monthly review

february

federal Reserve Bank of Atlanta • 1971

In this issue:

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Liability Management Banking
Its Growth and Impact

A growing number of banks engage in liability management banking (LMB). This is the practice of buying reserves, chiefly for meeting lending commitments (lines of credit) and reserve requirements, through these means: borrowing Federal funds and Eurodollars, entering into repurchase agreements, and marketing negotiable certificates of deposit (CD's) and bank-related commercial paper.

Under the concept of LMB, an outflow of deposits or an increase in loan demand may signal a bank to raise offering rates on Fed funds loans, CD's, or other liabilities in order to purchase reserves. Conversely, a reduction in loan demand or inflow of deposits may cause a bank to reduce its offering rates on liabilities.

The concept of LMB differs from what is known as asset management banking—the practice of adjusting the volume and cost of bank credit in response to changes in reserves and deposits. Following this concept, a bank reacts to a decline in deposits and reserves by selling securities, raising lending rates, and rationing available loan funds by screening applicants more carefully. Banks practicing asset management banking tailor their loan commitments to anticipated lending capacity, which is determined by flows of demand and savings deposits—over which a bank has little control. Banks practicing LMB, on the other hand, base their loan terms and commitments not only on anticipated movements in demand and savings deposits but also on the anticipated availability and cost of reserves from discretionary sources.[1]

The concept of LMB and asset management banking are not mutually exclusive. Banks are still interested in managing their assets—such as adjusting rates on and volumes of overnight loans to Government security dealers—in order to maximize earnings and maintain liquidity. Also, banks have always been interested in managing deposits and other liabilities to increase lending capacity and profit potential. What *is* new about LMB is (1) the type of liabilities used—namely, money market liabilities in negotiable and nondeposit forms; (2) competing for funds on a price basis; and (3) the

---

[1]*Since money market funds are available at a price—interest rate regulations permitting—the purchase of these funds is at the discretion of banks. Hence, these sources of funds are sometimes labeled "discretionary sources."*

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

purchase of reserves by the sale of liabilities, rather than the sale of liquid assets, such as Treasury bills.

This article describes the historical development and regulation of Federal funds loans, negotiable CD's, Eurodollar borrowings, repurchase agreements, and bank-related commercial paper. The effects of LMB transactions on the balance sheet of the banking system are described in the Appendix, while elsewhere in the article, special attention is given to the impact of LMB on credit availability.[2]

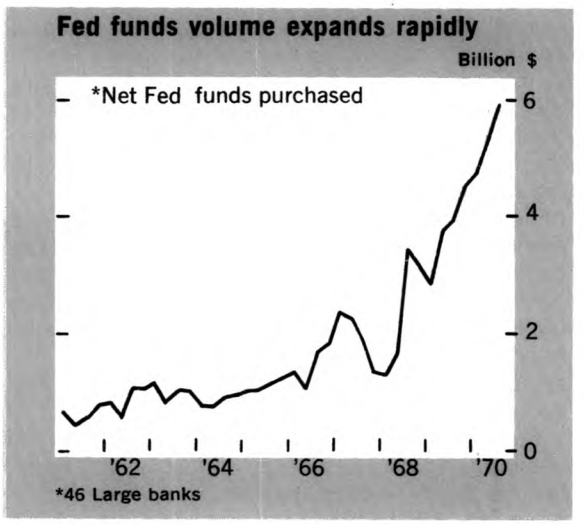
The Funds Market: LMB's Start

History. A description of the evolution of LMB must start with the rejuvenation of the Federal funds market (the Market) in the 1950's.

Federal funds are deposit balances at Federal Reserve Banks. These deposits, which constitute the major portion of member bank reserves, are borrowed and lent in the Market, usually for one day. Borrowing banks use the loan proceeds to meet reserve requirements or to expand loans while lending banks earn interest on the loan. In effect, the Market is a day-to-day conduit for transmitting reserves from reserve-surplus to reserve-deficit banks.[3]

The Market originated in the 1920's when New York bankers realized they could borrow the excess reserves of other banks more cheaply than they could borrow reserves at the discount window. Both lending and borrowing banks stood to profit by such loans.

Federal funds trading in the 1920's was confined to only 30 to 40 major banks. After being dormant in the 1930's and 1940's, the market revived in the 1950's when strong credit demands began to put pressures on bank reserve positions. As the Market mushroomed in size during the 1950's and 1960's, it became more than just



a means of last-minute reserve adjustment. Large banks tapped the Market as a regular source of funds. Many smaller banks—under the inducement of high rates—regularly invested in the Market as an alternative to investment in short-term Government securities and, in some cases, as a substitute for loans. The importance of Fed funds loans as revenue producers for small banks is brought out by Sixth District data, which show that interest on Federal funds loans accounted for over 5 percent of 1969's operating income at member banks with deposits of less than $10 million.

