

# MONTHLY REVIEW

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FEDERAL RESERVE BANK OF ATLANTA

# Banking in a Developing Economy: Latin American Patterns

Although U. S. bank involvement in international finance has surged rapidly in recent years, it is not widely recognized that a substantial proportion of this financial activity has been conducted with Latin American countries. For example, as of June 1970, Latin American countries accounted for nearly 30 percent of U. S. bank short-term claims on foreigners and 42 percent of U. S. bank long-term claims on foreigners. Moreover, of 459 overseas branches of U. S. member banks, 203 were located in Latin America at the end of 1969, although the region's share of total overseas branch liabilities and assets was considerably smaller than its share of overseas branches. In the Sixth District, the lion's share of international transactions of commercial banks is conducted with Latin American countries, as might be expected from the geographical proximity of Sixth District banks to the region. Thus, Latin American countries account for over

half of District banks' short-term claims on foreigners and an overwhelming proportion of short-term liabilities to foreigners (the two major categories of activity).

Despite the contacts with Latin American banks entailed by the international financial activity of both U. S. and District banks, relatively little is known in the United States about the characteristics of banks and related financial institutions in the region. The purpose of this article is to describe in broad terms the structure and regulation of Latin American banking systems and how they are shaped by the economic context in which they operate.<sup>1</sup> The term "banking system" in this article includes a number of deposit-accepting institutions, distinct from commercial banks, that typically fall under the regulatory control of regular banking authorities.

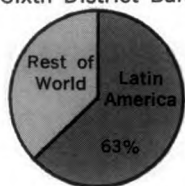
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<sup>1</sup>Because of limited space, it has not been possible to describe in greater detail specific types of financial practices and institutional structures or to take note of specific variations among individual countries in the region. Moreover, because of the lack of information on recent changes and on the international activity of Latin American banks, these topics have been entirely excluded from discussion.

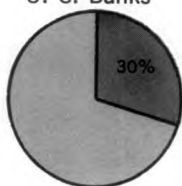
## Sixth District banks have close ties with Latin America.

### Short-Term Claims on Foreigners

Sixth District Banks

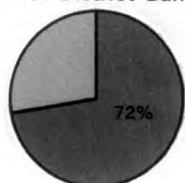


U. S. Banks

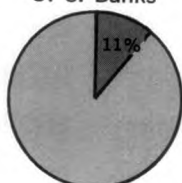


### Short-Term Liabilities to Foreigners

Sixth District Banks



U. S. Banks



June 1970 figures.

## Economic Environment

Although considerable economic diversity exists among Latin American countries, they typically share certain common characteristics which differ markedly from the economic environment familiar to United States residents. These characteristics directly affect the nature of Latin American banking systems through market forces. Because of their influence on national goals, such as the acceleration of economic development, they also shape the particular set of laws and regulations under which banks operate in countries throughout the region.

Per capita incomes in Latin American countries, ranging from \$200 to \$800 annually, are much lower than in most industrialized nations. At these income levels, per capita savings tend to be quite low. Moreover, individuals do not utilize the banking system nearly as much for effecting economic transactions as they do in more industrialized countries. For example, in most Latin American countries, the supply of currency equals or exceeds the amount of outstanding demand deposits in banks; in contrast, the ratio is about one to four in the United States. Hence, in the absence of capital flows from abroad, Latin American banks have more limited access to fi-

ancial resources than banks in highly developed nations.

In contrast to the scarce supply of funds available to the banking system, the demand for bank credit is quite large. For example, commercial firms in Latin America have larger needs for working capital than do firms in more industrialized countries. The practice of maintaining large inventories, partly attributable to deficiencies of transportation facilities and to hedging against inflation, accounts to a significant degree for the large working capital requirements. Moreover, the high cost of capital goods typically requires greater capital investments per unit of output than in more developed countries. Although commercial firms have a greater need for financing, internally generated funds tend to meet a smaller portion of these needs than in more developed countries. Consequently, commercial firms must frequently resort to borrowed funds. But because the poor development of capital markets makes it difficult to raise capital directly, commercial firms must depend more heavily on the banking system to satisfy their credit needs than do their counterparts in more developed countries.

Governments also depend heavily upon the banking system for financing their expenditures. On the one hand, pressing needs for economic development have accelerated government demands for funds to be used for basic social and economic investment. For these and other reasons, governments have found it difficult to restrain expenditures. On the other hand, low incomes and inefficient tax systems are the major factors tending to inhibit the growth of tax revenues. In addition, the limited development of money and capital markets restrains the placing of government securities with the nonbank public. As a result of this combination of factors, the banking system is usually called upon to fill the gap in governmental budgets.

Apart from pressures arising from short supplies and heavy demands for funds, the banking sector in Latin America must also cope with considerable inefficiency or, in some cases, even the virtual absence of money and capital markets. These problems may be traced to several underlying factors. First, the smallness of the domestic economy and of the domestic market for funds in most Latin American countries restrains the expansion and diversification of banks and other financial institutions. Secondly, the issuance and transfer of financial assets are inhibited by periodic or continual inflation in many cases and limited public knowledge about securities trans-

actions and institutions issuing debt securities. Finally, governmental or central bank regulations that limit the rate of interest payment on various types of financial assets, particularly government securities, have reduced the desirability of purchasing or holding such assets, especially under inflationary circumstances.

### The Institutional Framework

The economic environment just described has a strong influence on the structure of Latin American banking systems and on types of banking activities. Three distinctive features of Latin American banking are (1) the dominance of the central bank within the total financial structure, (2) the greater importance of commercial banks relative to other financial institutions (excluding central banks) than in more advanced countries, and (3) the significant role of official banking and credit institutions designed to channel credit to selected sectors of the economy.

#### The Central Bank

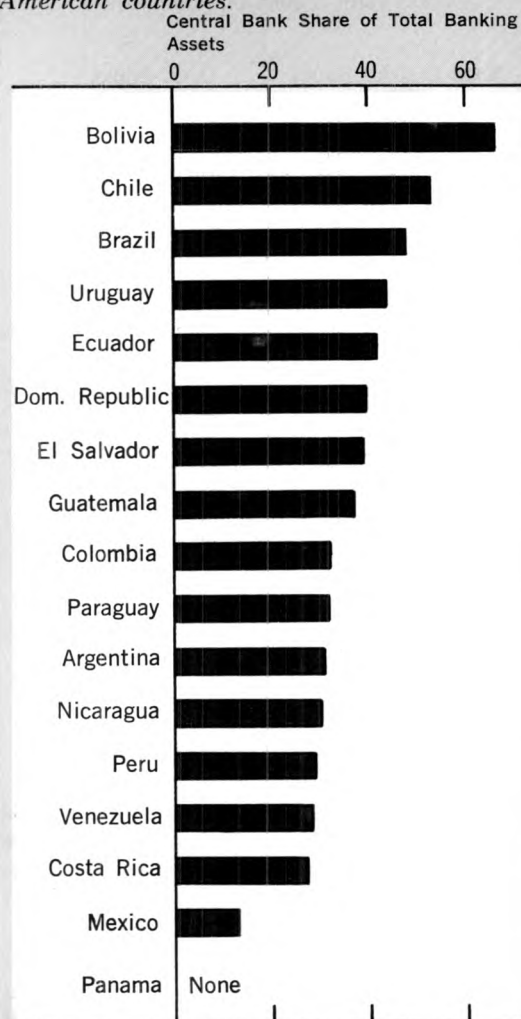
The importance of the central bank is illustrated by financial resources of the central bank either equaling or exceeding the resources of all commercial banks in 9 out of 17 Latin American nations. Moreover, in 12 countries, the resources of the central bank accounted for at least one-third of the resources of the banking system and in three others, over one-fifth.<sup>2</sup>

The dominance of central banks in the financial structure reflects the many responsibilities these institutions have tried to fulfill. Apart from the traditional tasks of monetary policy—including the regulation of the supply of money and credit and the maintenance of smoothly functioning financial markets—many Latin American central banks have also become deeply involved in financing economic development, in actively fostering the growth of financial institutions, and in influencing the flow of credit to meet national priorities.

