenny, MacClenny
The Farmers Bank of Malone, Malone
Lafayette County State Bank, Mayo
Bank of Newberry, Newberry
Farmers and Merchants Bank, Trenton
Wewahitchka State Bank, Wewahitchka

The following nonmember **Georgia** banks also began to remit at par for checks drawn on them when received from the Federal Reserve Bank:

Bank of Terrell, Dawson (12-2-68)
Bank of Canton, Canton (1-1-69)
Etowah Bank, Canton
Citizens Bank, Forsyth
The Farmers Bank, Forsyth
Monroe County Bank, Forsyth (1-1-69)
Bank of Taylorsville, Taylorsville
Bank of Dade, Trenton
Crawford County Bank, Roberta (1-2-69)
The Farmers Bank of Tifton, Tifton

Bank Credit Grows Uninterrupted

Monetary policy has a strong influence on bank credit. Thus it is important that we look at changes in monetary policy, as well as changes in the demand for bank credit, when explaining what happened at District banks last year.

Throughout the first half of 1968, in an effort to curb inflationary price and cost pressures, monetary policy moved in the direction of further restraint. Interest rates climbed during the winter and spring months, reflecting not only more restrictive monetary policy, but continued relatively heavy credit demands and uncertainty as to whether a program of fiscal restraint would be legislated. In May, most short-term rates climbed above their 1966 highs, and then started to come down as the prospects for fiscal restraint improved. The fiscal measures instituted in June led to expectations of further rate declines—based mainly on anticipation of some weakening in the outlook for business and an easier monetary policy. Rates did fall early in the summer, and there was some easing of monetary policy. But, as the summer progressed, developments indicated considerably more strength than anticipated. By early fall, interest rates were again climbing rapidly, and late in the year monetary restraint was intensified. At year end, rates were above their earlier 1968 highs.

The impact of these changes is reflected in the pattern banking followed nationally. During the first half of the year, firming monetary policy and rising interest rates greatly retarded banks' deposit inflows. In order to meet the credit demands of borrowers, which were strong compared to deposit inflows, banks curtailed the expansion of their security portfolios. Bank credit growth slowed.

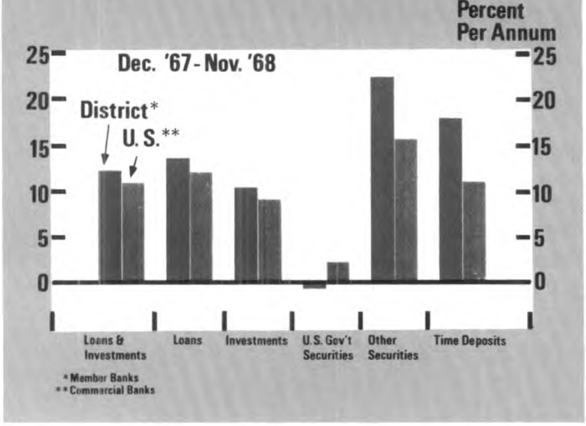
Deposit inflows picked up sharply during the summer as monetary policy eased and interest rates fell. Banks were able to meet stronger loan demands and built up their investments. Bank credit growth accelerated. Late in the year, rising interest rates and firmer policy again reduced the rate of bank credit expansion.

Generally, that is also the pattern banking in the District followed. However, changes in the pace of deposit inflows and bank credit growth were much less severe here.

Bank credit at Sixth District member banks (loans and investments—seasonally adjusted) grew at a much faster pace than nationally during the first half. For one reason, deposit inflows were then much stronger in the District—time and savings deposits growing about twice as fast as nationally. However, by the end of March rates on large denomination negotiable certificates of deposit were no longer competitive with yields on other money market instruments, and banks had CD losses. In mid-April, the Board of Governors raised Regulation Q ceilings on all but the shortest-term large denomination CD's. Though banks—in the District, as well as nationally—quickly raised their rates to the new ceilings, it wasn't until July that District bankers were successful in attracting any sizable volume of these deposits.

Also in mid-April, the major District banks joined others in increasing their prime lending rate from 6 to 6½ percent, but this apparently had little effect on the level of loan demand.

District banks were ahead of the U.S. in rate of deposit and credit growth.



