MONTHLY REVIEW

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SIXTH FEDERAL RESERVE DISTRICT
TENN ALA GA MISS LA FLA

FEDERAL RESERVE BANK OF ATLANTA

FEBRUARY 1970

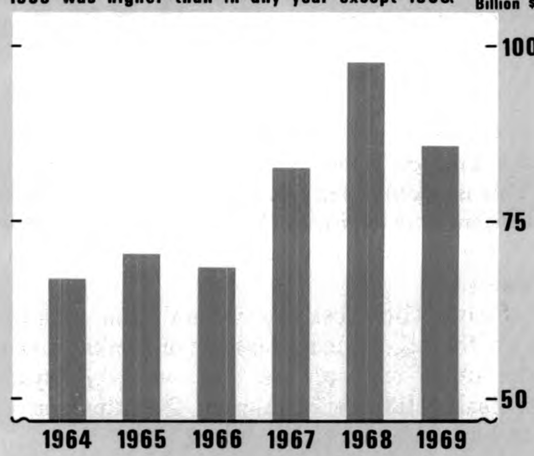
Impairment in Credit Flows: Fact or Fiction?

By virtually all accounts, 1969 was a year of monetary restraint. Headlines proclaimed it, and the conventional indicators confirmed the proclamation as interest rates rose dramatically and the stock of money and bank reserves ceased to grow after midyear. Talk of a "credit crunch" was heard.

Judging from the headlines, one might expect that the volume of credit extended during 1969 had fallen to extremely low levels. A look at commercial bank data might, indeed, lead one to this conclusion.

However, neither the headlines nor the slower tempo of banking activity tells the whole story about the volume of credit extended in 1969. The total amount of credit did decrease but was higher than in any year except 1968. The volume of credit fell from a record $97.4 billion in 1968 to $85.7 billion in 1969, according to the flow-of-funds data summarized in Tables I and II. The credit that did flow was extended at higher interest rates—true. It was supported, at times, by lower levels of money and bank reserves—true. It diminished as the year progressed—true. But

The volume of funds raised in the credit markets in 1969 was higher than in any year except 1968.



Source: Flow of Funds

Monthly Review, Vol. LV, No. 2. Free subscription and additional copies available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

FLOW OF FUNDS IN 1969, 1968, 1966
I. DISTRIBUTION OF LENDING IN CREDIT MARKETS

$ billions

(percentage of total lending in parentheses)

Total Lending in Credit Markets

1969: 85.7 (100%)
1968: 97.4 (100%)
1966: 68.5 (100%)

Indirect Lending by Financial Institutions

1969: 39.3 (45.9%)
1968: 72.2 (74.1%)
1966: 42.6 (62.2%)

Lending by Commercial Banks

1969: 9.2 (10.7%)
1968: 39.0 (40.0%)
1966: 16.7 (24.4%)

Lending by Nonbank Financial Institutions*

1969: 31.3 (35.2%)
1968: 33.2 (34.4%)
1966: 25.9 (37.8%)

Direct Lending from Nonfinancial Lenders

1969: 46.4 (54.1%)
1968: 25.2 (25.9%)
1966: 25.9 (37.8%)

Direct Lending by Households

1969: 21.0 (24.5%)
1968: 4.1 (4.2%)
1966: 11.7 (17.1%)

Direct Lending by Businesses

1969: 10.9 (12.7%)
1968: 9.0 (9.2%)
1966: 3.6 (5.3%)

Direct Lending by Other Nonfinancial Lenders**

1969: 14.5 (16.9%)
1968: 12.1 (12.4%)
1966: 10.6 (15.4%)

* Savings and loan associations, mutual savings banks, credit unions, mutual funds, insurance companies
**U. S. Government agencies, Federal Reserve System, state and local governments, foreign
Source: Flow of Funds accounts, Board of Governors of the Federal Reserve System

during 1969, the total credit flow remained at a high level.

The data in the accompanying tables substantiate this paradox. The ensuing discussion seeks to explain it.

Commercial Banks Feel the Bite

There is little doubt that commercial banks felt the bite of Federal Reserve restraint in 1969. This is usually the case since the Federal Reserve System has traditionally exercised restraint by taking actions that curtail the supply of bank reserves.

Scarce bank reserves was only one side of the vise that tightened around the banks, however; the other side of the vise was the System's refusal to lift the Regulation Q ceilings on time-deposit interest rates during 1969.

Market interest rates rose in the classic pattern of restraint. But because of Regulation Q ceilings, banks found it impossible to match increases in market rates with increases in rates paid on their own time deposits. Consequently, these deposits came to look less and less attractive to investors, who accordingly cashed in their certificates of deposit and used the proceeds to buy securities bearing higher interest rates. Corporate treasurers, for instance, did not find it hard to choose between a large 90-day certificate of deposit, earning 6 percent, and a Treasury bill, earning 7½ percent. They sold CD's and bought bills. The same pattern was repeated at bank after bank by investor after investor.

Higher market rates and Regulation Q ceilings put banks in the grip of what is sometimes called "disintermediation." The bank "borrows" funds from its time depositors and relends the funds as loans and investments—bank credit. Thus, banks "intermediate" between their own time depositors and those receiving bank credit.[1] When bank depositors liquidate their deposits and lend directly to borrowers in the credit markets (by buying Treasury bills, etc.), the banks are short-circuited and no longer able to intermediate. This process is called "disintermediation" and took place in 1969, when, as Table I shows, commercial banks supplied about 10 percent of total credit, compared with 40 percent in 1968.

Looking at the other side of the same coin, it is not surprising that direct lending activity—that from nonfinancial lenders to nonfinancial borrowers[2]—became much more important in 1969 than in 1968 or in the 1966 restraint period. The striking decrease in bank credit in 1969 was compensated by a dramatic increase in direct credit.

Commercial banks are not the only financial institutions that intermediate between nonfinancial lenders and nonfinancial borrowers. There are other nonbank financial institutions: savings and loan associations, insurance companies, and pension funds (to name only a few). These fared much better in 1969 than did the banks. In terms of both dollar volume and proportion of total credit, lending by these institutions was nearly the same in 1969 as in 1968. One reason was the large volume of funds provided by Federal agencies to mortgage-oriented thrift institutions. This was done in order to sustain the flow of credit into residential construction. As a consequence of these efforts, mortgage credit escaped the sharp declines experienced during the 1966 credit crunch. Mortgage interest rates rose sharply in 1969, to be sure, but the national flow of mortgage money, although less plentiful toward the end of 1969, did not dry up as it had in 1966.

Up to this point, we have noted three changes in the pattern of credit flow during the period of monetary restraint in 1969. First, bank credit shrank dramatically when bankers found it difficult to attract lendable funds by selling time deposits. Secondly, there was a marked expansion in the volume of direct credit flows since investors were induced to liquidate bank time deposits and buy securities directly. Third and finally, we noted that the volume of credit provided by nonbank financial institutions held up partly because of concerted efforts to keep funds flowing into the mortgage market.