Latin American central banks have had to take on a substantial part of the burden of financing economic development because of the insufficient development of other financial institutions. Much of this task consists of financing governmental

<sup>2</sup>The banking system includes the central bank, official banks, commercial banks, and other banking institutions, as defined in the introduction.

*The central bank plays an extremely large role in the financial activities of most Latin American countries.*



Note: 1969 figures, except for Brazil, Colombia, and Mexico: 1968; and Peru and Uruguay: 1967. Panama has no central bank.

deficits, often magnified by attempts to accelerate economic development. Although some of this financing is done through direct advances made to the government, central banks more normally fulfill this task by purchasing government securities. Unfortunately, private individuals and institutions tend to find interest rates on these securities unattractive. Therefore, many central banks, acting as residual buyers, have often added excessive amounts of these securities to their own portfolios, hence contributing directly to inflationary pressures. However, some central banks have attempted to broaden public

holdings of government securities through methods such as: allowing or requiring banks to meet some of their reserve requirements through purchases of government debt, selling participations in their own portfolio of government debt to the public, and supporting the existing markets for such securities to enhance their liquidity and reduce large fluctuations in their value.

Many Latin American central banks also finance development by supporting public financial institutions created for specialized types of activities. Support may involve subscribing to part of the capital of an institution, buying its securities, or providing loans, discounts and advances. Other types of development lending include the financing of agricultural price support programs and the financing of important categories of foreign trade. A few central banks also have commercial departments that deal directly with the public.

Besides financing specific economic sectors, some central banks have also tried to influence the flow of bank credit to priority areas and restrict credit to other areas through regulatory methods. For instance, they have formulated reserve requirements to channel commercial bank credit toward preferred sectors, such as agriculture or industry. As previously mentioned, central banks have also made use of reserve requirements to increase commercial bank purchases of government securities. At times, they have placed quantitative limits on certain types of bank lending to restrict credit to sectors considered of low priority. They have also employed differential discount rates, based on class of borrower or type of underlying paper, to influence sectoral flows of credit.

The active role in financing development, in promoting the growth of money and capital markets, and in influencing the allocation of credit has in a number of cases led central banks to neglect their responsibilities for controlling aggregate money and credit. Moreover, central bank participation in development financing and their support of security markets have directly contributed to inflationary pressures. To some extent, however, the inflationary impact of direct central bank financing of development has been mitigated when the funds have been obtained from central bank profits, foreign borrowing, or through the running-down of foreign exchange reserves. But often these noninflationary sources of financing have been far too inadequate to meet the overall credit demands on the central banks affected.

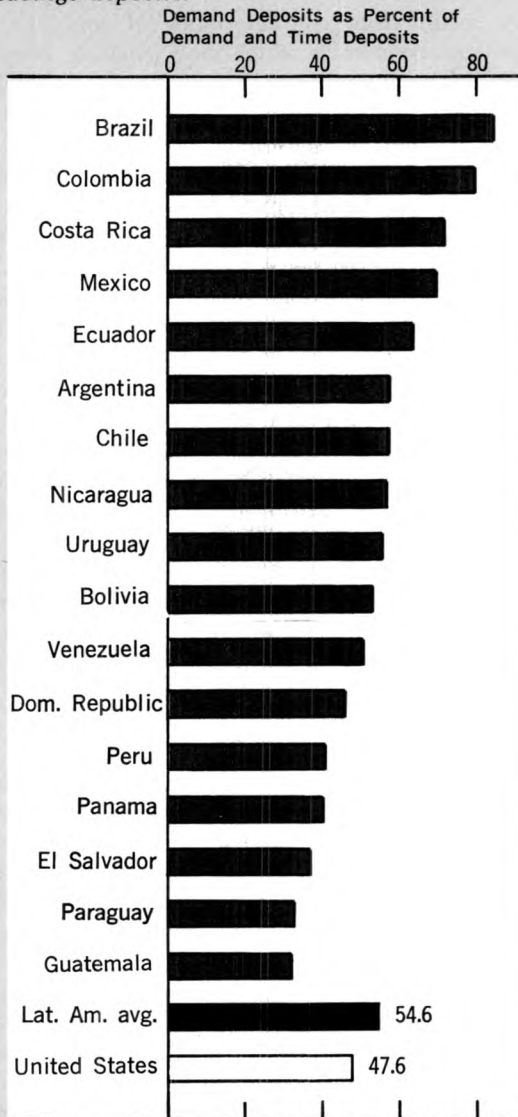
Nevertheless, inadequacies of general monetary policy cannot be entirely attributed to central bank administration; instead, these inadequacies may result from characteristics of some Latin American economies which may frustrate central bank action. For instance, in those countries where the external sector is quite substantial, large cyclical or seasonal fluctuations in the balance of payments may alter commercial bank reserves beyond the central banks' ability to control them adequately. Furthermore, large government deficits often place a severe strain on monetary policy. In addition, the tendency of commercial banks to maintain relatively high liquidity ratios often inhibit central bank efforts to control bank credit through discount policy, whereas open market operations are often limited by the inefficiency of money and credit markets. Hence, to help overcome these obstacles to their control over bank credit, Latin American central banks have resorted to less traditional measures such as prior deposits on imports, quotas on bank lending, and marginal reserve requirements. The success of these additional measures has varied considerably among Latin American countries.

### *Commercial Banks*

Latin American commercial banks also differ from their U. S. counterparts in several respects. For example, as is characteristic of countries in a lower stage of development, commercial banks account for a larger portion of assets in the total financial system than in more advanced nations. Moreover, branch banking in Latin America is widespread, and in several countries, banks and other financial institutions form closely inter-related financial groups. Nevertheless, few Latin American banks maintain branches or offices outside their respective countries. On the other hand, Latin American branches or subsidiaries of European and American banks participate significantly in the financing of foreign trade and investments and to some extent in local business as well. Nevertheless, in some Latin American countries, especially Mexico, the activities of foreign-controlled banks are closely limited.

Latin American commercial banks depend principally upon demand deposits as a source of funds and, in some countries, may pay interest on such deposits. To a lesser degree, they obtain additional funds from time and savings deposits. In many Latin American countries, banks also accept deposits denominated in foreign currencies, but normally these deposits have not

*Latin American banks typically rely more heavily on demand deposits than on time and savings deposits.*



Note: 1969 figures, except for Brazil, and Colombia: 1968; and Peru and Uruguay: 1967.

been large. Moreover, regulations governing these deposits have usually been stricter than for deposits denominated in domestic currencies.

Mortgage departments of commercial banks also issue mortgage bonds to the public and loan the proceeds for construction and acquisition of buildings. The use of these instruments in central bank monetary operations has enhanced their popularity with the public in countries that have not suffered high, chronic rates of inflation.

Commercial banks channel a major portion of

their funds into short-term lending to commercial and industrial firms. These borrowers, in turn, use the funds for inventories, working capital, and financing sales to customers. The emphasis on short-term lending is derived largely from bank management's desire to maintain a comfortable position of liquidity and, in some cases, from central bank regulations that restrain the granting of long-term credits. In addition, private firms in Latin America depend more heavily on short-term bank loans than firms in more advanced countries, thus reducing the supply of bank funds for long-term purposes.