Effects. A bank that has ready access to reserves in the Market does not require large amounts of excess and secondary reserves (mainly Treasury bills) to meet contingencies. In addition, the Market tends to reduce desired levels of excess and secondary reserves by providing a lucrative substitute for these assets. Thus, the Market contributed to the erosion of excess reserves and short-term Government securities in bank assets during the post-World War II period.[4]

When a bank decides to lend excess reserves

---

[2] *LMB also has interest rate effects, but these are not discussed.*

[3] *A few brokers and one large bank, all located in New York City, make a market in Fed funds by matching banks wishing to buy and sell Fed funds. These marketmakers who receive compensation for this service, chiefly from commissions on security transactions of banks, have direct lines with large New York City banks and are in frequent telephone communication with large banks all over the country. These banks, in turn, buy and sell funds for numerous correspondents before clearing in the national market. After being informed by telephone, selling banks order reserves to be shifted to buying banks via Federal Reserve wires.*

[4] *From 1950 to mid-1970, average excess reserves declined from $1 billion to less than $.2 billion, and Government securities maturing within one year declined from about 12 percent to 5 percent of bank credit. Rising interest rates, the increase in average bank size, advances in communication, and the development of other discretionary sources also were partly responsible for the declines in excess and secondary reserves.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

to another bank, these formerly idle reserves are normally used to expand bank credit and deposits at the bank borrowing the reserves. Since the borrower of Federal funds is usually a large bank, this transaction increases the amount of credit available to the customers of large banks. In effect, the Market gives borrowing banks—and indirectly their customers—access to the lending capacity of lenders of Federal funds. Conversely, the Market enables lenders of funds, usually smaller banks, to "participate" in loans made by larger banks. In this process, the Market tends to foster uniform credit conditions throughout the country by allocating lending capacity to geographical areas and classes of banks that bid the most for Federal funds.

From the standpoint of the banking system, any economizing of excess reserves that results from Federal funds trading increases the ratio of deposits and bank credit to reserves. In other words, this economizing increases the efficiency of reserves in supporting deposits and bank credit (for mechanics, see Appendix, Case A).

Many small banks sold Treasury bills in the 1960's and lent the proceeds, via the Market, to larger banks—who, in turn, used the proceeds to expand loans. These transactions did not affect the level of excess reserves or total bank credit, but they did alter the composition of bank credit; more specifically, loans increased and Treasury bills decreased. The increase in loan availability at large banks that results from these transactions does not reduce loan availability to borrowers at smaller banks; rather, it reduces bank demand for Treasury bills. However, when the money market tightened in 1969 and the Fed funds rate was often above 9 percent, some small banks undoubtedly diverted funds from lending to local borrowers to Federal funds loans to large banks. When this occurred, supplies of funds increased to customers of large banks at the expense of customers of smaller banks.

Insofar as Fed funds loans are considered less perfectly safe than excess reserves and Treasury bills, the substitution of Fed funds loans for excess reserves and short-term Treasury securities lowers, if only slightly, the quality of bank liquid assets. On the other hand, the Market actually tends to increase bank liquidity by affording a discretionary source of reserves and enabling current excess and secondary reserves to be used more efficiently.

Regulation. The Market has always been relatively free from regulation. However, as money markets grew progressively tighter in the late 1960's, banks began to make increasing use of borrowing on an overnight basis from individuals, corporations, and state and local governments. The Board of Governors ruled, effective February 12, 1970, that these transactions were a means through which a bank "obtains funds for use in its banking business." Thus, liabilities incurred in such transactions were ruled as deposits, rather than Federal funds and were subject, therefore, to Regulations D (reserve requirements) and Q (interest rate ceilings). Federal funds transactions involving Government security dealers, mutual savings banks, savings and loan associations, and foreign banks remained exempt from regulations.

The CD: A Giant Leap

History. While the Market gave large banks discretionary access to the liquidity of the banking system, the negotiable CD gave these banks discretionary access to the liquidity of the nonbank sector of the money market (corporations, insurance companies, institutions, state and local governments, Federal agencies, etc.). The CD was an innovation of money market banks that were frustrated by the relatively slow growth of corporate demand deposits in the 1950's. Corporate demand deposits, which were the bulk of deposits at these banks, did not grow much in dollar volume because corporate treasurers kept trimming balances to take advantage of rising money market interest rates. Thus, lending capacity of large banks grew slowly at a time when credit demands were gaining momentum and interest rates were trending upward.

A secondary market for CD's—which was organized by a Government security dealer and a New York City bank in February 1961—greatly increased the liquidity of CD's by permitting their sale before maturity. Money market experts at banks in financial centers learned to gauge the quantity of CD money available to them at various interest rates. By altering rates (interest ceilings permitting) a bank could influence the volume of CD's it sold. Money center banks began publishing CD offering rates for various maturities, but rates were often negotiated individually.[5]

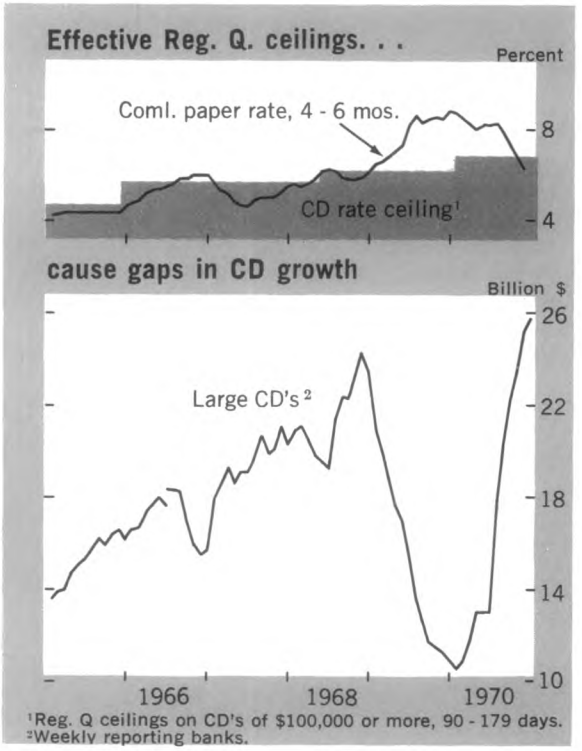
Money market banks attracted sizeable volumes of CD's in the early 1960's, greatly increasing their share of intermediation and permanently breaking their orientation toward demand deposits. Subsequent declines of CD's in 1966 and 1969 were an important impetus to the development of other discretionary sources of funds.