II. DISTRIBUTION OF BORROWING IN CREDIT MARKETS

$ billions

(percentage of total borrowing in parentheses)

Total Borrowing in Credit Markets	
1969:	85.7 (100%)
1968:	97.4 (100%)
1966:	68.5 (100%)

Borrowing by U.S. Government	
1969:	-5.4 (-6.3%)*
1968:	13.4 (13.8%)
1966:	3.5 (5.1%)

Borrowing by State and Local Governments	
1969:	9.2 (10.7%)
1968:	10.2 (10.5%)
1966:	6.4 (9.3%)

Borrowing by Households	
1969:	30.9 (36.1%)
1968:	31.8 (32.6%)
1966:	23.2 (33.9%)

Borrowing by Corporate Businesses	
1969:	37.3 (43.5%)
1968:	31.0 (31.8%)
1966:	25.4 (37.1%)

Borrowing by Other Businesses (Incl. Farms)	
1969:	10.1 (11.2%)
1968:	8.1 (8.3%)
1966:	8.5 (12.4%)

Borrowing by Foreigners	
1969:	3.6 (4.2%)
1968:	3.0 (3.1%)
1966:	1.5 (2.2%)

*Indicates Federal Government (exclusive of non-budget financial agencies) was a net redeemer of debt in 1969

Given these sectoral changes in credit flows, what happened to the total? The answer, as we suggested at the beginning of the discussion, is that the total remained high. The total flow of credit in 1969 between nonfinancial lenders and nonfinancial borrowers was substantially greater than that recorded in 1966, reflecting the interim growth of the nation's economy and its financial system.

In 1969, then, a very substantial volume of credit was extended in the face of expanding

[1]Banks can also "create" deposits and bank credit when the Federal Reserve supplies reserves to the banking system; banks must extinguish deposits and credit when the "Fed" withdraws reserves.

[2]Defined as households, businesses, state and local governments, the Federal Government, and foreigners. For a more complete explanation, see the Appendix.

credit demands from a booming economy. It was extended at higher interest rates. *And* the distribution of lending activity was, as we have seen, substantially different than in 1968.

Who Got the Credit?

Marked changes in "who did the lending" partly explain marked changes in "who got the credit."

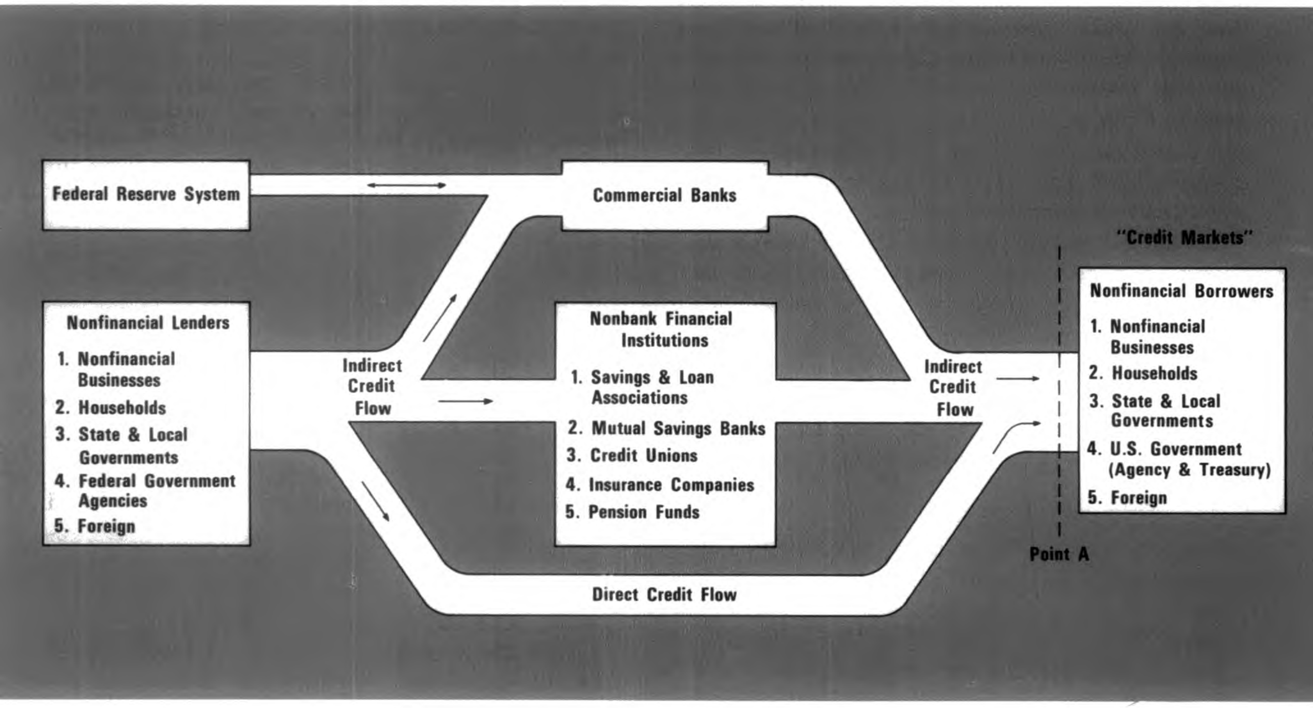
In 1968, the Federal Government was a heavy borrower. But in 1969, the Government reduced its borrowing, partly because of the 10-percent surtax.

An increase in borrowing by corporate businesses (from $31.0 billion in 1968 to $37.3 billion in 1969) was more than offset by the decline in Federal Government borrowing (from $13.4 billion in 1968 to a minus $5.4 billion in 1969), as shown in Table II. Businesses—although getting less credit in the form of bank loans in 1969—turned, instead, to the bond and commercial paper markets. A shift in composition of business borrowing from bank loans to market securities mirrors the distributional shift in total credit flows from lending by banks to direct lending by nonfinancial lenders.

State and local governments, despite the headlines, borrowed about the same amount in 1969 as they did in 1968. Interest rates on municipal bonds were higher, so that many prospective borrowers who were subject to statutory rate ceilings could not find buyers for their bonds. But total borrowing by these units, together with their proportion of total credit, held steady. Borrowing by households and noncorporate businesses also held at high levels.

WILLIAM N. COX, III

Appendix



This diagram is a simplified representation of the flow of credit in our economy. Its purpose is to aid in understanding the basic concepts behind the numbers in the chart and tables and the discussion in the text.

Credit, as we describe it, flows between nonfinancial lenders (on the left) and nonfinancial borrowers (on the right). It originates when a nonfinancial member of our economy, such as a business or a household, decides to lend part of its income rather than spend it for goods and services. The funds that are loaned flow through the financial system to another nonfinancial unit—another business or household perhaps—that wants to borrow the funds. The job of the financial markets is to transfer funds, and thus purchasing power, from nonfinancial lenders to nonfinancial borrowers.