This large demand for short-term funds stems partly from the practice of maintaining large inventories as a hedge against inflation and as a way of mitigating some of the drawbacks of less efficient transportation and distribution systems. Moreover, many Latin American firms need greater amounts of working capital to provide credit to customers who may have limited access to other forms of credit. Finally, the less developed character of money and capital markets restricts the availability of alternative sources of funds to firms. Despite the indicated short-term character of bank lending, however, the widespread practice of renewing credits effectively provides more medium- and long-term lending than is apparent.

Latin American commercial banks typically carry a smaller proportion of securities in their investment portfolio than do banks in the United States, largely because of unattractive interest rates and the more common incidence of inflation. Moreover, in some Latin American countries, central bank regulations have directly constrained commercial bank investments in securities. Of long-term investments that are made, a substantial portion of funds are placed in long-term government securities, often in response to reserve requirements designed to regulate credit or to obtain resources for financing governmental needs. Furthermore, the selective discount and reserve policies of the monetary authorities previously described stimulate some long-term loans to agriculture and other specified sectors. Other long-term investments include mortgage loans and investments in chattel securities.

### *Official Banks*

Another important banking institution present in most Latin American countries is the official credit institution, including the development bank. These institutions often play an important

role in providing funds for specific economic sectors (e.g., agriculture, government-owned industries, transportation) that are given high priority in development efforts. Alternatively, they may finance a wide variety of projects that often have difficulty in obtaining funds elsewhere but that are generally considered beneficial to the economy. Those serving specialized sectors often provide technical assistance and, at times, participate in management in addition to supplying capital. Their financing activities include making available short- and long-term credit, mortgages, and investments in fixed and variable securities. Normally, their portfolios consist of a much higher proportion of long-term investments than do the portfolios of commercial banks.

These institutions are usually capitalized entirely or in large part through direct governmental contributions and often have access to central bank credit. They may also issue their own fixed interest or variable return obligations—backed either by governmental guarantee or by secured credits and loans—or sell participations in their loan portfolios. The status of some official credit institutions has also enabled them to obtain credits from foreign commercial banks or foreign official sources that are not normally available to private domestic credit institutions or firms. In some cases, these institutions have floated long-term securities in international capital markets. Finally, their importance in financial intermediation, combined with official status, has frequently enabled these institutions to play an effective role in fostering the growth of domestic money and capital markets.

### *Private Investment Banks*

In addition to the institutions described above, a variety of institutions that may be collectively referred to as “private investment banks” are found to a greater or lesser degree in individual Latin American countries. These include mortgage banks (bancos hipotecarios), finance companies (financieras), savings banks (bancos de ahorros), and other selected institutions. The institutions within each of these groups vary considerably from country to country and sometimes within the same country as well. Hence, they can only be described generally.

Perhaps the most important of the private investment banks is the mortgage bank. These institutions obtain funds primarily through the issuance of their own bonds and certificates or, alternatively, by accepting savings deposits and

channeling them mostly into construction. To satisfy regulatory requirements, they also purchase government securities to some extent. Mortgage banks tend to place the major portion of their funds in long-term assets. Severe inflationary pressures in a number of Latin American countries and the long-term nature of their operations have tended to restrict the growth of mortgage banks. To help offset some of these difficulties, mortgage banks in several instances have been permitted to adjust the value of the principal of outstanding mortgages in accordance with a specified price index. In order to continue attracting funds, they similarly adjust deposits and, in some cases, allow depositors to share in profits.

Savings banks and savings and loan associations can be found in some Latin American countries. These institutions are of recent vintage and have not yet developed on a large scale. Typically, their basic source of funds is savings deposits from individuals who have future plans of obtaining a home mortgage from the institution receiving the deposit.

Mortgage banks and savings and loan associations have also become actively engaged in making loans against privately issued mortgage certificates (cédulas hipotecarias) and then offering these certificates to their customers as an investment. The practice of offering an informal guarantee to repurchase these instruments on demand, coupled with their widespread use in monetary operations by central banks, has made them quite popular in some countries.

Private finance companies, of which there are two basic types, have achieved notable importance in a number of Latin American countries. In Argentina and Brazil, financieras mainly finance the purchase of consumer durables, especially automobiles. They operate on their own capital, by accepting time deposits, and by issuing commercial paper. In other countries, such as Mexico and Colombia, financieras function more as private development banks. Hence, they invest in and underwrite corporate securities, make short- and medium-term corporate and commercial loans, and carry out other activities outside the usual scope of commercial banking. They obtain funds through time deposits, issuance of their own certificates and bonds, sale of their own stocks to banks and other institutions, foreign borrowings, and especially in the case of Colombia, through central bank credits. The financieras channel a larger portion of their resources into longer-term assets than do commer-

cial banks, but the majority of their portfolio nevertheless, consists of medium- and short-term assets.

In many instances, these private investment banks, particularly the mortgage banks and financieras, have close ties with commercial banks. In fact, these ties have been stimulated by commercial banks eager to enter into new activities restricted by commercial bank legislation and regulation. In recent years, regulatory authorities more cognizant of these ties, have extended and tightened up regulations covering the various types of private investment banks, some of which are strangers to American finance.

As noted, these and other functional and operational differences between Latin American banking institutions and their counterparts in the United States and other economically advanced nations can be traced, to a considerable degree, to a dissimilar economic environment. Thus, the institutional framework that has steadily evolved in these countries reflects efforts to cope with the many difficult problems associated with economic development efforts.

JOHN E. LEIMONE



# Chemicals Bring Changes to the Southeast

The economic fabric of the Southeast has been undergoing profound structural changes in recent years. The relentless march of industrialization has brought with it dramatic gains in several capital-intensive industries, at the relative expense of labor-intensive sectors that once dominated the economic scene. Apparel, which requires a relatively large labor input, still clings to its first-place position among manufacturing employees in the states making up the Sixth Federal Reserve District (Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee). In terms of value added (value of shipments minus cost of production materials), apparel ranks sixth and accounts for less than 7 percent of the total.

The biggest contributors to value added are chemicals and food processing, number one and number two, respectively. Both of these sectors are of very low labor intensity. About 15 percent of all value added is in chemicals and allied products, but employment-wise, the chemical sector is outpaced by six other industries.

Chemicals are perhaps the outstanding example of what has been happening to the Southeast's industrial economy. During the last twelve

years, production of chemicals has increased by two and a half times its 1957-59 level and has modernized processes and developed new products at an extremely fast rate.

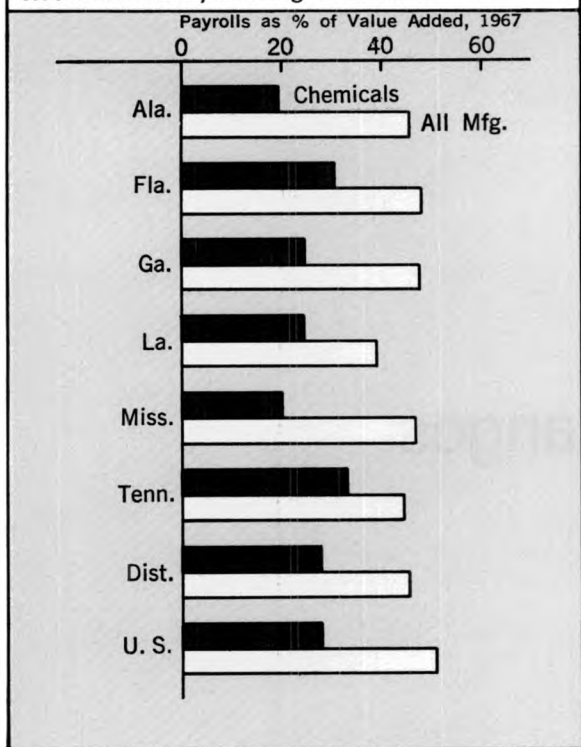
## Importance of Chemicals

There are 140,000 persons working in chemicals and allied products in the District. This is about 7 percent of total factory employment. And in addition to holding the number one position in value added, the industry ranks high in value of shipments. In 1967, chemicals moved nearly \$6 billion worth of goods, being surpassed only by food processing, which shipped \$8.5 billion of merchandise in the same year.