SIXTH DISTRICT MEMBER BANKS

Percentage Change: 1968 from 1967*

Trade and Banking Areas	Loans	Investments	Deposits
ALABAMA			
1—Anniston-Gadsden	16.5	13.6	12.2
2—Birmingham	8.6	9.6	7.6
3—Dothan	11.7	10.9	11.0
4—Mobile	5.9	2.2	6.0
5—Montgomery	11.8	10.0	11.0
FLORIDA			
6—Jacksonville	11.3	7.4	8.6
7—Miami	16.1	25.0	18.6
8—Orlando	11.0	23.2	13.8
9—Pensacola	12.2	20.7	18.0
10—Tampa-St. Petersburg	12.8	22.7	16.8
GEORGIA			
11—Atlanta	10.1	13.8	10.3
12—Augusta	20.2	8.8	15.3
13—Columbus	9.1	9.6	9.3
14—Macon	19.1	-2.9	9.1
15—Savannah	17.4	18.1	14.2
16—South Georgia	11.3	8.0	10.8
LOUISIANA			
17—Alexandria-Lake Charles	10.3	15.0	11.2
18—Baton Rouge	8.5	22.6	12.0
19—Lafayette-Iberia-Houma	4.8	16.1	9.2
20—New Orleans	2.6	11.2	5.3
MISSISSIPPI			
21—Jackson	11.3	7.6	6.6
22—Hattiesburg-Laurel-Meridian	10.1	11.4	12.1
23—Natchez	9.6	7.5	7.1
TENNESSEE			
24—Chattanooga	8.2	3.3	5.8
25—Knoxville	9.1	2.6	6.7
26—Nashville	12.5	11.1	7.6
27—Tri-Cities	6-1	5.8	5.8
SIXTH DISTRICT TOTAL	10.8	14.4	10.9

*Based on averages of 11 months (January through November) for each year.

During the summer, time deposit inflows picked up sharply, and District banks were attracting sizable amounts of large denomination CD's at well below ceiling rates. Credit demands continued to strengthen—with business and consumer lending especially strong. The greater availability of funds also enabled banks to add heavily to their municipal securities.

With market interest rates at a somewhat reduced level and with banks able to attract funds for loan and investment expansion, the larger banks lowered their prime rate in late September. Some felt this move was premature. Most limited their rate adjustments to loans to national accounts and selected borrowers.

From early November on, interest rates were again on the rise and by mid-December some bankers were having trouble replacing maturing CD's even at ceiling rates. Once again disintermediation was a threat. Yet there was no weakening in the demand for loans. The prime rate was raised to 6½ percent in mid-November and to 6¾ percent in mid-December. Another increase, to 7 percent, took place in early January.

During the closing months of last year, while interest rates rose rapidly and monetary policy showed signs of tightening, District banks fared better than nationally—both in terms of deposit inflows and bank credit expansion. In the District, time deposit inflows were relatively stronger than nationally. And, there was no slowing in the pace of bank credit growth. District bankers continued to meet the heavy demands of their borrowers and at the same time made sizable additions to their security portfolios. Thus, 1968 ended on a strong note for District bankers.

DOROTHY F. ARP

Bank Announcements

Industrial National Bank, Tallahassee, Florida, a conversion of Industrial Savings Bank of Tallahassee, opened as a member bank on December 4 and began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Julian V. Smith is president; F. O. Conrad, vice president; R. Spencer Burress, executive vice president and cashier. Capital is $300,000; surplus and other capital funds, $200,000.

On December 16, **The Nashville Bank and Trust Company,** Nashville, Tennessee, a newly organized nonmember bank, opened for business and began to remit at par. Officers are Joseph T. Howell, Jr., president; John B. Hardcastle, vice president and cashier; H. G. Aldred and J. R. Mathis, vice presidents. Capital is $2,000,000; surplus and other capital funds, $2,180,000.

Trust Company of Columbus, Columbus, Georgia, commenced operation as a commercial bank on December 31, 1968, and began to remit at par.

First National Bank of Port Allen, Port Allen, Louisiana, a newly organized member bank, opened on January 2 and began to remit at par. O. B. Harrell is president. Capital is $300,000; surplus and other capital funds, $450,000.