Financial institutions, bank and nonbank alike, facilitate the flow of credit by receiving the funds of lenders and distributing these funds to borrowers seeking funds in the credit markets.[1] These institutions occupy an intermediate position between lenders and borrowers and are often called "financial intermediaries."

Nonfinancial lenders do not have to lend their funds indirectly through financial intermediaries. They may lend directly to borrowers in the credit markets. When a household buys a Treasury security, it lends *directly* to the U.S. Government. When a household deposits its funds in a commercial bank, it lends *indirectly* to a recipient of the bank's credit. In terms of the diagram, the household's funds would take the lower path of direct credit flow in the first case, but in the second case, the funds would take the upper path of indirect credit flow.

The term "disintermediation," as used in the article, means that a direct credit flow has been substituted for an indirect credit flow. This did occur in 1969. A sharp increase in market interest rates encouraged nonfinancial lenders to lend their funds directly. Financial intermediaries had difficulty matching these rate increases because of regulatory rate ceilings. Consequently, direct credit increased and indirect credit decreased.

The Federal Reserve System's place in the flow of credit may be heuristically represented by the box at the upper left of the diagram. Depending upon the posture of monetary policy, the "Fed" either supplies funds (reserves) to commercial banks, or absorbs funds (reserves) from them. Our representation is oversimplified, however, in at least two respects: (1) One dollar of additional bank reserves, for technical reasons, may support several dollars of bank lending in the credit markets. (2) The Federal Reserve supplies (or absorbs) reserves by buying (or selling) U.S. Government securities in the credit markets. To avoid confusion, these complications are not shown in the credit-flow diagram.

Tables I and II describe different breakdowns of the total volume of credit into the credit markets (represented by the flow through Point A in the diagram). Table I tells where the funds come from— *indirectly* from commercial banks and nonbank financial institutions or *directly* from nonfinancial lenders.

Table II looks in the opposite direction but from the same vantage point. It describes how the total flow of credit has been allocated among nonfinancial borrowers.

The Flow of Funds accounts, published quarterly by the Board of Governors of the Federal Reserve System, appears in the *Federal Reserve Bulletin's* Table A-70. It describes the nation's credit flows in considerably more detail than has been done here.

[1]The term—*credit markets*—is a concept, rather than a building or an office and is represented by the box at the right of the diagram. Credit markets are defined as *all* markets in which *all* nonfinancial borrowers obtain funds.

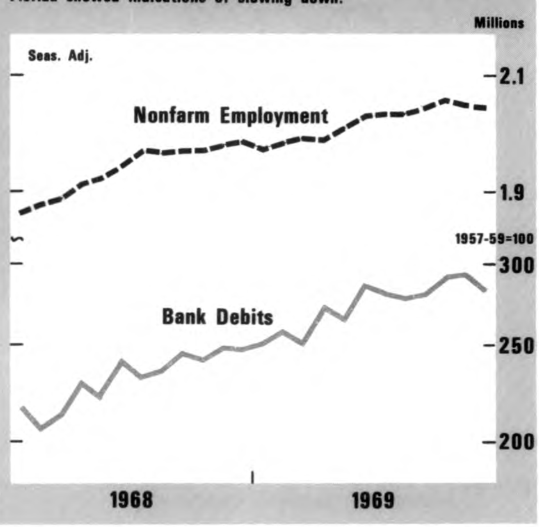
Florida's Torrid Growth Cools a Bit

Florida's economy registered an impressive gain last year, especially in comparison with national averages. Nevertheless, there are indications that business activity in Florida grew less rapidly as the year progressed.

The economy of the Sunshine State is greatly influenced by economic trends in the nation. For example, most of the agricultural produce and manufacturing output of the state are sold in national markets. Tourist services, retirement residences, and condominiums are sold mainly to out-of-staters whose incomes are affected by national economic trends.

In this context, the slight cooling of Florida's boom in late 1969 comes as no great surprise, since the growth of spending and production also slowed in the nation. In the past, Florida's economy has been susceptible to cyclical swings in the nation's economy. During the 1957-58 recession, the state experienced a drop in employment and a sharply reduced income growth. Moreover, during the 1960-61 recession and during the 1966-67 mini-recession, Florida's rapid advance was temporarily slowed.

In recent months, two important measures of business activity in Florida showed indications of slowing down.

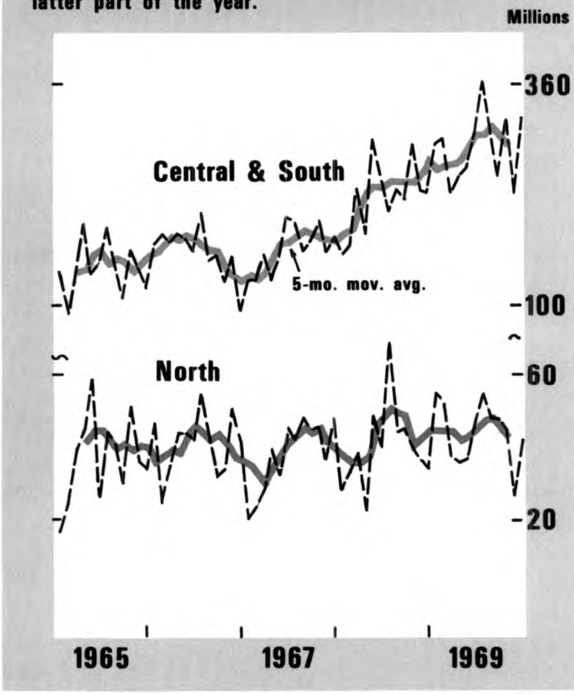


Figures for December 1969 show that nonfarm jobs in Florida have increased by 3 percent since December 1968. This looks good if compared with a 2-percent gain nationally. However, the picture is not as bright if the state's 7-percent gain in 1968 is taken into account. Similarly, in December 1969, Florida's bank debits were 20 percent above the year-earlier figure, compared with a 25-percent gain during 1968. Debits are the sum of payments made by check by individuals, businesses, and state and local governments and are an indicator of an area's spending activity.

In 1969, a surge in construction activity stimulated the Florida economy just as it did in 1968. The construction boom has, in turn, generated demands for building supplies, retail trade, communications, and transportation.

The value of construction contracts in the state jumped 28 percent in 1969. This was a very creditable showing and only slightly below 1968's 30-percent rise. The growth of activity became less torrid in the fourth quarter, however. Since construction costs have skyrocketed in the past year, the real volume of construction appears to be up only moderately from late 1968.

Total construction contracts surged during the first three quarters of 1969—with gains concentrated in central and south Florida—but weakened during the latter part of the year.



Source: By permission of F. W. Dodge Div., McGraw-Hill Information Systems Company

Developments in Florida's large agricultural industry paralleled trends in the nonfarm sector, in spite of the different factors affecting both. During 1969, farm cash receipts in the Sunshine State were 8.3 percent ahead of 1968. This surpassed the 6.9-percent gain in the nation but was slightly less than the 9.2-percent gain registered by Florida from 1967 to 1968.