Also, chemicals have fairly consistently been the most impressive investor in plant and equipment. In 1967, such expenditures in the District amounted to \$750 million compared with less than \$200 million for food processing, the runner-up.

In this region, chemicals are relatively more important than they are in the nation. While the District accounts for only about 8.5 per-

*The chemical industry is far less labor intensive than manufacturing as a whole.*



cent of total value added in U. S. manufacturing, it accounts for about 13.5 percent of total value added in chemicals and allied products. The most important chemicals here and in the nation are basic organic and inorganic industrial chemicals, along with plastics and synthetics. But in Alabama and Florida, agricultural chemicals predominate, and altogether the region produces about 40 percent of U. S. value added in this industry. This region also predominates in gum and wood chemicals, although the total regionally and nationally is diminutive.

### A Heterogeneous Conglomeration

Attempts at defining chemicals must have been the undoing of more than one lexicographer. Any definition must be vague enough to include everything from a bag of fertilizer to a bar of soap, with enough leeway for charcoal briquets and sulphuric acid to be included. So generalization by product type is meaningless. Equally vague is classification by market sector served; basic chemicals firms are probably one another's best

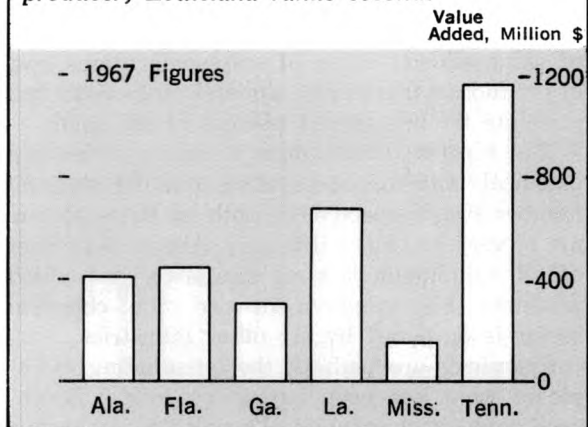
customers. However, they also serve diverse categories of industrial, agricultural, governmental, and foreign users.

If the industry is to be defined at all, it must be in terms of the production processes involved. Basic chemicals and chemical products are put together by processes that can only be defined as peculiarly chemical in nature. The SIC manual breaks down chemicals into three major categories:

1. Basic chemicals, i.e., acids, alkalies, salts, and organic chemicals (compounds containing carbon atoms in a form similar to those found in plant and animal matter),
2. Chemical products to be used in further manufacture, i.e., synthetic fibers, plastics materials, dry colors, and pigments,
3. Finished chemical products to be used for ultimate consumption, i.e., drugs, cosmetics, and soaps; or to be used as materials or supplies in other industries such as paints, fertilizers, and explosives.

In this region (especially Tennessee), the predominant chemicals are organic and inorganic industrial chemicals (basic chemicals), such as alkalies, chlorine, industrial gases, dyes, and pigments. The second most important chemicals are plastics and synthetics, and these are found primarily in Tennessee but are not insignificant in Louisiana. These chemicals are also produced in Georgia; however, disclosure problems make it impossible to quantify precisely. Agricultural chemicals run a close third in the District and

*Tennessee is the region's leading chemical producer; Louisiana ranks second.*



are the predominant chemical product in Alabama and Florida.

Tennessee is the largest producer in the region and shipped more than one-third of the District's chemical output in 1967. Louisiana ranks second and is rapidly closing the gap, producing a little less than one-fourth of the region's total. Alabama, Florida, and Georgia are also important chemical producers, but each accounts for less than one-sixth of the total. The industry is least important in Mississippi, which accounts for only about 5 percent of total shipments.

### A Natural for Chemicals

To the extent that the presence of natural deposits is a key location factor for manufacturing, there are parts of the South that lend themselves particularly well to a number of chemical products. This is especially true in Louisiana, where petroleum and natural gas are abundant and provide the basic ingredient for most plastics and synthetics. Also, but to a much lesser extent, petroleum is a factor in Tennessee, and the presence of coal mining is important there as well, since coal tar derivatives are the raw material for several basic chemicals. Market factors are also important in Tennessee because nearby textile plants, especially those in South Carolina and Georgia, are big customers for synthetic fiber and staple.

Sulphur, a basic input for the production of the workhorse chemical sulphuric acid, is found in Louisiana and Mississippi. Sulphur is also obtained as a by-product of copper refining, some of which is located in Tennessee. Phosphate rock, a significant agricultural chemical raw material, is found in Florida and Tennessee.

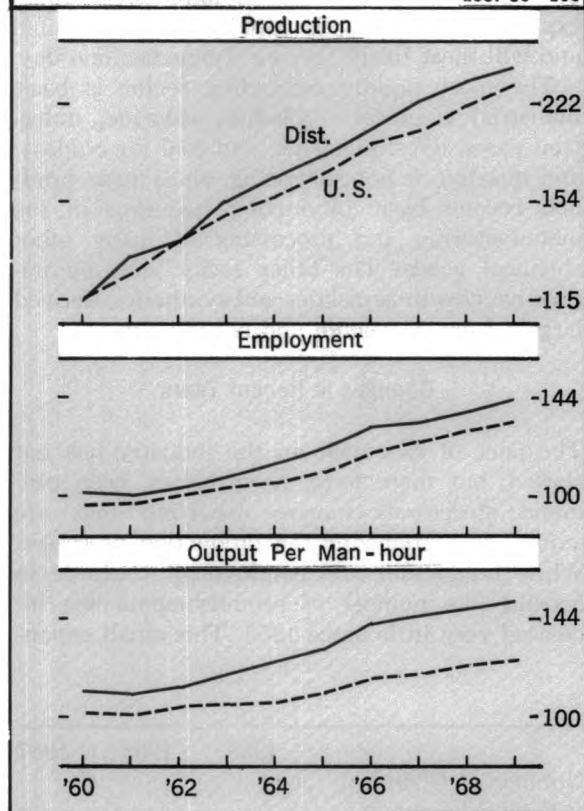
In some instances, a seaport location becomes important when large quantities of production materials must be brought in from other regions, e.g., sulphur from the Texas gulf coast or potassium from South America. The presence of large quantities of water is also an essential consideration because of the requirements of steam generation and cooling. This helps to explain the heavy concentration of plants along the Mississippi River in southern Louisiana.

### South Pulling Ahead

Both the nation and the Southeast have shown phenomenal growth in chemicals, but the Southeast has grown more rapidly. First, chemicals employment in the District has nearly doubled

*When measured in terms of production, employment, and productivity, the chemical industry in the District has grown more rapidly than in the nation.*

1957-59=100



since 1950, whereas in the nation it has risen about 65 percent.

At the same time, the productivity or output per man-hour has risen sharply in both the region and the nation, with the region holding a slight edge. The net effect of all this is that the District's output growth has outpaced the nation's.

Expansion of chemical production, both regionally and nationally, has been made possible by massive investment in plant and equipment. In 1967, 14 percent of all factory investment at the national level was in chemicals and allied products. This was exceeded only by primary metals, amounting to 15 percent. At the District level, chemicals investment was a whopping 30 percent of the manufacturing total, reflecting the South's relative advantage in the industry. Chemicals investment was 25 percent of value added, whereas in the nation it was 12 percent.