Also on January 2, **The Citizens Bank of Hendersonville,** Hendersonville, Tennessee, opened as a new nonmember bank and began to remit at par. The officers are Noble C. Caudill, president; Ralph L. Jones, executive vice president; William T. Burgess, vice president and cashier. Capital and surplus funds are $500,000.

Citizens Bank of Calhoun, Calhoun, Georgia, opened on January 2 as a new nonmember bank and began to remit at par. Richard M. Zorn is president; Charles E. Anderson, vice president and cashier; Claude E. Nichols, vice president. Capital is $200,000; surplus and other capital funds, $200,000.

Sixth District Statistics

Seasonally Adjusted

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

SIXTH DISTRICT

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
INCOME AND SPENDING					
Personal Income (Mil. $, Annual Rate)	Oct.	65,948	65,915	67,092	59,681
Manufacturing Payrolls	Nov.	235	233	233	210
Farm Cash Receipts	Oct.	195	151	159	130
Crops	Oct.	104	93	187	103
Livestock	Oct.	176	169	165	147
Instalment Credit at Banks* (Mil. $)					
New Loans	Nov.	327.6	359.0r	356.6	303.1
Repayments	Nov.	280.1	280.4	321.8	263.0
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Nov.	142	142	142	139
Manufacturing	Nov.	141	141	141	139
Apparel	Nov.	174	173	174	171
Chemicals	Nov.	137	137	135	133
Fabricated Metals	Nov.	163	160	155	152
Food	Nov.	113	114	114	113
Lbr., Wood Prod., Furn. & Fix.	Nov.	106	106	106	105
Paper	Nov.	124	124	124	120
Primary Metals	Nov.	129	127	128	132
Textiles	Nov.	110	110	110	108
Transportation Equipment	Nov.	190	190	186	182
Nonmanufacturing	Nov.	143	142	142	139
Construction	Nov.	130	130	130	125
Farm Employment	Nov.	60	55	51	62
Unemployment Rate (Percent of Work Force)	Nov.	3.9	3.8	4.0	3.9
Insured Unemployment (Percent of Cov. Emp.)	Nov.	1.8	1.9	2.0	2.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	41.1	41.0	41.4	41.2
Construction Contracts*	Nov.	226	228	172	184r
Residential	Nov.	233	271	198	204r
All Other	Nov.	220	191	150	166
Electric Power Production**	Oct.	150	149	146	146
Cotton Consumption**	Nov.	100	101	104	105
Petrol. Prod. in Coastal La. and Miss.**	Nov.	215	220	256	246
FINANCE AND BANKING					
Loans*					
All Member Banks	Nov.	296	294	291	258
Large Banks	Nov.	259	258	254	230
Deposits*					
All Member Banks	Nov.	222	220	215	197
Large Banks	Nov.	190	190	187	174
Bank Debits*/**	Nov.	242	235	241	207

ALABAMA

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	8,375	8,380	8,679	7,627
Manufacturing Payrolls	Nov.	205	207	204	186
Farm Cash Receipts	Oct.	105	111	144	94
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Nov.	127	127	127	126
Manufacturing	Nov.	129	128	126	126
Nonmanufacturing	Nov.	127	127	127	127
Construction	Nov.	117	118	117	118
Farm Employment	Nov.	64	55	52	66
Unemployment Rate (Percent of Work Force)	Nov.	4.4	4.6	4.9	4.4
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	41.2	41.3	41.3	40.9
FINANCE AND BANKING					
Member Bank Loans	Nov.	267	270	265	243
Member Bank Deposits	Nov.	211	207	205	191
Bank Debits**	Nov.	219	214	221	191

FLORIDA

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	19,599	19,720	19,742	17,348
Manufacturing Payrolls	Nov.	291	292	295	266
Farm Cash Receipts	Oct.	162	187	172	165
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Nov.	159	159	159	153
Manufacturing	Nov.	160	161	164	161
Nonmanufacturing	Nov.	159	158	159	152
Construction	Nov.	113	112	113	100
Farm Employment	Nov.	94	81	79	92
Unemployment Rate (Percent of Work Force)	Nov.	2.8	2.9	2.8	2.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	41.8	41.6	42.1	42.1
FINANCE AND BANKING					
Member Bank Loans	Nov.	326	320	315	273
Member Bank Deposits	Nov.	246	243	235	209
Bank Debits**	Nov.	248	242	245	202