Not every section of the Sunshine State has basked in the warm climate associated with Florida. The pace of growth has been very rapid in the central and southern areas but only moderate in northern Florida. For example, construction contracts during 1969 were 32 percent above a year ago in the central and southern portions of the state. This is in contrast to an 11-percent rise in the northern region. In addition, nonfarm jobs have gained 3 and 2 percent over the past year in the Pensacola and Jacksonville areas, whereas in the Gold Coast counties of Palm Beach and Broward, the gains have been 8 percent and 9 percent. In the large Miami labor market, however, nonfarm jobs rose only 3 percent from November 1968 to November 1969.

Central Florida was the scene for the type of economic contrast that can develop in an economy as large and diverse as Florida's. At the same time that cutbacks at the Kennedy Space Center were depressing the economy of north Brevard County, the Disney World Project —located directly west of Brevard County—was gaining momentum.

Banking

As Florida's business activity was conforming to slower growth in spending in the nation last year, Florida banks were very much subject to national monetary trends,which caused a sharp turnaround in deposit growth during 1969.[1]

For many years, Florida's rapidly expanding economy has generated large inflows of funds to

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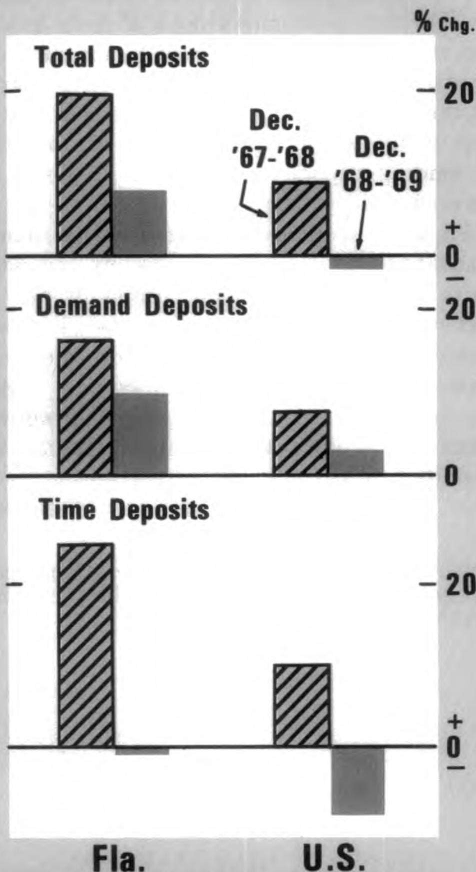
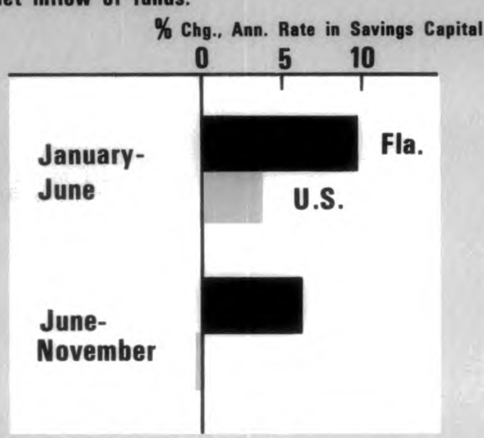
[1]Changes in bank deposits within a state are determined by the behavior of the state's banks and depositors and by trade and capital flows between the state and the rest of the nation. Florida banks receive deposits and reserves when products and services of its economy (e.g., citrus, launching sites, tourist services) are sold to the rest of the nation. When payment for these exports is deposited, in-state banks receive claims on the reserves of out-of-state banks. Reserves also flow to Florida banks whenever funds are transferred to the state by the Government, migrants, or out-of-state investors who lend money to Florida enterprises, governments, financial institutions, or individuals.
The volume of deposits that reserves of Florida banks will support depends upon the actions of Floridians and their banks and the distribution of deposits among banks. The greater the preference for bank time deposits, relative to money-market instruments and liabilities of nonbank financial institutions, the larger the volume of bank deposits. Also, the smaller the amount of reserves held idle by Florida banks, the larger the volume of deposits. Since reserve requirements and desired excess reserves differ among classes of banks, the distribution of deposits among banks also affects the efficacy of the reserve base in supporting deposits.

Although Florida's member bank deposits increased by eight percent during 1969, the gain was considerably less than in 1968. The nation as a whole, however, underwent a two-percent decline in 1969.



After mid-1969, Florida's savings and loan associations felt the effects of a sharply reduced net inflow of funds.



the state. As a result, Florida has long enjoyed a more rapid rate of growth of deposits than the nation. Again outpacing the nation in 1969, deposits of member banks in the Sunshine State rose 8 percent, whereas they declined 1.5 percent nationally. However, Florida's deposit growth last year was off sharply from 1968's 20-percent rise. Deposits gained 9 percent in the nation's member banks in 1968.

Savings and other time deposits received the brunt of the deposit change last year in both Florida and the nation, as money and capital market yields rose relative to interest rates paid on time deposits. Early in 1969, major banks began to suffer a runoff of large certificates of deposit and, as the year progressed, banks generally experienced reduced inflows of consumer certificates and passbook savings. The sharp rise in alternative yields was also responsible for a reduced inflow of funds to Florida savings and loan associations, especially after midyear.

At the same time that slower deposit growth limited increases in lending capacity at banks in 1969, loan demands intensified. Florida banks sold large quantities of U. S. Government securities and reduced excess reserves to help finance a large loan expansion. Banks throughout the nation severely reduced investment in state and municipal securities last year.

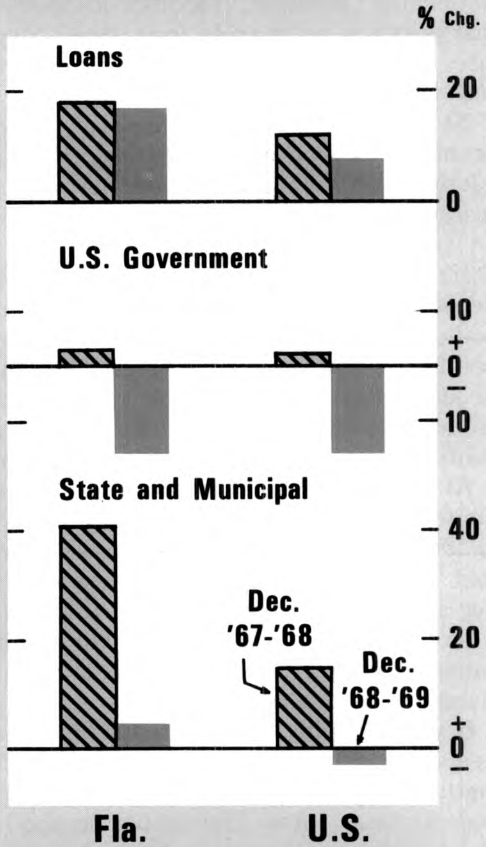
Besides drawing down their holdings of excess reserves in 1969, Florida banks decreased their overnight loans to other banks, i.e., so-called Federal funds loans. The decline in the volume of Federal funds loans—in spite of increases in the funds rate and in the number of Florida banks participating in the market—may reflect a reduced availability of reserves and intensifying loan demands at small banks.