[5] *Some large banks have a CD desk which analyzes CD's due to mature shortly, studies CD availability and rates paid by competitors, makes decisions about offering rates, and makes a secondary market in CD's. A supplier of CD funds will commonly call a few banks to ensure a competitive rate.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Effects. In trying to attract CD's, large banks compete with nonbank sectors of the money market—such as commercial paper dealers, Government security dealers, etc.—rather than with small banks. Therefore, the development of CD's shifted intermediation to large banks from the nonbank sector of the money market rather than from small banks. Since money market banks do give more emphasis to consumer loans and small business financing than the nonbank sector of the money market, a shift of money market funds in favor of banks must have made more credit available to consumers and small businesses.

From the standpoint of the banking system, the purchase of a CD transfers liabilities from demand deposits to time deposits. Since the time deposit reserve requirement is about one-third that of demand deposits, excess reserves are generated by the transfer. If these excess reserves are neither desired by banks nor absorbed by the Federal Reserve, they are the basis for an expansion of bank credit and deposits. (See Appendix, Case B.). The Federal Reserve can neutralize the bank-credit and deposit-increasing effects of a CD issue by absorbing reserves equal to the increase in excess reserves generated by the CD issue.[6]



[1]Reg. Q ceilings on CD's of $100,000 or more, 90 - 179 days.
[2]Weekly reporting banks.

Regulation. During the early 1960's, regulatory actions encouraged a rapid expansion of CD's. During much of this period, Federal Reserve policy was expansionary, and the growth of CD's and bank credit was considered to be consistent with this policy. Reserve requirements applicable to CD's were lowered from 5 percent to 4 percent in November 1962, and CD interest rate ceilings were raised on four occasions during the 1962-1965 period to permit banks to offer competitive rates on CD's.

As CD's continued to expand rapidly in the first half of 1966, in spite of a shift toward monetary restraint, the Federal Reserve moved to limit CD growth. Reserve requirements were raised to 5 percent and then 6 percent (on deposits of over $5 million) in July and September of 1966. But more importantly, as competing money market rates eclipsed CD rate ceilings in mid-1966, ceilings were not raised, and thus, precipitated a sharp runoff of CD's.

Then, when money market rates declined in

RESERVE REQUIREMENTS
(percent of liabilities)

Effective Date	CD's[1]	Eurodollars[2]	Bank-Related Coml. Paper
1962-Oct. 25	4		
1966-Jul. 14	5		
Sept. 8	6		
1969-Oct. 16	6	10	
1970-Oct. 1	5	10	5
1971-Jan. 7	5	20	5

[1]Applicable to time deposits when amounts are over $5 million.

[2]Since Oct. 16, 1969, member banks have been required to maintain reserves against balances above a specified base due from domestic offices to their foreign branches. Regulation D imposes a similar reserve requirement on borrowings above a specified base from foreign banks by domestic offices of a member bank.

[6]*The generation of excess reserves from shifts in deposits between categories with differing reserve requirements has long been recognized as a factor affecting the relationship between reserves and bank deposits. From the standpoint of controlling bank deposits or credit, the generation of excess reserves, resulting from a shift in funds from demand to time deposits, is not essentially different from the excess reserves generated when demand deposits are shifted from one class of member bank to another with lower reserve requirements.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

early 1967, CD volumes once again began to climb. Interest rate ceilings were adjusted upward in April of 1968 when policy was still expansive.

With the return of monetary restraint in December 1968, ceilings were allowed to become effective as in 1966, causing a prolonged runoff in CD's. In January of 1970, ceilings were revised upward in conjunction with an easing of monetary restraint. Ceilings on CD's of 30- to 89-day maturity were suspended in June 1970, in order to allow banks to compete effectively for short-term funds and to allow a reintermediation of funds from the commercial paper market to banks. In a move intended to increase the availability of financing for housing and state and local governments, reserve requirements on time deposits of over $5 million—including CD's—were lowered from 6 percent to 5 percent, effective October 1, 1970.

Eurodollar Borrowing: LMB Comes of Age

History. The 1966 and 1969 CD runoffs tended to reduce the lending capacity of major banks at times when their customers were intensifying loan

Effects of LMB On Total Credit Availability

LMB can increase bank and nonbank credit availability combined if it: (1) induces bankers to expand loans and deposits by drawing down excess reserves; (2) encourages investors to draw down demand deposits in order to purchase CD's or other money market bank liabilities, thereby generating excess reserves that are used by bankers to expand loans and deposits; (3) reduces transaction costs of financial intermediation, thereby increasing funds available to borrowers; or (4) causes the Federal Reserve to supply more reserves to the banking system than it would otherwise.