GEORGIA

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	13,050	12,865	13,028	11,656
Manufacturing Payrolls	Nov.	244	237	237	209
Farm Cash Receipts	Oct.	132	141	163	127
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Nov.	144	143	143	139
Manufacturing	Nov.	137	137	136	133
Nonmanufacturing	Nov.	147	146	146	142
Construction	Nov.	143	145	146	140
Farm Employment	Nov.	48	54	48	53
Unemployment Rate (Percent of Work Force)	Nov.	3.7	3.2	3.5	3.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.8	40.9	41.5	40.5
FINANCE AND BANKING					
Member Bank Loans	Nov.	309	305	308	263
Member Bank Deposits	Nov.	241	242	237	212
Bank Debits**	Nov.	269	264	268	237

LOUISIANA

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	10,073	10,013	10,154	9,292
Manufacturing Payrolls	Nov.	206	203	205	194
Farm Cash Receipts	Oct.	150	108	308	149
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Nov.	131	132	132	129
Manufacturing	Nov.	123	123	123	120
Nonmanufacturing	Nov.	133	134	134	132
Construction	Nov.	140	140	138	142
Farm Employment	Nov.	58	58	51	63
Unemployment Rate (Percent of Work Force)	Nov.	5.2	5.1	5.2	4.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.8	41.5	41.8	42.3
FINANCE AND BANKING					
Member Bank Loans*	Nov.	242	244	242	228
Member Bank Deposits*	Nov.	179	177	172	164
Bank Debits*/**	Nov.	196	192	190	173

MISSISSIPPI

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
INCOME					
Personal Income (Mil. $, Annual Rate)	Oct.	4,867	4,813	5,216	4,247
Manufacturing Payrolls	Nov.	271	270	270	236
Farm Cash Receipts	Oct.	121	108	191	118
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Nov.	144	144	143	141
Manufacturing	Nov.	154	154	153	148
Nonmanufacturing	Nov.	140	139	139	138
Construction	Nov.	144	141	141	149
Farm Employment	Nov.	52	45	38	46
Unemployment Rate (Percent of Work Force)	Nov.	4.8	4.6	5.2	4.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	41.5	41.2	40.9	41.2
FINANCE AND BANKING					
Member Bank Loans*	Nov.	353	349	347	316
Member Bank Deposits*	Nov.	253	247	249	230
Bank Debits*/**	Nov.	251	237	251	214

	Latest Month (1968)		One Month Ago	Two Months Ago	One Year Ago
TENNESSEE					
INCOME					
Personal Income (Mil. $, Ann. Rate)	Oct.	9,984	10,124	10,273	9,511
Manufacturing Payrolls	Nov.	223	222	217	200
Farm Cash Receipts	Oct.	120	114	139	109
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment	Nov.	140	139	139	138
Manufacturing	Nov.	149	149	147	146
Nonmanufacturing	Nov.	136	135	135	133
Construction	Nov.	166	161	162	159
Farm Employment	Nov.	61	52	52	67
Unemployment Rate (Percent of Work Force)	Nov.	4.1	3.8	4.0	4.2
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.9	40.4	40.8	41.0
FINANCE AND BANKING					
Member Bank Loans*	Nov.	288	284	277	252
Member Bank Deposits*	Nov.	194	195	192	184
Bank Debits*/**	Nov.	253	255	263	224

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

Sources: Personal income estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U.S. Dept. of Labor and cooperating state agencies; cotton consumption, U.S. Bureau of Census; construction contracts, F. W. Dodge Corp.; petrol. prod., U.S. Bureau of Mines; industrial use of elec. power, Fed. Power Comm.; farm cash receipts and farm emp., U.S.D.A. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.