By the end of 1969, loans had risen to 63 percent of bank credit extended by Florida member banks. This was higher than the 58 percent recorded a year earlier but considerably below the national average of 72 percent. The lower ratio of loans to bank credit in Florida is partially explained by the smaller-than-average bank size in Florida. The loan-bank credit ratio is directly related to bank size, and the average asset size of Florida banks was $28 milion in December 1968, in comparison with $37 million for the nation.

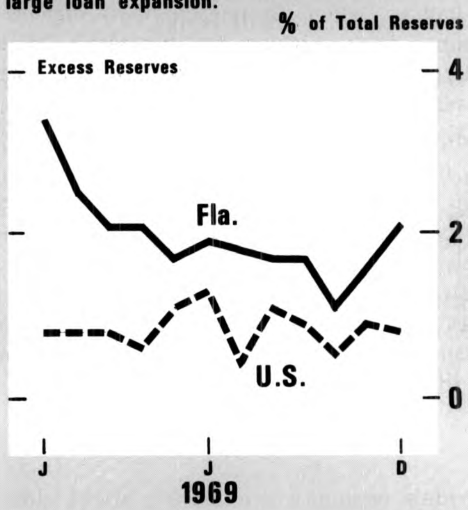
Prospects for 1970

Florida's economy mirrored a slight slowing in the nation's spending growth last year, and banks

Banks rapidly expanded loans again in 1969. Investments in state and municipal securities were severely reduced, however, and U.S. Government securities were sold.



Banks reduced excess reserves to help finance a large loan expansion.



throughout the state felt the effects of national monetary restraint. Nevertheless, Florida banks were able to forge ahead with a large loan expansion, which helped accommodate the increase in the state's economic activity last year.

Continued slowing in the growth of bank deposits could exert a further cooling influence on Florida's economic growth if bank lending in the state is curtailed. While banks in the state are still not as "loaned up" as their counterparts in the rest of the nation, it seems reasonable that banks would earmark part of any increase in lending capacity to improve depleted or reduced liquidity.

Florida's economy, as noted earlier, has been susceptible to cyclical swings in business activity in the past. As her economy has grown and diversified, it has become increasingly interdependent with the rest of the nation's economy. Therefore, Florida cannot expect to be immune from any further slowdown in economic activity which might emerge in the first half of 1970.

ARNOLD DILL

This is one of a series of articles in which economic developments in each of the Sixth District states are discussed.

ANNOUNCEMENT

Minutes of the Federal Open Market Committee meetings from 1962 through 1965 have been transferred to the National Archives. Now available to the public, these records may be obtained under the usual rules and procedures of the National Archives. Copies of these records also will be available later at the office of the Board of Governors in Washington and at each Federal Reserve Bank and Branch.

Bank Announcements

On January 1, **Fort Deposit Bank,** Fort Deposit, Alabama, a nonmember bank, began to remit at par for checks drawn on it when received from the Federal Reserve Bank.

Also on January 2, **Citizens State Bank,** South Pittsburg, Tennessee, a newly organized nonmember bank, opened for business and began to remit at par. Officers are Robert R. Thomas, president; Joe H. Barker, executive vice president; S. Leonard Rogers, secretary; and John B. Bible, cashier. Capital is $200,000; surplus and other capital funds, $300,000.

Another nonmember bank, **Bank of Philadelphia,** Philadelphia, Mississippi, began to remit at par on January 2.

A newly organized nonmember bank, **American Bank of Commerce,** Lake Charles, Louisiana, opened for business and began to remit at par on January 5. Officers are J. W. Posey, president; Tracy T. Rudolph, vice president; and George McLeod, cashier. Capital is $500,000; surplus and other capital funds, $500,000.

Also on January 5, **The Citizens and Southern Bank of Dalton,** Dalton, Georgia, a newly organized nonmember bank, opened for business. Officers are C. Homer Fuller, president; Fred O'Neal, assistant vice president; and J. W. Ficken, Jr., cashier. Capital is $400,000; surplus and other capital funds, $600,000.

Citizens First National Bank of Citrus County, Inverness, Florida, a newly organized bank, opened for business as a member on January 8. Officers are Charles W. Whitehead, Jr., president; and Edward I. Williams, vice president and cashier. Capital is $250,000; surplus and other capital funds, $375,000.

On January 15, **The Citizens Bank,** Philadelphia, Mississippi, a nonmember bank, began to remit at par.

Board of Directors

Federal Reserve Bank of Atlanta and Branches Effective January 1, 1970

ATLANTA

Class C[1]

John C. Wilson (Deputy Chairman)—1970
President, Horne-Wilson, Inc.
Atlanta, Ga.

Edwin I. Hatch (Chairman)—1971
President, Georgia Power Company
Atlanta, Ga.

+**F. Evans Farwell**—1972
President, Milliken and Farwell, Inc.
New Orleans, La.

BIRMINGHAM BRANCH

Appointed by Board of Governors

C. Caldwell Marks (Chairman)—1970
Chairman, Owen-Richards Company, Inc.
Birmingham, Ala.

William C. Bauer—1971
President, South Central Bell Telephone Company
Birmingham, Ala.

+**E. Stanley Robbins**—1972
President, National Floor Products Company, Inc.
Florence, Ala.

Appointed by Federal Reserve Bank

Arthur L. Johnson—1970
President, Camden National Bank
Camden, Ala.

George A. LeMaistre—1970
President, City National Bank of Tuscaloosa
Tuscaloosa, Ala.

K. M. Varner, Jr.—1971
President, The First National Bank
Auburn, Ala.

+**Harvey Terrell**—1972
Chairman, The First National Bank of Birmingham
Birmingham, Ala.

JACKSONVILLE BRANCH

Appointed by Board of Governors

Henry Cragg (Chairman)—1970
Vice President
The Coca-Cola Company Foods Division
Orlando, Fla.

Castle W. Jordan—1971
President, AO Industries, Inc.
Coral Gables, Fla.

****Henry King Stanford**—1972
President, University of Miami
Coral Gables, Fla.

Appointed by Federal Reserve Bank

Harry Hood Bassett—1970
Chairman, First National Bank of Miami
Miami, Fla.

J. Y. Humphress—1970
Executive Vice President
Capital City First National Bank
Tallahassee, Fla.

Edward W. Lane, Jr.—1971
President, The Atlantic National Bank
Jacksonville, Fla.

+**James G. Richardson**—1972
Chairman and President
The Commercial Bank and Trust Company
Ocala, Fla.

NOTE: Expiration dates of terms occur on December 31 of the year beside each name.

[1]Nonbankers appointed by Board of Governors, Federal Reserve System
*Re-elected for three-year term

Class B[2]

Hoskins A. Shadow—1970
President, Tennessee Valley Nursery, Inc.
Winchester, Tenn.