In the case of (1) and (2), LMB has tended to increase credit availability, but probably not substantially. By providing banks both a lucrative substitute for excess reserves and an added means of adjusting for reserve deficits, the Federal funds market has been partly responsible for an erosion of excess reserves in the past two decades. However, the decline in excess reserves in the postwar period has not been large in absolute terms.

Secondly, vigorous bank competition for funds in the 1960's has encouraged some money market investors to trim their demand deposit balances, in order to purchase CD's, Eurodollar (E$) balances, bank RP's, and bank-related commercial paper. This, in turn, generated excess reserves (see Appendix) used by banks to make loans. However, money market investors are a sophisticated group that would have maintained slim demand deposit balances in the tight money market conditions of the 1960's, even without vigorous bank competition for money market funds. Therefore, the absolute effect of LMB on demand deposit balances and credit availability has probably been minor.

Thirdly, LMB has probably not substantially reduced transaction costs of intermediation. This is because money markets are characterized by a high degree of competition, with both bank and nonbank sectors of the money market being highly efficient intermediaries. Therefore, any shifting of fund flows between bank and nonbank channels that resulted from LMB probably had only a minor effect on transaction costs of intermediation and, therefore, on the supply of credit.

Also LMB's influence on the reserve-supply actions of the Federal Reserve has probably had only a minor effect on credit availability. First, when monetary policy was in some phase of ease—namely the 1961-1965 and the 1967-1968 periods—most of the growth in LMB liabilities was in the form of CD's. These increases in CD's and attendant bank credit growth at large banks were viewed as consistent with a posture of monetary ease and were accommodated, rather than offset in any way, by Federal Reserve policy. This implies that the Federal Reserve supplied reserves to satisfy increases in reserve requirements on CD's. Under this accommodative policy, the increases in CD's caused a net increase in total credit only when CD's were purchased with funds that otherwise would have remained demand deposit balances. When CD's were purchased instead of nonbank liabilities, such as commercial paper (which was usually the case), bank credit rose instead of nonbank credit

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

demands and interest rates were rising. These increased pressures and profit opportunities stimulated the ingenuity of money market bankers to develop alternative sources of bank funds. An example of this was the rapid development of Eurodollar (E$) borrowing during the 1966 CD runoff.

E$'s are dollar deposits in banks outside the U. S. Foreign branches of U. S. banks obtain deposit claims on U. S. banks in their normal customer relationships and by bidding for dollar balances. When these claims are deposited in the branch's account at its head office, the head office increases its "liabilities to foreign branches" and collects reserves from other U. S. banks.

The bulk of E$ borrowing has taken the form of increases in liabilities of domestic banks to their foreign branches, with about 75 percent of the borrowing coming from branches of major New York banks.[7] Banks without foreign branches can borrow E$'s from foreign banks or individuals, either directly or through brokers and dealers. Typically, a E$ borrowing is initiated by a U. S. bank when it instructs its foreign branch to bid for E$ balances. The branch offers competitive rates for E$ balances, inducing a foreigner to transfer his deposits from a U. S. bank to the branch. The foreigner then instructs his U. S. bank to transfer deposits from his account to the branch's account (liabilities to foreign branches) at the branch's head office. In the process, reserves are transferred to the branch's head office from other U. S. banks.

Since E$ deposits are exempt from interest rate ceilings and maturity minimums, head offices used their branches in 1966 and in 1969 to bid for funds that could not be attracted with domestic CD's. E$ borrowing amounts to purchasing reserves, at a bank's discretion, through a foreign branch.

Effects. Thus, by borrowing E$'s, the very banks that were suffering the sharpest declines in CD's in 1966 and in 1969—namely, large New York City banks and major banks in several other financial centers—were able to make up for losses to their lending capacity. Without E$ borrowing, lending capacity of major banks would have been lost to the nonbank sector of the money market, to the detriment of those borrowers who only had access to banks.

To some extent during 1966 and 1969, CD proceeds were deposited in foreign branches of American banks, where they were, in turn, lent to head offices. A shift of funds from a CD to a liability to a foreign branch produced a slight increase in lending capacity at major banks, since the liability to a foreign branch is reserve-free compared with a 5- or 6-percent CD reserve requirement.

The effects of E$ borrowing on the balance sheet of the banking system are similar to those of a CD issue (Appendix, Case C). Excess reserves are generated because funds are transferred from a demand deposit to a "liability to a foreign branch" that is subject to a lower reserve

and the net supply of credit was unaffected.

Secondly, when policy was restrictive—namely, during 1966 and 1969—an attempt was made to reduce credit extended by major banks by allowing Regulation Q interest rate ceilings on CD's to become effective. This deflected CD proceeds to other bank and nonbank liabilities. To the extent that CD proceeds were used to buy reserve-free E$ deposits, bank RP's, and bank-related commercial paper, excess reserves were generated. However, this had only a slight bearing on bank or total credit, since the excess reserves generation was slight and tended to be absorbed by open market operations. When CD proceeds were used to purchase nonbank commercial paper and other nonbank liabilities, there also was little net effect on credit availability, since declines in bank credit were offset by increases in nonbank credit.