Debits to Demand Deposit Accounts

Insured Commercial Banks in the Sixth District

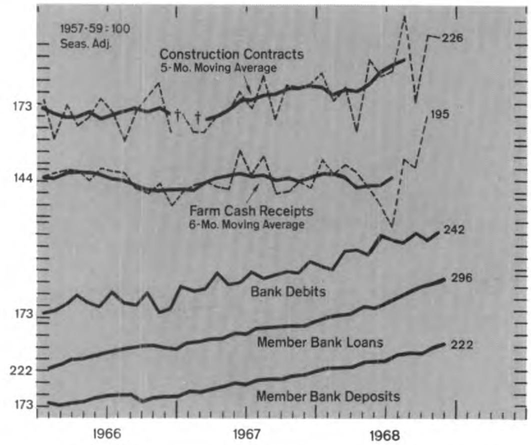
(In Thousands of Dollars)

	Nov. 1968	Oct. 1968	Nov. 1967	Percent Change: Nov. 1968 from Oct. 1968	Percent Change: Nov. 1968 from Nov. 1967	Percent Change: Year-to-Date 11 months 1968 from 1967
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham	1,719,574	1,894,262	1,547,401r	−9	+11	+11
Gadsden	65,972	67,774	63,897	−3	+3	+6
Huntsville	195,323	211,570	182,803	−8	+7	+6
Mobile	512,565	556,573	498,340	−8	+3	+8
Montgomery	333,887	358,002	320,013	−7	+4	+9
Tuscaloosa	111,946	112,916	99,454	−1	+13	+11
Ft. Lauderdale—Hollywood	814,672	856,496	637,693	−5	+28	+24
Jacksonville	1,692,722	1,835,593	1,448,610	−8	+17	+12
Miami	2,897,751	2,984,016	2,425,602	−3	+19	+25
Orlando	608,862	640,760	539,345	−5	+13	+18
Pensacola	203,692	219,406	188,394	−7	+8	+10
Tallahassee	153,436	152,407	145,725	+1	+5	+10
Tampa-St. Petersburg	1,621,435	1,760,199	1,384,367	−8	+17	+18
W. Palm Beach	482,089	516,107	413,953	−7	+16	+21
Albany	97,042	105,504	94,252r	−8	+3	+13
Atlanta	5,838,595	6,464,307	5,180,393	−10	+13	+16
Augusta	278,644	318,863	292,474	−13	−5	+7
Columbus	229,663	260,234	223,521	−12	+3	+12
Macon	271,867	292,412	264,007	−7	+3	+10
Savannah	298,594	320,308	268,936	−7	+11	+13
Baton Rouge	594,488	610,821	534,383	−3	+11	+12
Lafayette	144,754	150,368	125,405	−4	+15	+13
Lake Charles	162,584	173,594	151,437	−6	+7	+10
New Orleans	2,467,946	2,792,254	2,327,214	−12	+6	+7
Jackson	758,162	785,525	669,695	−3	+13	+13
Chattanooga	625,584	684,022	618,369	−9	+1	+10
Knoxville	510,883	563,579	469,973	−9	+9	+12
Nashville	1,900,789	2,092,756	1,782,918	−9	+7	+15
OTHER CENTERS						
Anniston	74,015	77,680	63,228	−5	+17	+15
Dothan	71,491	81,276	63,738	−8	+18	+14
Selma	50,494	58,200	50,562r	−13	−0	+3
Bartow	35,117	33,239	33,173	+6	+6	−1
Bradenton	74,982	87,283	63,357	−14	+18	+17
Brevard County	216,266	241,368	240,771	−10	−10	+7
Daytona Beach	87,345	97,488r	88,121	−10	−1	+7
Ft. Myers—N. Ft. Meyrs	111,480	103,122	77,735	+8	+43	+29
Gainesville	102,863	105,679	91,245	−3	+13	+18
Lakeland	122,939	164,094	117,530	−25	+5	+10
Monroe County	38,438	39,661	30,538	−3	+26	+12
Ocala	64,642	68,669	53,726	−6	+20	+11
St. Augustine	21,726	25,051	19,892	−13	+9	+16
St. Petersburg	356,065	408,439r	306,081r	−13	+16	+10
Sarasota	128,381	140,910	109,954	−9	+17	+27
Tampa	866,020	926,326r	725,643r	−7	+19	+21
Winter Haven	64,205	62,130	57,723	+3	+11	+15
Athens	86,116	94,924	73,487	−9	+17	+19
Brunswick	45,771	46,167	41,697r	−1	+10	+12
Dalton	110,484	122,569	91,029	−10	+21	+29
Elberton	14,089	17,664	13,665	−20	+3	−3
Gainesville	67,803	79,623	69,748	−15	−3	+1
Griffin	36,376	38,426	34,716	−5	+5	+9
LaGrange	20,486	23,566	20,090	−13	+2	+4
Newnan	23,216	26,787	27,352r	−13	−15	+2
Rome	87,160	86,225	75,853	+1	+15	+13
Valdosta	54,814	56,226	58,015	−3	−6	+3
Abbeville	12,779	13,332	11,026	−4	+16	+10
Alexandria	162,208	164,566	131,320	−1	+24	+11
Bunkie	9,673	7,772	8,857	+24	+9	+2
Hammond	38,134	41,656	36,260	−8	+5	+3
New Iberia	38,673	39,736	34,439r	−3	+12	+5
Plaquemine	14,723	13,588	11,388	+8	+29	+21
Thibodaux	25,403	24,993	23,310	+2	+9	+8
Biloxi-Gulfport	118,757	127,812	99,261	−7	+20	+16
Hattiesburg	62,380	70,289	54,613	−11	+14	+13
Laurel	39,240	43,705	32,373	−10	+21	+22
Meridian	67,400	76,362	65,497	−12	+3	+7
Natchez	40,742	43,885	38,025	−7	+7	+11
Pascagoula—Moss Point	70,861	76,102	56,624	−7	+25	+25
Vicksburg	46,223	45,307	45,104	+2	+2	+3
Yazoo City	29,879	28,617	32,914	+4	−9	+5
Bristol	78,239	87,469	76,026	−11	+3	+17
Johnson City	79,300	91,840	74,608	−14	+6	+10
Kingsport	167,027	182,214	165,268	−8	+1	+10
SIXTH DISTRICT, Total	34,606,477	37,526,594	31,147,145	−8	+11	+14
Alabama‡	4,346,036	4,762,823	3,988,632	−9	+9	+12
Florida‡	10,836,357	11,434,656	9,247,298	−5	+17	+18
Georgia‡	8,896,641	9,919,920	8,216,314	−10	+8	+14
Louisiana†*	4,271,162	4,677,123	3,939,545	−9	+8	+9
Mississippi†*	1,615,220	1,701,422	1,445,323	−5	+12	+13
Tennessee†*	4,641,061	5,030,650	4,310,033	−8	+8	+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 economy continues on an upward course. November brought higher employment and payrolls; District bankers did a brisk lending business. The construction and mortgage boom continued in November as thrift institutions apprehensively awaited the year-end reinvestment period. Farm cash receipts remained high through October.