+**Owen Cooper—1971**
President, Miss. Chem. Corp. and Coastal Chem. Corp.
Yazoo City, Miss.

***Philip J. Lee—1972**
Vice President, Tropicana Products, Inc.
Tampa, Fla.

Class A[3]

A. L. Ellis—1970
Chairman, First National Bank in Tarpon Springs
Tarpon Springs, Fla.

John W. Gay—1971
President, First National Bank
Scottsboro, Ala.

***William B. Mills—1972**
President, Florida National Bank of Jacksonville
Jacksonville, Fla.

NASHVILLE BRANCH

Appointed by Board of Governors

Robert M. Williams (Chairman)—1970
President, ARO, Inc.
Tullahoma, Tenn.

Edward J. Boling—1971
Vice President, Development and Administration
University of Tennessee
Knoxville, Tenn.

+**Roy J. Fisher—1972**
Manager, Tennessee Operations
Aluminum Company of America
Alcoa, Tenn.

Appointed by Federal Reserve Bank

H. A. Crouch, Jr.—1970
Senior Vice President
Third National Bank in Nashville
Nashville, Tenn.

W. H. Swain—1970
President, First National Bank
Oneida, Tenn.

Hugh M. Willson—1971
President, Citizens National Bank
Athens, Tenn.

+**Edward C. Huffman—1972**
Chairman and President
First National Bank
Shelbyville, Tenn.

NEW ORLEANS BRANCH

Appointed by Board of Governors

Robert H. Radcliff, Jr.—1970
President, Southern Industries Corporation
Mobile, Ala.

Frank G. Smith, Jr. (Chairman)—1971
Vice President
Mississippi Power and Light Company
Jackson, Miss.

+**D. Ben Kleinpeter—1972**
Wholesale Manager
Kleinpeter Farms Dairy, Inc.
Baton Rouge, La.

Appointed by Federal Reserve Bank

Lucien J. Hebert, Jr.—1970
Executive Vice President
Lafourche National Bank
Thibodaux, La.

Morgan Whitney—1970
Senior Vice President
Whitney National Bank
New Orleans, La.

E. W. Haining—1971
President, The First National Bank
Vicksburg, Miss.

+**H. P. Heidelberg, Jr.—1972**
President
Pascagoula-Moss Point Bank
Pascagoula, Miss.

[2]Nonbankers elected by member banks
**Reappointed for three-year term

[3]Member bank representatives elected by member banks
+New member

Sixth District Statistics

Seasonally Adjusted

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

		Latest Month 1969	One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Personal Income (Mil. $, Annual Rate)	Nov.	N.A.	N.A.	N.A.	65,541
Manufacturing Payrolls	Dec.	251	249	249	230
Farm Cash Receipts	Nov.	156	155	143	145
Crops	Nov.	133	112	98	134
Livestock	Nov.	193	188	186	164
Instalment Credit at Banks* (Mil. $)					
New Loans	Dec.	339.3	320.0	329.7	320.2
Repayments	Dec.	296.2	298.4	297.9	273.4
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Dec.	148	149	149	145
Manufacturing	Dec.	146	146	146	145
Apparel	Dec.	179	177	176	176
Chemicals	Dec.	141	140	141	139
Fabricated Metals	Dec.	171	172	171	164
Food	Dec.	118	116	114	115
Lbr., Wood Prod., Furn. & Fix.	Dec.	105	106	107	106
Paper	Dec.	129	129	128	127
Primary Metals	Dec.	145	144	142	133
Textiles	Dec.	112	113	113	112
Transportation Equipment	Dec.	206	205	204	198
Nonmanufacturing†	Dec.	149	150	150	145
Construction	Dec.	139	139	139	134
Farm Employment	Dec.	61	56	52	62
Unemployment Rate (Percent of Work Force)†	Dec.	3.5	3.7	3.6	3.5
Insured Unemployment (Percent of Cov. Emp.)	Dec.	1.9	1.8	2.0	2.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	40.8	40.8	40.9	41.5
Construction Contracts*	Dec.	296	200	211	209
Residential	Dec.	332	216	249	270
All Other	Dec.	265	187	179	157
Electric Power Production**	Nov.	166	164	161	153
Cotton Consumption**	Oct.	100	103	99	101
Petrol. Prod. in Coastal La. and Miss.**	Dec.	238	233	234	213
FINANCE AND BANKING					
Loans*					
All Member Banks	Dec.	339	335	334	299
Large Banks	Dec.	286	282	281	263
Deposits*					
All Member Banks	Dec.	238	229	227	227
Large Banks	Dec.	199	189	189	193
Bank Debits*/**	Dec.	268	278	275	243
ALABAMA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Nov.	N.A.	N.A.	N.A.	8,228
Manufacturing Payrolls	Dec.	208	211	216	192
Farm Cash Receipts	Nov.	131	118	131	125
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Dec.	131	131	131	129
Manufacturing	Dec.	132	133	133	130
Nonmanufacturing	Dec.	130	130	130	128
Construction	Dec.	123	123	124	122
Farm Employment	Dec.	64	63	54	67
Unemployment Rate (Percent of Work Force)†	Dec.	4.0	3.9	3.9	4.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	40.8	40.9	41.4	41.7
FINANCE AND BANKING					
Member Bank Loans	Dec.	306	300	299	270
Member Bank Deposits	Dec.	218	215	209	213
Bank Debits**	Dec.	238	239	227	227
FLORIDA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Nov.	N.A.	N.A.	N.A.	20,038
Manufacturing Payrolls	Dec.	333	331	330	304
Farm Cash Receipts	Nov.	198	222	196	188
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Dec.	170	170	171	165
Manufacturing	Dec.	169	169	169	168
Nonmanufacturing	Dec.	169	171	171	163
Construction	Dec.	128	130	133	116
Farm Employment	Dec.	93	90	84	95
Unemployment Rate (Percent of Work Force)†	Dec.	2.6	3.0	2.7	2.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	41.4	41.3	41.2	41.8
FINANCE AND BANKING					
Member Bank Loans	Dec.	379	378	373	325
Member Bank Deposits	Dec.	278	263	260	257
Bank Debits**	Dec.	284	294	293	247
GEORGIA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Nov.	N.A.	N.A.	N.A.	12,904
Manufacturing Payrolls	Dec.	265	268	262	239
Farm Cash Receipts	Nov.	160	149	156	123
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Dec.	150	151	151	145
Manufacturing	Dec.	142	143	143	139
Nonmanufacturing	Dec.	154	153	153	148
Construction	Dec.	147	149	149	147
Farm Employment	Dec.	59	48	52	59
Unemployment Rate (Percent of Work Force)†	Dec.	3.1	3.2	3.1	3.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	40.5	40.5	40.7	40.9
FINANCE AND BANKING					
Member Bank Loans	Dec.	347	344	343	321
Member Bank Deposits	Dec.	242	236	236	248
Bank Debits**	Dec.	307	322	327	268
LOUISIANA					
INCOME					
Personal Income (Mil. $, Annual Rate)	Nov.	N.A.	N.A.	N.A.	9,405
Manufacturing Payrolls	Dec.	193	194	191	187
Farm Cash Receipts	Nov.	157	164	116	170
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Dec.	134	134	134	133
Manufacturing	Dec.	123	123	122	122
Nonmanufacturing	Dec.	136	136	136	135
Construction	Dec.	140	135	135	147
Farm Employment	Dec.	50	51	52	51
Unemployment Rate (Percent of Work Force)†	Dec.	5.1	5.3	5.1	5.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	41.2	42.0	41.8	41.5
FINANCE AND BANKING					
Member Bank Loans*	Dec.	281	270	274	249
Member Bank Deposits*	Dec.	186	179	178	181
Bank Debits*/**	Dec.	204	207	204	189
MISSISSIPPI					
INCOME					
Personal Income (Mil. $, Annual Rate)	Nov.	N.A.	N.A.	N.A.	4,788
Manufacturing Payrolls	Dec.	262	266	265	254
Farm Cash Receipts	Nov.	126	131	101	126
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Dec.	148	147	148	146
Manufacturing	Dec.	156	156	157	157
Nonmanufacturing	Dec.	144	144	144	141
Construction	Dec.	158	157	157	147
Farm Employment	Dec.	50	45	38	51
Unemployment Rate (Percent of Work Force)†	Dec.	3.8	4.6	4.3	3.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	40.7	40.8	40.5	41.2
FINANCE AND BANKING					
Member Bank Loans*	Dec.	408	407	403	359
Member Bank Deposits*	Dec.	279	273	268	256
Bank Debits*/**	Dec.	264	304r	283	231