However, to the extent that LMB was responsible for increases in bank loan commitments, it may have contributed to money market pressures in 1969 when large banks had to bid very aggressively for funds to meet their lending commitments. Because day-to-day open market operations are influenced by money market conditions, overly intensified money market pressures, resulting from banks scrambling for funds, may have caused the Federal Reserve in its day-to-day operations to make slightly greater reserve injections in 1969 than it would have otherwise. These actions by themselves increased credit availability. Without the access to discretionary sources of funds provided by LMB, banks would have presumably made less ambitious loan commitments, and the money market would have been under less stress in 1969.

In conclusion, LMB has probably increased credit availability, though not substantially, by encouraging declines in excess reserves and demand deposit balances and by contributing to money market pressures in 1969.

[7] *The number of domestic banks with foreign branches has been increasing rapidly, rising from 13 in 1965 to 53 in 1969.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

requirement than demand deposits or is altogether reserve-free. Again, these excess reserves are the base for an expansion of loans and deposits, if they are neither held idle by banks nor absorbed by open market operations.[8]

Regulations. As was the case with CD's, E$ borrowings were subjected to restrictive regulations during a period when monetary policy was restrictive. Concerned that E$ borrowing was enabling large banks to circumvent Regulation Q and to partly offset monetary restraint, the Federal Reserve—in August 1969—subjected such borrowing above a specified base to a 10-percent reserve requirement. This increased the cost of additional loanable funds from this source, since 10 percent of the borrowing proceeds would be required reserves. This, in turn, stimulated bankers to develop new, less-costly sources of funds.

When loan demand ebbed and the cost of money from domestic sources plummeted after mid-1970, banks paid off their E$ liabilities at a rapid rate—thus reducing their reserve-free E$ borrowing bases. In an effort to stem the outflow of E$'s, which was adversely affecting the U. S. balance of payments (official settlements basis), the Federal Reserve raised the marginal E$ reserve requirement from 10 percent to 20 percent, effective January 7, 1971. This action was intended to discourage further reductions in reserve-free E$ bases by increasing the marginal cost of future increases in E$ borrowing.

The Repurchase Agreement: In the Tradition

Development and Effects. Intense loan demand during 1969, as well as regulatory restrictions on CD's and E$ borrowing, spurred money market banks to develop still another instrument—the repurchase agreement (RP)—as a discretionary source of funds.

An RP is the sale of a financial asset with an agreement to buy it back on a specified date and at a prearranged price or yield. RP's are most commonly associated with Government security dealers who arranged about 60 percent of their financing in the 1960's with RP's. The RP has become an important outlet for the overnight or temporarily idle funds of money market investors, since it can be tailored to meet individual maturity needs and is practically free of capital-loss risk. Maturities range from overnight to several months, with the bulk of maturities being very short.

When a bank sells an asset under an RP, it receives payment either (1) by debiting the purchaser's deposit account at the bank, which reduces the bank's required reserves, or (2) by receiving a check drawn on another bank, which gives the selling bank a claim on the reserves of that bank. Thus, the RP is useful in reserve adjustment because it either reduces a bank's required reserves or supplies it with reserves.

During 1969, RP's on both loans and securities enabled large banks to retrieve some of the funds being lost through CD redemptions. The volume of bank loan RP's rose sharply in 1969 and was at a level of $1.3 billion in August. The volume of securities sold under RP rose rapidly throughout 1969 and the first half of 1970, reaching a level of $4 billion in mid-1970 before declining.

The credit and reserve effects of an RP on the balance sheet of the banking system are similar to those of a E$ borrowing (Appendix, Case D). Again, excess reserves are generated because liabilities are transferred from demand deposits to an RP that was reserve-free prior to August 1969.

Regulation. The rapid rise of loan RP's was reversed in August 1969 when the Federal Reserve ruled that these liabilities were deposits and, therefore, subject to Regulations Q and D. This rendered loan RP's noncompetitive and volumes of these RP's have declined steadily. The restrictive regulatory action on loan RP's again occurred during a period of monetary restraint, but the lag between the introduction of RP's and their regulation was shorter than in the case of CD's and E$ borrowings.

RP's on securities, as distinguished from RP's on loans, have remained exempt from Regulations Q and D and, like the Market, have become a regular source of funds for about 60 money market banks.

Commercial Paper: A Typical Response

Development. Despite the ingenuity of money market bankers in exploiting sources of funds

(Continued on page 30)

[8] *During periods of rapid increases in borrowing from the E$ and other nondeposit markets, changes in total bank deposits will be a poor proxy for changes in total bank liabilities or bank credit. For example, in 1969, the total deposit aggregate diverged from a liability series including nondeposit sources of bank funds. Because E$ borrowings are close substitutes for CD's and have bank credit effects similar to CD's, it is appropriate to include them, for analytical purposes, in aggregates of bank liabilities that include CD's. By similar reasoning, bank-related commercial paper and borrowing under repurchase agreements should also be included in these aggregates.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Bank Announcements

JANUARY 2, 1971
FIRST NATIONAL BANK
Lucedale, Mississippi

Opened for business. Officers: Everette W. O'Neal, chairman; Jack D. Triggs, president and chief executive officer; and James R. Persons, vice president and cashier. Capital, $250,000; surplus and other capital funds, $375,000.

JANUARY 4, 1971
BANK OF GONZALES
Gonzales, Louisiana

Began to remit at par.