The largest expansion in District chemicals

has occurred in Louisiana, and this is quite natural if the extent of the petroleum resource base in that area is considered. Tennessee is still by far the District's largest producer of chemicals, but Louisiana, because of its impressive capital expansion programs, is rapidly gaining ground and will most likely surpass Tennessee one day.

The most rapidly expanding sector is basic industrial chemicals (alkalies, chlorine, industrial gases, dyes, pigments, and coal tar crudes), and this, too, is not surprising, since these products become basic production materials in the manufacturing and processing of many other chemical goods. The other sector showing impressive growth is plastics and synthetics, derived largely from petroleum and natural gas.

### Changes in Recent Years

The pace of expansion in the industry has not slowed, but there have, nevertheless, been profound structural changes occurring that are quietly revolutionizing the production processes. While production and employment continue to expand, the number of establishments has increased very little since 1958. This small expansion

	1958	1963	1967
Number of Chemical Establishments in the Sixth District states	1105	1251	1324

in the number of plants has been accompanied by a small growth in average employment per establishment. Value added per plant, on the

	1958	1963	1967
Average Employment Per Establishment	82	77	91
Average Production Worker Employment Per Establishment	58	54	63

other hand, has climbed from about \$1.3 million in 1958 to \$2.4 million in 1967. All this is re-

	1958	1963	1967
	(millions of dollars)		
Average Value Added Per Plant	1.3	1.7	2.4

flected in the output per man-hour, commonly called productivity, which has jumped about 60 percent in the last decade.

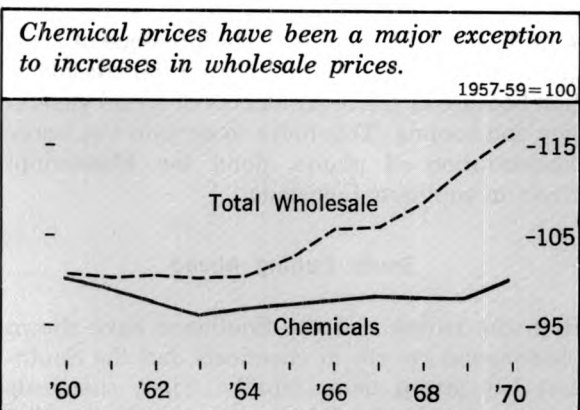
### Patterns of Competition

During the last decade, District chemicals production rocketed 126 percent, whereas man-hour utilization rose only 39 percent. This underscores the vital role of an accelerating technology in an industry that had a low labor intensity even in 1960.

This progress in efficiency, along with a degree of price competition in chemicals, has in the last ten years helped bring about a two-percent decline in national chemicals prices. This is in sharp contrast to the all-commodity index, which has risen more than 15 percent. There is every reason to believe that District chemical prices are behaving the same as nationally. Productivity has been increasing regionally and nationally at about the same rate.

Price cutting has become a fact of life among some industrial chemicals, especially the organics. This practice is generally associated with excess capacity, new entrants, and attempts at broadening markets.

Chemicals face their stiffest competition from other chemicals, other processes, and other industries. Firms generally attempt to cope with

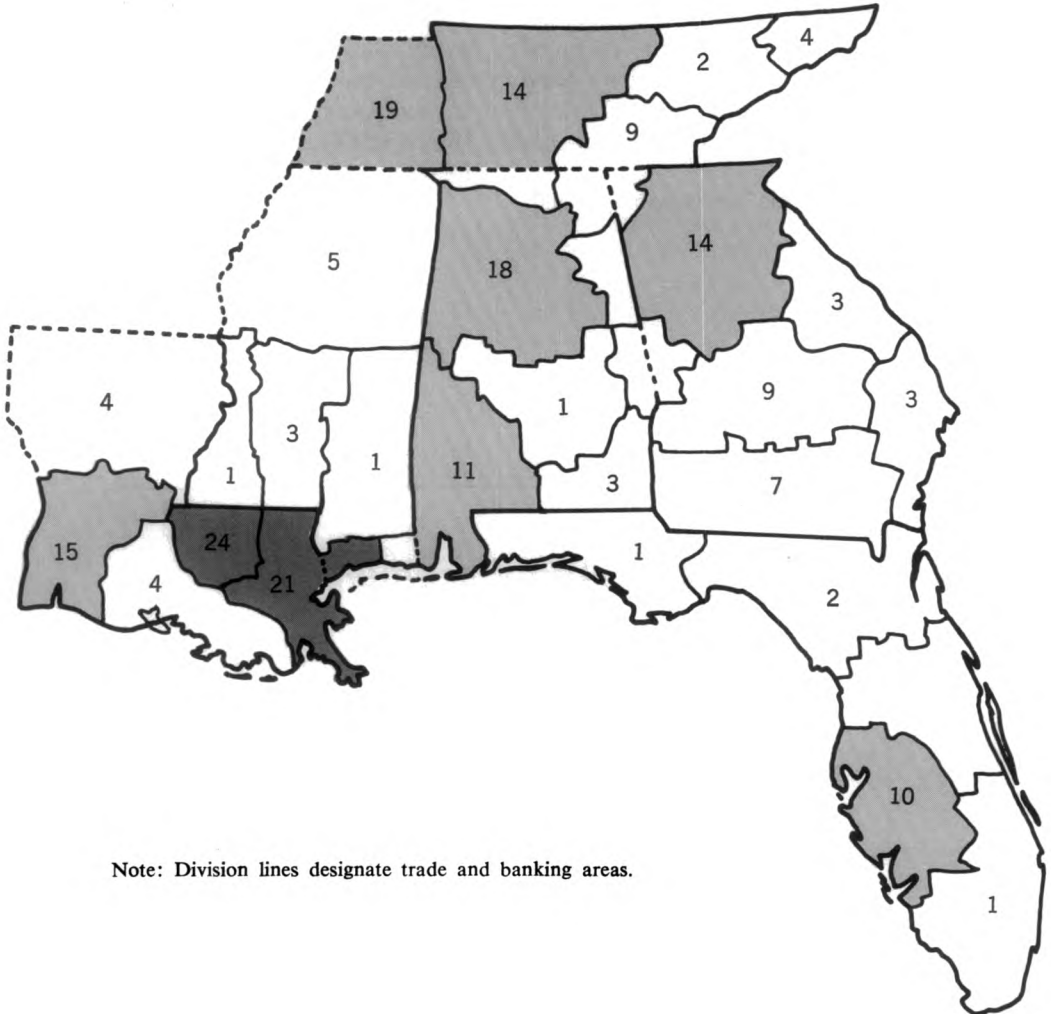


such problems via nonprice competition and emphasize technical services, quality, and product improvement through research and development. In some products, such as synthetic fibers, brand names become important.

### A Boon for the Balance of Payments

While the chemical industry is facing increasing competition in foreign markets, the exports of chemicals and allied products are increasing more

**NUMBER OF CHEMICAL FIRMS EMPLOYING MORE THAN 100 PERSONS, 1967**



Note: Division lines designate trade and banking areas.

rapidly than total merchandise exports. Chemical imports are rising at an even faster rate, but in dollar terms, chemical exports are still growing more rapidly. Because of this, the trade surplus in chemicals continues to widen.

### **Borrowing Outside the District**

The region's chemical industry borrows a great deal of funds from banks outside the region. In 1969, even though chemicals (and chemicals and rubber combined) were relatively more important in the District than in the nation, loans by large District member banks to chemical and rubber concerns made up 9 percent of total manufacturing loans, compared with 11 percent nationally. And the District's share of loans to the chemical industry was only 2 percent of the nation's total loans to this industry. In contrast, total District manufacturing loans were 3 percent of the national total.