TENNESSEE	Latest Month 1969		One Month Ago	Two Months Ago	One Year Ago
INCOME					
Personal Income (Mil. $, Annual Rate)	Nov.	N.A.	N.A.	N.A.	10,178
Manufacturing Payrolls	Dec.	247	241	242	225
Farm Cash Receipts	Nov.	147	121	126	137
PRODUCTION AND EMPLOYMENT					
Nonfarm Employment†	Dec.	147	147	147	145
Manufacturing	Dec.	155	154	156	155
Nonmanufacturing	Dec.	143	143	143	140
Construction	Dec.	166	164	160	158
Farm Employment	Dec.	62	57	51	64
Unemployment Rate (Percent of Work Force)†	Dec.	3.6	3.7	3.7	3.6
Avg. Weekly Hours in Mfg. (Hrs.)	Dec.	40.4	40.4	40.2	40.4
FINANCE AND BANKING					
Member Bank Loans*	Dec.	319	317	319	281
Member Bank Deposits*	Dec.	213	206	206	199
Bank Debits*/**	Dec.	273	278	273	274

*For Sixth District area only Other totals for entire six states **Daily average basis †Preliminary data r-Revised N.A. Not available

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

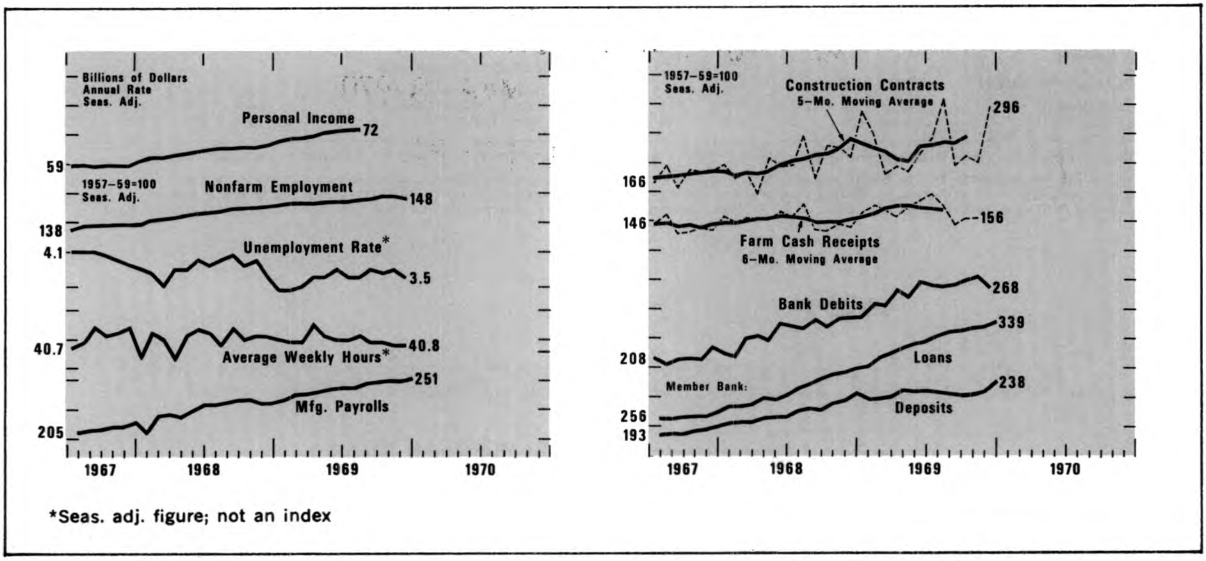
(In Thousands of Dollars)

	December 1969	November 1969	December 1968	Percent Change: December 1969 From Nov. 1969	Dec. 1958	Year to date 12 mos. 1969 from 1968
STANDARD METROPOLITAN STATISTICAL AREAS*†						
Birmingham	2,026,191	1,702,253	1.955,487	+19	+ 4	+ 8
Gadsden	75,572	66,123	72,245	+14	+ 5	+ 8
Huntsville	232,575	191,343	211,284	+22	+10	+ 7
Mobile	642,848	592,488	563,284	+ 8	+14	+14
Montgomery	414,754	349,216	349,973	+19	+19	+11
Tuscaloosa	130,569	119.162	119,250	+10	+ 9	+13
Ft. Lauderdale—Hollywood	1,188,891	979,708	984,890	+21	+21	+29
Jacksonville	2,117,522	1,769,752	1,906,911	+20	+11	+14
Miami	4,077,135	3,384,575	3,446,050	+20	+18	+19
Orlando	865,205	667,996	744,943	+30	+16	+12
Pensacola	289,451	213,455	235,872	+36	+23	+12
Tallahassee	199,410	188,134	158,022	+ 6	+26	+19
Tampa—St. Pete.	2,431,998	1,879,741	1,882,774	+29	+29	+21
W. Palm Beach	714,643	556,534	586,477	+28	+22	+23
Albany	125,157	104,887	117,398	+19	+ 7	+10
Atlanta	8,044,201	6,784,007	6,302,666	+19	+28	+21
Augusta	344,707	282,727	323,733	+22	+ 6	− 2
Columbus	294,697	257,619	280,097	+14	+ 5	+14
Macon	376,178	311,033	301,638	+21	+25	+17
Savannah	382,427	293,235	355,879	+30	+ 7	+10
Baton Rouge	793,071	735,198	643,606	+ 8	+23	+ 9
Lafayette	166,585	145,595	155,548	+14	+ 7	+15
Lake Charles	180,997	157,451	174,208	+15	+ 4	+ 6
New Orleans	3,015,465	2,348,985	2,686,381	+28	+12	+ 4
Biloxi—Gulfport	173,542	158,559r	129,088	+ 9	+34	+20
Jackson	854,612	872,327r	776,593	− 2	+10	+14
Chattanooga	881,706	780,045	712,181	+13	+24	+21
Knoxville	630,543	518,500	584,927	+22	+ 8	+ 9
Nashville	2,110,042	1,907,892	2,359,683	+11	−11	+12
OTHER CENTERS						
Anniston	83,594	70,375	80,062	+19	+ 5	+ 5
Dothan	89,153	84,247	75,327	+ 6	+18	+17
Selma	59,501	55,426	53,573	+ 7	+11	+ 7
Bartow	46,067	33,718	40,322	+37	+14	+ 9
Bradenton	107,654	80,818	89,318	+33	+21	+16
Brevard County	272,604	193,520	258,295	+41	+ 6	− 2
Daytona Beach	106,312	102,152	99,377	+ 4	+ 7	+ 6
Ft. Myers—N. Ft. Myers	142,282	111,027	142,853	+28	− 0	+25