A strong rebound in nonmanufacturing jobs, together with the continued strength in the manufacturing sector, boosted total nonfarm employment in November. All District states posted gains in nonfarm jobs except Louisiana. Primary metal employment showed a strong gain, signaling the end of strike-associated inventory adjustments on the part of steel users. Manufacturing payrolls increased substantially, reflecting overall gains in manufacturing jobs and a longer factory workweek. The District's unemployment rate, although still low, edged up despite a reduction in the national rate. The District increase resulted from decreases in farm jobs at the end of the harvest season and from a large influx of women workers into the District labor market.

Consumer borrowing continued its upward path in November. Although November's increase in consumer instalment debt at banks was smaller than in October, the gain was above the average for the year. Automobile loans provided most of the thrust, but personal loans, buoyed by a sharp advance in revolving credit, also rose significantly. Bank debits, after a leveling off since mid-year, rose sharply during November in each state except Tennessee.

In early December, loans continued to expand at District member banks. However, at large member banks the pace was less hectic than in November. Losses of large denomination certificates of deposit over the mid-December tax date period were moderate, despite sharp increases in direct investment yields, largely because of the banks' earlier aggressive sales of 1969 maturities.

Mortgage markets have also felt the cold breath of higher interest rates. Record yields have already been partially reflected in FHA-VA secondary market prices. Although nonbank depositary institutions in the Southeast enjoyed relatively strong savings flows in December, it is still too early to gauge the impact of higher yields on their available mortgage funds during the January reinvestment period. The pace of new construction contracts has slowed only slightly, reflecting the lag between capital market yield movements and building.

District farmers, in general, have fared well in 1968. Even though prices for most farm commodities have fallen, cash receipts through October remain well above a year ago. Burley tobacco sales in Tennessee are nearing completion, and prices are near last year's levels. In Florida, freezes on December 16 and 17 damaged citrus, sugarcane, and vegetable crops.

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