In general, chemical firms are capable of gen-

erating large sums of funds internally for seasonal working capital needs as well as for long-term uses. And in those cases where bank financing is used, there seems to be little problem in procuring either short-term or intermediate-term credit for capital expansion.

Loans made by Sixth District banks show a seasonal pattern that recurs in a regular fashion: Loans outstanding generally increase sharply in early spring and then decline irregularly until about year-end. Typically, the peak seasonal lending comes in the spring, when such lending increases about 5 percent. A seasonal decline, amounting to about 5 percent, follows late in the year. This seasonal pattern of loan demand is superimposed on a rising trend of bank lending to chemical firms that has doubled since 1964. Should the region's chemical industry continue to grow as expected, there is little reason to doubt that it will be an increasingly important customer for District banks.

ROBERT E. WILLARD

## **Bank Announcements**

On October 1, **Livingston State Bank & Trust Co.**, Denham Springs, Louisiana, a nonmember bank, began to remit at par for checks drawn on it when received from the Federal Reserve Bank.

A newly organized nonmember bank, **Florida Southern Bank**, Palm Springs, Florida, opened for business on October 9. Officers are James K. Siebrecht, chairman of the board; Carleton S. Lucius, president and director; and J. T. Jones, executive vice president and cashier. Capital is \$450,000; surplus and other capital funds, \$250,000.

## Reviews of Sixth District State Economies

Reprints of *Monthly Review* articles  
(Single copies only)

- A Review of Alabama's Economy, 1960-70*, September 1970, 35 pp.  
*A Review of Florida's Economy, 1959-70*, July 1970, 35 pp.  
*A Review of Georgia's Economy, 1960-70*, August 1970, 35 pp.  
*A Review of Louisiana's Economy, 1959-70*, August 1970, 32 pp.  
*A Review of Mississippi's Economy, 1960-69*, February 1970, 28 pp.  
*A Review of Tennessee's Economy, 1960-69*, February 1970, 27 pp.

## Statistical Compilations

(Single copies only)

*Statistics on the Developing South, 1970.*

Statistical time series for tracing long-run economic changes in the Southeast and United States.

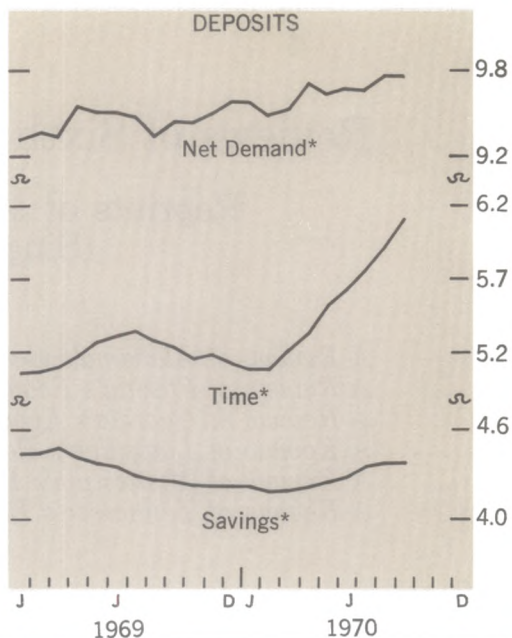
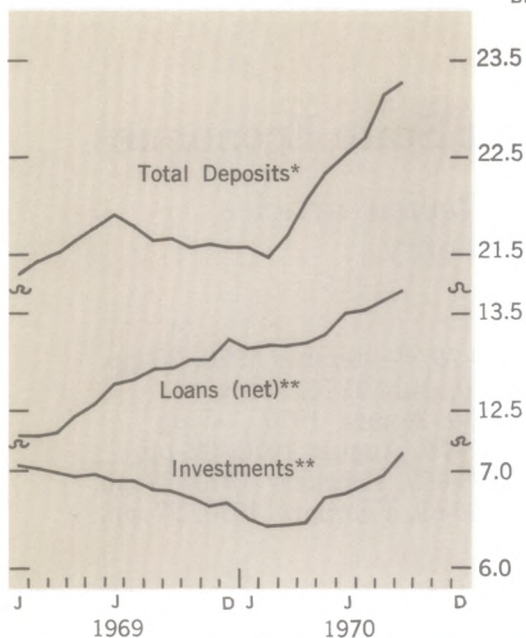
*Statistics on Commercial Banks, Sixth District, 1940-69*, selected dates.

Statistical tables analyzing changes in loans, investments, and deposits of commercial banks in the Sixth District.

These publications are now available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

## BANKING STATISTICS

Billion \$



LATEST MONTH PLOTTED: SEPTEMBER

Note: All figures are seasonally adjusted and cover all Sixth District member banks.

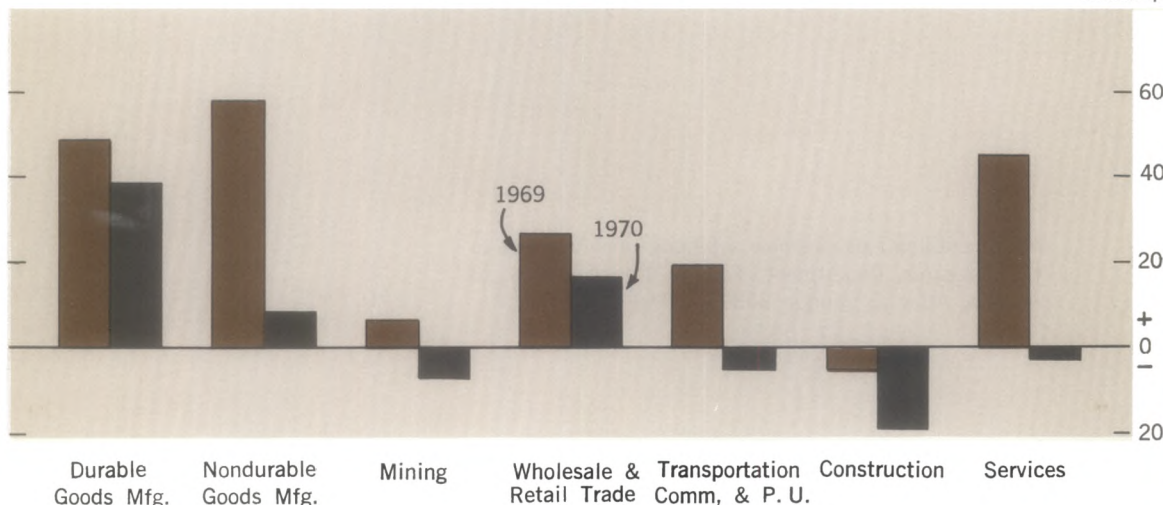
\*Daily average figures. \*\* Figures are for the last Wednesday of each month.

## SIXTH DISTRICT

# BANKING NOTES

### CHANGES IN BUSINESS LOANS

Million \$



Note: Figures shown are cumulative changes for the first nine months of each year and cover 23 large commercial banks in the District.

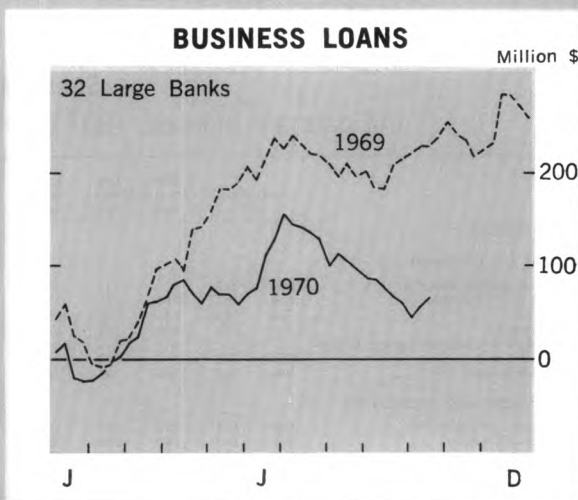


Large banks in the Sixth District have been much less active this year in making loans to businesses than they were in 1969. During the first nine months of 1969, business loans outstanding at 32 large commercial banks increased 6.9 percent, whereas during the comparable 1970 period, business loans changed little. These large banks hold about one-half of the total of business loan volume at all member banks in the Atlanta District.