JANUARY 4, 1971
CITIZENS BANK & TRUST COMPANY
Thibodaux, Louisiana

Began to remit at par.

JANUARY 4, 1971
UNITED BANK OF CHATTANOOGA
Chattanooga, Tennessee

Opened for business as a nonmember. Officers: George M. Stewart, president; Wilbert P. Rundles, vice president; John L. Riddle, cashier; and Madge M. Ransom, assistant cashier. Capital, $1,000,000; surplus and other capital funds, $1,500,000.

JANUARY 5, 1971
BAYSHORE STATE BANK
Bradenton, Florida

Opened for business as a nonmember. Officers: Al Schmacker, president; Thomas C. Howard, executive vice president; and Arthur E. Campbell, vice president and cashier. Capital $480,000; surplus and other capital funds, $324,000.

JANUARY 5, 1971
THE SEBASTIAN RIVER BANK
Sebastian, Florida

Opened for business as a nonmember. Officers: Merrill P. Barber, chairman; L. S. Tiller, vice chairman and executive vice president; John K. Moore, president; Larry T. Hall, vice president and cashier; Warren D. Haffield and A. J. Sanchez, vice presidents; R. Don Deeson and Dorothy Judah, assistant cashiers; and Grady Phillips, auditor. Capital, $300,000; surplus and other capital funds, $105,000.

JANUARY 6, 1971
THE CARRABELLE BANK
Carrabelle, Florida

Opened for business as a nonmember. Officers: W. A. Paxton, president; Joe W. Butler, vice president and cashier; and A. Bivin Simmons, vice president. Capital, $140,000; surplus and other capital funds, $106,950.

JANUARY 6, 1971
THE SUNCOAST CITY BANK OF ST. PETERSBURG
St. Petersburg, Florida

Opened for business as a nonmember. Officers: T. G. Mixson, chairman and president; Jack W. Hayward, vice president; Donald R. Mosher, cashier; and Ralph W. Haskell, Jr., and Julian B. Mathews, assistant vice presidents. Capital, $500,000; surplus and other capital funds, $475,000.

JANUARY 8, 1971
FIRST BANK OF TREASURE ISLAND
Treasure Island, Florida

Opened for business as a nonmember. Officers: J. Lee Ballard, chairman; R. V. Eckert, president; W. Howard Hoover, vice president and cashier; and Roy K. Graesser, executive vice president. Capital: $305,000; surplus and other capital funds, $305,000.

JANUARY 11, 1971
SECURITY NATIONAL BANK
Fort Myers Villas, Florida

Opened for business. Officers: A. W. D. Harris, president; Joe L. Norris, executive vice president; Henry A. Caldwell, vice president and cashier; and Dr. Stuart Bean and Heard M. Edwards, vice presidents. Capital, $500,000 surplus and other capital funds, $250,000.

JANUARY 28, 1971
BARNETT BANK OF DAYTONA BEACH
Daytona Beach, Florida

Opened for business as a nonmember. Officers: W. Ernest Allen, Jr., chairman; Randolph S. Merrill, Jr., president; and J. Graham Harris, vice president and cashier. Capital, $500,000; surplus and other capital funds, $200,000.

JANUARY 29, 1971
THE PEOPLES BANK
Gainesville, Florida

Opened for business as a nonmember. Officers: Jerry Thomas, chairman; John G. Adicks, president; and Daniel S. Goodrum, cashier. Capital, $500,000; surplus and other capital funds, $250,000.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

during 1969, large banks were unable to keep up with intense loan demand. The imposition of marginal reserve requirements on E$ borrowing and the subjection of loan RP's to Regulations Q and D increased pressure on large banks. As we might expect, innovative bankers responded by developing a new instrument to compete freely for money market funds. The instrument was commercial paper (CP) issued by bank holding companies, affiliates, and subsidiaries.

CP is a short-term promise to pay, signed by the borrower—a nonfinancial corporation, finance company, or affiliate of a bank—and sold at a discount, either to a dealer or directly to money market investors. Most of the proceeds from the sale of bank-related CP were used to purchase loans from the related bank.

Effects. If bank affiliates are consolidated into the banking system, the issue of bank-related CP has effects on the balance sheet of the banking system that are similar to a E$ borrowing (Appendix, Case E). When the affiliate sells CP, it receives a check (and claim on reserves) and deposits it in a related bank. When the affiliate purchases loans from the related bank, payment is made by debiting the affiliate's account. From the standpoint of the banking system, funds have been shifted from a deposit to a reserve-free CP category, and thus, generate excess reserves. Bank credit (including loans sold to affiliates) increases unless open market sales compensate for the increase in excess reserves.

CP proved to be a productive source of funds to more than 60 major banks that issued CP, the volume rising from a negligible amount in mid-1969 to nearly $8 billion by July 1970. Many banks that were suffering CD redemptions were able to recoup losses of funds by issuing CP to holders of maturing CD's. In addition to being reserve-free, CP had an advantage over CD's in that it could be issued in maturities of less than 30 days.[9]

Regulation. Restrictive regulatory actions against bank-related CP were proposed by the Board of Governors on October 29, 1969, shortly after banks began to issue CP on a large scale. However, it was not until September 1970 that the definition of deposits was expanded to include bank-related CP if the proceeds of the CP were used to purchase assets from the related bank. CP, classified as deposits, was subjected to reserve requirements equal to those on deposits of the same maturity. Therefore, CP issued with a maturity of less than 30 days was subjected to demand deposit reserve requirements.