	December 1969	November 1969	December 1968	Percent Change: December 1969 From Nov. 1969	Dec. 1968	Year to date 12 mos. 1959 from 1968
Gainesville	121,746	100,667	110,727	+21	+10	+ 9
Lakeland	167,546	140,928	155,848	+19	+ 8	+14
Monroe County	44,787	34,278	42,910	+31	+ 4	+ 3
Ocala	99,014	83,629	81,864	+18	+21	+30
St. Augustine	27,236	21,335	32,338	+28	−16	+10
St. Petersburg	490,593	396,816	408,245	+24	+20	+20
Sarasota	211,410	174,806	154,678	+21	+37	+29
Tampa	1,360,474	1,038,662	1,004,221	+31	+35	+23
Winter Haven	93,374	67,138	71,432	+39	+31	+14
Athens	118,188	89,674	98,526	+32	+20	+14
Brunswick	58,159	49,434	57,408	+18	+ 1	+11
Dalton	128,685	124,364	119,075	+ 3	+ 8	+15
Elberton	17,216	17,780	16,231	− 3	+ 6	+12
Gainesville	92,984	77,287	80,294	+20	+16	+11
Griffin	45,917	38,148	42,176	+20	+ 9	+ 5
LaGrange	25,155	18,033	24,162	+39	+ 4	+ 9
Newnan	30,066	22,669	28,389	+33	+ 6	− 1
Rome	103,497	88,273	93,907	+17	+10	+10
Valdosta	67,783	62,785	61,669	+ 8	+10	+ 9
Abbeville	15,635	11,982	16,135	+30	− 3	+ 6
Alexandria	181,058	150,945	178,973	+20	+ 1	+14
Bunkie	9,012	8,747	9,537	+ 3	− 6	+11
Hammond	45,087	39,674	39,973	+14	+13	+11
New Iberia	47,849	37,872	42,011	+26	+14	+10
Plaquemine	14,730	13,005	14,219	+13	+ 4	+ 6
Thibodaux	32,103	23,212	33,333	+38	− 4	+ 7
Hattiesburg	60,282	53,034r	63,153	+14	− 4	+13
Laurel	52,430	44,190	45,602	+19	+15	+18
Meridian	84,156	94,528	81,487	−11	+ 3	+23
Natchez	52,767	41,617	45,840	+27	+15	+12
Pascagoula—Moss Point	94,010	82,823	74,345	+14	+26	+22
Vicksburg	49,547	48,289	43,925	+ 3	+13	+ 7
Yazoo City	27,487	28,728	27,690	− 4	− 1	− 4
Bristol	103,996	84,902	84,499	+22	+23	+15
Johnson City	107,797	95,642	95,351	+13	+13	+16
Kingsport	189,825	161,385	179,495	+18	+ 6	+ 9
Sixth District, Total	45,075,662	37,788,357r	38,876,054	+20	+16	+15
Alabama‡	5,253,868	4,506,785	4,785,760	+17	+10	+ 8
Florida‡	15,153,705	12,198,333	12,588,657	+24	+20	+19
Georgia‡	11,938,671	10,090,371	9,922,169	+18	+20	+17
Louisiana†*	5,243,153	4,285,753	4,636,651	+22	+13	+ 7
Mississippi†*	1,921,707	1,857,167r	1,603,853	+ 3	+20	+14
Tennessee†*	5,564,558	4,849,948	5,338,964	+15	+ 4	+15

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

District Business Conditions



The economy's performance has become more sluggish. Although construction activity and consumer credit extensions rebounded in December, many activities ebbed. Nonfarm employment, payrolls, and working hours declined. A slowdown in auto sales was responsible for curtailed production in January. Commercial banks reduced their loans, in spite of increased deposits. Savings and loan associations continued to reduce loan commitments. Farming was adversely affected by foul weather.

Preliminary figures indicate that District nonfarm employment eased off in nearly every major industry during December. Payrolls and working hours in manufacturing dropped. In Georgia manufacturing, employment cutbacks in aircraft and in textiles were not entirely offset by gains in other industries. Louisiana showed a sharp jump in construction employment, but this sector weakened in the region as a whole. The District unemployment rate fell, reflecting departures from the work force.

Consumers used instalment credit more heavily in December, as new loan volume increased. Repayments also advanced. Auto sales in the District sputtered in the closing months of 1969, a trend that is continuing.

Lending activity, after proceeding more briskly in December than in the nation, fell sharply during the first three weeks of January. Part of the loan decline reflects a greater-than-usual reduction in business loans after a year-end surge of borrowing. Some of the larger banks have also stepped up sales of loans to their affiliates and nonbank institutions. Banks outside large cities had large inflows of deposits and accelerated their overnight lending of funds.

Uncertainty pervaded the construction sector, despite a sharp rebound in construction contract volume in December. Another record year was accompanied by a sharp rise in construction costs. A year-end rise in FHA-VA interest rate ceilings was followed in January by a rise in ceilings on savings rates that banks and savings and loan associations could offer. While it is hoped that both actions will increase the availability of funds to the housing sector, it is too early to measure their impact. Plans made by residential builders in the next few weeks will largely determine the pace of construction for the rest of the year. To date, the savings and loan associations have been reducing their rate of new commitments rather than expanding them.

Agricultural activity was slowed by unusually cold weather. Freezing temperatures, extending all the way to south Florida, inflicted varying degrees of damage to citrus, sugarcane, and vegetable crops. Frost upset vegetable production by necessitating replantings and delaying harvests. Livestock producers were forced to step up supplemental feeding sharply.

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