The curtailment of business loan growth reflects the general slowdown experienced by the Southeastern economy. Many businesses indicated that their sales have been below expectations, and that output in many sectors either has leveled off or declined. With this decline in activity, the businessman has had less need for short-term funds to maintain inventories of raw materials and finished goods, except in cases where inventories have built up. Lower employment levels also have meant less funds have been needed to meet payrolls.

A shift by businesses from bank- to nonbank-financing may have also contributed to the softening in business lending activity at District banks. In 1969, many business firms that normally had secured long-term funds in the capital markets to finance long-term projects were unable to obtain such funds. Often, if funds were available, they could only be secured at record-high costs. Therefore, businessmen turned to banks for short-term, temporary financing of their long-term projects. With this year's greater availability of credit in capital markets and lower long-term rates, some business firms have been able to arrange for long-term financing outside the banking system and have used the proceeds to repay their loans to banks. In addition, some business firms have also gone to nonbanking sources in order to obtain funds needed for additional long-term financing.

Although the impact of the business slowdown and the greater availability of nonbank credit



Note: Figures shown are cumulative changes from first of year.

has been reflected in all types of business lending activity, the greatest impact at Sixth District banks has been on their lending to nondurable goods manufacturing firms and service concerns. At the 23 large banks that report their loans by business of borrower, nondurable manufacturing loans rose only \$8.5 million during the first nine months of 1970, compared with \$58 million during the first nine months of last year.

Outstanding loans to some types of businesses have actually declined during the first nine months of 1970. Construction loans have shown the most persistent decline. Loans to service-type businesses declined slightly in 1970, in contrast to the sharp increase during the comparable period in 1969. Service loans include loans to nonbusiness services, such as lodging, amusement, recreation, medical, legal, and educational services. Loans to mining concerns and transportation, communication, and public utility borrowers also declined from their end-of-1969 level.

JOSEPH E. ROSSMAN, JR.