This action was inconsistent with the earlier Federal Reserve pattern that brought other liabilities under restrictive regulations only during periods of monetary restraint. The Federal Reserve was pursuing a moderately expansionary policy when CP was subjected to reserve requirements in October of 1970. However, restrictive regulatory action against bank-related CP was first proposed a year earlier. This action was accompanied by the aforementioned reduction in reserve requirements on time deposits with the result that CD's and CP were put on an equal footing regarding reserve requirements. The net effect of these actions was a reduction in required reserves of about $350 million for all member banks. Shortly before reserve requirements took effect, the volume of bank-related CP began to drop like a lead balloon and continued shrinking in the late months of 1970.

Summary

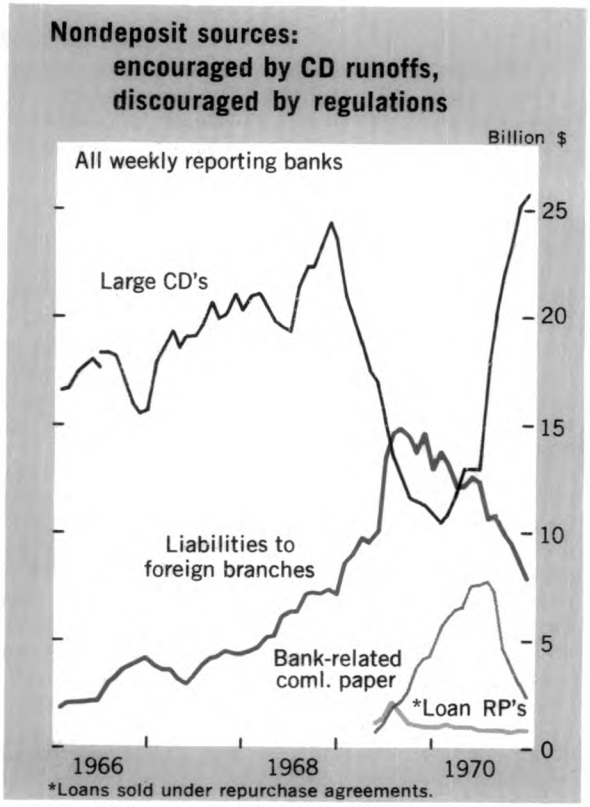
What major conclusions can we draw from the growth and development of LMB? First, LMB has given large commercial banks access to surplus lending capacity at small banks—via the Fed funds Market—and access to temporarily idle funds of corporations, governments, other financial intermediaries, etc.—via CD's, E$ borrowings, RP's, and bank-related CP. Money market banks by adjusting offering rates on Federal funds loans and other LMB liabilities, have succeeded in affecting the volume of their liabilities marketed. This ability has increased their options for meeting loan commitments and for offsetting reserve deficiencies.

Secondly, the aggressive competition for bank funds on the basis of price (a result of the development of LMB) has led to some shifting of funds from nonbank to bank channels of the money market. Insofar as consumers and small businesses rely on large banks for part of their financing, these borrowers must have benefited from the shift in money market funds in favor of banks. With few exceptions, only the largest, well-known borrowers have access to the nonbank money market.

By inducing bankers to draw down excess reserves in order to expand loans and by encouraging investors to draw down demand

[9] *Loan sales to affiliates rose in tandem with the expansion of bank-related commercial paper in 1969 and in 1970. Since loan sales are not included in the narrow definition of bank loans or bank credit, a divergence developed between the narrowly defined series on bank loans or bank credit and those series adjusted for loan sales. Thus, analysts could derive different conclusions about the behavior of bank lending, depending on the series studied.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



deposits in order to purchase CD's and other money market liabilities, LMB produced an increase in total credit availability. This increase, however, was not substantial because LMB-induced declines in excess reserves and in demand deposits were small in absolute terms.

During the 1960's, LMB became increasingly regulated by the Federal Reserve, which acted to influence LMB in a more or less contracyclical fashion. In periods of restraint, the Federal Reserve subjected CD's to higher reserve requirements and, by not lifting interest rate ceilings when market interest rates were rising rapidly, cut off CD's as a source of bank funds. This added to the pressure on money market banks and, consequently, led to or encouraged the development of E$ borrowing, bank-related CP, and RP's. The Federal Reserve later subjected these sources of funds to reserve requirements that put them on a more equal footing with CD's. Conversely, during periods when monetary policy was expansionary, the Federal Reserve encouraged the expansion of CD's and did not interfere with the development of other liabilities.

As the money market eased in 1970, CD's surged and banks cut back their outstanding CP, RP's, and their expensive E$ debts. However, bankers can be expected to keep on hand every one of these sources of funds and to develop new ones in the future. The latter development would occur should money market pressures mount and if banks conclude that Regulation Q will be used to sever them from CD's and existing nondeposit liabilities. On the other hand, if bankers conclude that quick Federal Reserve detection and regulation will limit the profitability of liability innovation, the incentive to innovate will be reduced—but it probably could not be eliminated entirely.