# Sixth District Statistics

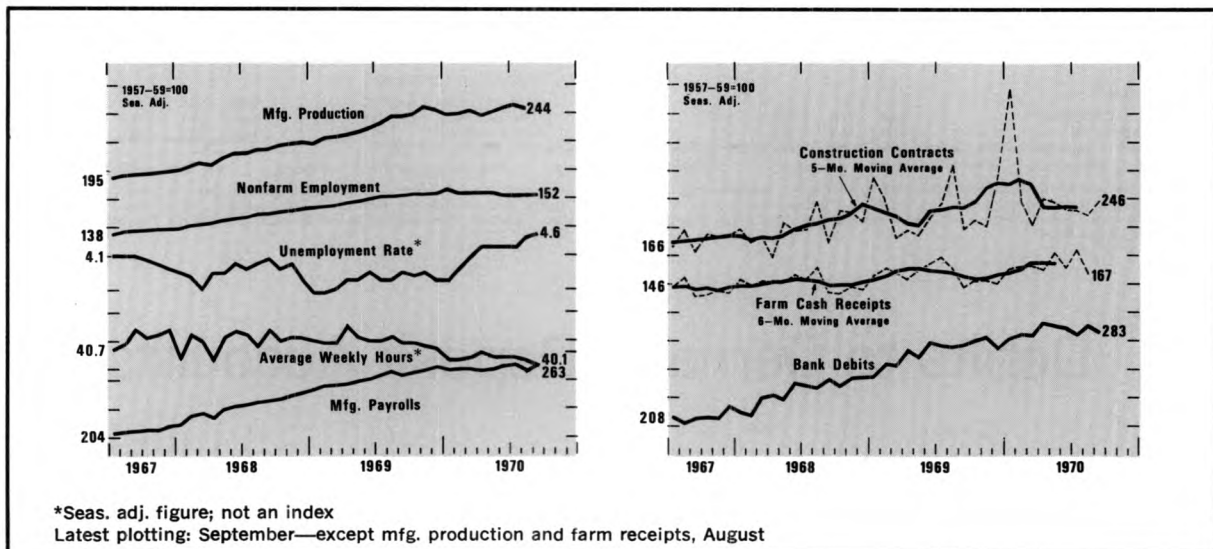
## Seasonally Adjusted

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

	Latest Month 1970	One Month Ago	Two Months Ago	One Year Ago		Latest Month 1970	One Month Ago	Two Months Ago	One Year Ago
<b>SIXTH DISTRICT</b>					<b>FLORIDA</b>				
<b>INCOME AND SPENDING</b>					<b>INCOME</b>				
Manufacturing Payrolls . . . . .	Sept. 263	262r	262	255	Manufacturing Payrolls . . . . .	Sept. 362	361	352	335
Farm Cash Receipts . . . . .	Aug. 167	210	178	177	Farm Cash Receipts . . . . .	Aug. 154	220	174	178
Crops . . . . .	Aug. 149	228	167	167	<b>EMPLOYMENT</b>				
Livestock . . . . .	Aug. 169	197	183	178	Nonfarm Employment† . . . . .	Sept. 181	179	180	176
Installment Credit at Banks* (Mil. \$)					Manufacturing . . . . .	Sept. 173	175	175	178
New Loans . . . . .	Sept. 341	359	344	326	Nonmanufacturing . . . . .	Sept. 182	181r	181	176
Repayments . . . . .	Sept. 307	307	326	287	Construction . . . . .	Sept. 128	130	133	137
<b>EMPLOYMENT AND PRODUCTION</b>					Farm Employment . . . . .	Sept. 89	93	97	85
Nonfarm Employment† . . . . .	Sept. 152	151	151	151	Unemployment Rate				
Manufacturing . . . . .	Sept. 145	145	146	150	(Percent of Work Force)† . . . . .	Sept. 3.7	3.5	3.3	2.6
Apparel . . . . .	Sept. 174	174	175	175	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Sept. 40.6	40.5	40.9	41.6
Chemicals . . . . .	Sept. 142	141	140	144	<b>FINANCE AND BANKING</b>				
Fabricated Metals . . . . .	Sept. 175	173	173	178	Member Bank Loans . . . . .	Sept. 401	398	395	374
Food . . . . .	Sept. 118	118	118	113	Member Bank Deposits . . . . .	Sept. 288	276	269	258
Lbr., Wood Prod., Furn. & Fix. . . . .	Sept. 105	106r	106	111	Bank Debits** . . . . .	Sept. 302	305	284r	282
Paper . . . . .	Sept. 125	125	127	130	<b>GEORGIA</b>				
Primary Metals . . . . .	Sept. 128	126r	129	134	<b>INCOME</b>				
Textiles . . . . .	Sept. 112	112	113	117	Manufacturing Payrolls . . . . .	Sept. 258	267r	267	263
Transportation Equipment . . . . .	Sept. 192	195r	192	212	Farm Cash Receipts . . . . .	Aug. 136	207	166	156
Nonmanufacturing† . . . . .	Sept. 154	153	153	152	<b>EMPLOYMENT</b>				
Construction . . . . .	Sept. 128	130	132	141	Nonfarm Employment† . . . . .	Sept. 151	151	151	152
Farm Employment . . . . .	Sept. 55	55	55	55	Manufacturing . . . . .	Sept. 138	139	139	145
Unemployment Rate					Nonmanufacturing . . . . .	Sept. 158	157	157	156
(Percent of Work Force)† . . . . .	Sept. 4.6	4.5	4.3	3.5	Construction . . . . .	Sept. 126	127r	130	151
Insured Unemployment					Farm Employment . . . . .	Sept. 49	47	46	50
(Percent of Cov. Emp.) . . . . .	Sept. 3.3	3.0	2.9	1.9	Unemployment Rate				
Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Sept. 40.1	40.4r	40.4	40.9	(Percent of Work Force)† . . . . .	Sept. 4.0	3.7	3.7	3.1
Construction Contracts* . . . . .	Sept. 246	220	229	196	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Sept. 39.3	40.1	40.3	40.7
Residential . . . . .	Sept. 216	263	276	217	<b>FINANCE AND BANKING</b>				
All Other . . . . .	Sept. 271	183	189	178	Member Bank Loans . . . . .	Sept. 355	355	350	341
Electric Power Production** . . . . .	Aug. 165	168	168	160	Member Bank Deposits . . . . .	Sept. 247	240	238	236
Cotton Consumption** . . . . .	Aug. 92	108r	99	99	Bank Debits** . . . . .	Sept. 328	333	332	319
Petrol. Prod. in Coastal La. and Miss.**	Sept. 310	294	283	264	<b>LOUISIANA</b>				
Manufacturing Production . . . . .	Aug. 244	245	244	238	<b>INCOME</b>				
Nondurable Goods . . . . .	Aug. 207	208	206	201	Manufacturing Payrolls . . . . .	Sept. 232	224	222	216
Food . . . . .	Aug. 166	166	167	159	Farm Cash Receipts . . . . .	Aug. 269	234	185	245
Textiles . . . . .	Aug. 236	236r	229	230	<b>EMPLOYMENT</b>				
Apparel . . . . .	Aug. 262	261	262	248	Nonfarm Employment† . . . . .	Sept. 131	131	131	133
Paper . . . . .	Aug. 194	193r	192	197	Manufacturing . . . . .	Sept. 120	120r	120	123
Printing and Publishing . . . . .	Aug. 166	167r	168	168	Nonmanufacturing . . . . .	Sept. 134	134	134	135
Chemicals . . . . .	Aug. 263	261	252	256	Construction . . . . .	Sept. 119	117	118	132
Durable Goods . . . . .	Aug. 288	291r	287	282	Farm Employment . . . . .	Sept. 43	44	47	50
Lumber and Wood . . . . .	Aug. 167	168	170	168	Unemployment Rate				
Furniture and Fixtures . . . . .	Aug. 183	182r	185	196	(Percent of Work Force)† . . . . .	Sept. 6.6	6.4	6.2	4.9
Stone, Clay and Glass . . . . .	Aug. 165	166	169	167	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Sept. 42.6	42.5r	41.2	41.5
Primary Metals . . . . .	Aug. 199	198r	198	193	<b>FINANCE AND BANKING</b>				
Fabricated Metals . . . . .	Aug. 238	239r	239	236	Member Bank Loans* . . . . .	Sept. 296	295	287	275
Nonelectrical Machinery . . . . .	Aug. 359	379r	362	393	Member Bank Deposits* . . . . .	Sept. 198	194	189	178
Electrical Machinery . . . . .	Aug. 605	615r	611	585	Bank Debits** . . . . .	Sept. 209	222r	210r	203
Transportation Equipment . . . . .	Aug. 381	382r	378	366	<b>MISSISSIPPI</b>				
<b>FINANCE AND BANKING</b>					<b>INCOME</b>				
Loans* . . . . .					Manufacturing Payrolls . . . . .	Sept. 286	280	284	279
All Member Banks . . . . .	Sept. 358	356	352	331	Farm Cash Receipts . . . . .	Aug. 173	239	203	184
Large Banks . . . . .	Sept. 302	298	298	276	<b>EMPLOYMENT</b>				
Deposits* . . . . .					Nonfarm Employment† . . . . .	Sept. 152	151	150	151
All Member Banks . . . . .	Sept. 249	242	237	226	Manufacturing . . . . .	Sept. 159	158r	158	151
Large Banks . . . . .	Sept. 206	200	196	189	Nonmanufacturing . . . . .	Sept. 148	148	147	146
Bank Debits** . . . . .	Sept. 283	287r	278r	270	Construction . . . . .	Sept. 163	162	160	170
<b>ALABAMA</b>					Farm Employment . . . . .	Sept. 46	46	48	44
<b>INCOME</b>					Unemployment Rate				
Manufacturing Payrolls . . . . .	Sept. 231	225r	227	218	(Percent of Work Force)† . . . . .	Sept. 5.0	5.2	4.9	4.3
Farm Cash Receipts . . . . .	Aug. 153	194	171	177	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Sept. 40.2	40.1	40.6	41.1
<b>EMPLOYMENT</b>					<b>FINANCE AND BANKING</b>				
Nonfarm Employment† . . . . .	Sept. 131	133	133	133	Member Bank Loans . . . . .	Sept. 436	433	433	396
Manufacturing . . . . .	Sept. 133	133	134	137	Member Bank Deposits* . . . . .	Sept. 295	300	291	272
Nonmanufacturing . . . . .	Sept. 130	132r	133	132	Bank Debits** . . . . .	Sept. 290	294r	264	301
Construction . . . . .	Sept. 104	121r	123	127	<b>MONTHLY REVIEW</b>				
Farm Employment . . . . .	Sept. 52	57	51	59					
Unemployment Rate									
(Percent of Work Force)† . . . . .	Sept. 5.1	5.0	4.9	3.9					
Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Sept. 40.2	40.4r	40.1	41.0					
<b>FINANCE AND BANKING</b>									
Member Bank Loans . . . . .	Sept. 323	326	321	294					
Member Bank Deposits . . . . .	Sept. 231	230	226	212					
Bank Debits** . . . . .	Sept. 241	249	236	225					



# District Business Conditions



Although a few bright spots have appeared, the Southeastern region continues to be dogged by sluggish economic activity. The unemployment rate edged higher in September; prices of farm products rose but farm profits were squeezed; and residential construction contract awards fell. Consumers continued their restrained spending behavior. Nonfarm employment went up, after declining for four months. Total construction contract awards increased on the strength of nonresidential activity. Banks and savings and loan associations benefited from large deposit inflows.

Despite a slight increase in the unemployment rate, both manufacturing and nonmanufacturing employment increased. However, October's manufacturing employment statistics will probably show a decline because of the GM strike. In September, only construction employment declined significantly, largely because of a labor dispute that idled about 8,000 workers in Birmingham. In August, industrial production for durables and nondurables reversed a three-month advance.

September's agricultural prices moved up, reflecting sharply higher prices for corn, oilseeds, and vegetables. In the livestock category, price increases for milk and eggs overshadowed price declines for hogs and beef cattle. Broiler prices remained below year-earlier levels. High corn prices, resulting from the diseased crop, have meant considerably higher feed costs for the region's farmers.

Total construction contract awards reversed a four-month decline in September. A sharp gain in the nonbuilding category was accounted for by a single large utility contract in Hamilton Coun-

ty, Tennessee. Residential contract volume declined. In contrast with the first half of the year, there were relatively few large multi-family apartment project awards in the third quarter. With savings flows to District savings and loan associations remaining strong, the outlook for mortgage credit availability continued to improve.

According to preliminary information, deposit inflows at member banks in October were only slightly smaller than the large inflows noted during the two previous months. The easier reserve positions of banks continued to be mirrored in reduced borrowing at the discount window. Larger banks paid off a substantial part of their nondeposit liabilities.

In September, the volume of new instalment loans made to consumers by commercial banks declined but still exceeded the amount of repayments. Thus, total consumer credit outstanding increased only fractionally. In October, department store sales remained sluggish, and auto sales were depressed by the GM strike.

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