ARNOLD DILL

Reprints of this article are available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

APPENDIX

THE EFFECTS OF LIABILITY MANAGEMENT BANKING ON THE BALANCE SHEET OF THE BANKING SYSTEM

The balance sheet effects of transactions involving Fed funds, CD's, E$'s, RP's, and CP are illustrated here. Demand deposits are assumed to be subject to a reserve requirement of 17½ percent, and negotiable CD's to a requirement of 5 percent (currently in effect at member banks for amounts over $5 million). For simplicity, it is assumed that total reserves are constant and that excess reserves generated by transactions are used for loan- and demand-deposit expansion. Demand deposits will eventually expand by a multiple of $\left(\frac{1}{17\frac{1}{2}}\right.$ or 5.714) of any excess reserve increase. This is, of course, a naive assumption. In fact, a part of any generation of excess reserves would be lost to leakages—such as currency drains—during the loan- and deposit-expansion process.

In Case A, Step 1, excess reserves are transferred between banks as a result of a Fed funds loan. In Step 2, the borrowing bank uses the excess reserves to expand its loans and deposits. In reality, of course, an increase in loan demand may have caused the borrowing bank to step up its Fed funds borrowing. In either case, if the transactions eventually result in a $100 reduction in excess reserves, these reserves would then be in a position to support demand deposits of $571 (5.714 x $100), according to the assumptions made above. As a result of the transaction, the ratio of loans and deposits to reserves increases.

In Case B, Step 1, excess reserves of $12.50 are generated when a $100 CD (5-percent reserve requirement) is purchased with a $100 demand deposit (17½-percent reserve requirement). According to our assumptions, the $12.50 of excess reserves would eventually be used to support an increase of $71.47 (5.714 x 12.50) in demand deposits and loans. The ratio of loans and deposits to reserves increases as a result of the purchase, but loans and deposits each increase by less than the CD purchase. Deposit composition is altered, with demand deposits contracting and CD's increasing. To neutralize the bank-credit and deposit-increasing effects of the CD issue, the Federal Reserve would have to absorb reserves equal to the initial $12.50 increase in excess reserves.

In a E$ borrowing (Case C), dollars are transferred from a demand deposit account at a U. S. bank to a foreign branch's account (due to branch) at its head office. If the "due to branch" is reserve-free, excess reserves of $17.50 are generated and would eventually support $100 (5.714 x $17.50) of loans and demand deposits. Again, the ratio of loans and liabilities to reserves increases. If the "due to branch" is subject to a 10-percent marginal reserve requirement, in effect after August 1969, excess reserves of only $7.50 are generated and loans and deposits would increase by about $43 (5.714 x $7.50).

Because of accounting peculiarities, RP's can have two effects on the balance sheet of the banking system (Case D). When a non-mortgage loan or security is "sold" under an RP, deposits are debited in payment for the RP and an RP liability is incurred (Step 1). If the RP is reserve-free, excess reserves of $17.50 are generated, and the effects are the same as in Cases A or C. If the RP is subject to reserve requirements, which is the case for loan RP's effective August 1969, excess reserve generation would be less, of course. When a mortgage loan is sold under an RP, the loan is transferred to the purchaser (Step 1a). Excess reserves of $17.50 are generated when demand deposits are debited $100 in payment for the loan.

When an affiliate of a bank sells CP (Case E), it receives a check, which it deposits in its related bank. When the affiliate purchases loans from the related bank, payment is made by debiting the affiliate's account. From the standpoint of the banking system, $100 has been shifted from a demand deposit to the reserve-free CP category, generating excess reserves of $17.50. Since October 1, 1970, bank-related CP has been subjected to a 5-percent reserve requirement and the balance sheets effects of an issue are identical to those of a CD issue (Case B).

BALANCE SHEET

Case A: Loaning Excess Reserves in the Fed Funds Market

	Lending Bank			Borrowing Bank		
	Assets ($)		Liabilities ($)	Assets ($)		Liabilities ($)
Step 1	reserves	−100		reserves	+100	Fed funds borrowed +100
	Fed funds lent	+100				
Step 2				loans	+100	demand deposits +100

	Banking System			
	Assets		Liabilities	
Step 1	Fed funds lent	+100	Fed funds borrowed	+100
Steps 2, . . . , n	loans	+571	demand deposits	+571
		671		671

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Case B: Purchasing a CD with Demand Deposits

Banking System

	Assets ($)		Liabilities ($)	
Step 1	(excess reserves	+12.50)	demand deposits	−100.00
			CD's	+100.00
Steps 2, . . . , n	loans	+71.47	demand deposits	+ 71.47
	loans	+71.47	CD's	+100.00
			demand deposits	− 28.53

Case C: A Head Office Borrowing Eurodollars from its Foreign Branch

Banking System

	Assets ($)		Liabilities ($)	
Step 1	(excess reserves	+17.50)	demand deposits	−100
			due to branch	+100
Steps 2, . . . , n	loans	+100	demand deposits	+100
		+100		+100

Case D: Buying an RP with Demand Deposits

Banking System

	Assets ($)		Liabilities ($)	
Step 1	(excess reserves	+17.50)	demand deposits	−100
			RP's	+100
Steps 2, . . . , n	loans	+100	demand deposits	+100
	loans	+100	RP's	+100
Step 1a	mortgages	−100	demand deposits	−100
	(excess reserves	+ 17.50)		
Steps 2a, . . . , n	loans	+100	demand deposits	+100
		0		0

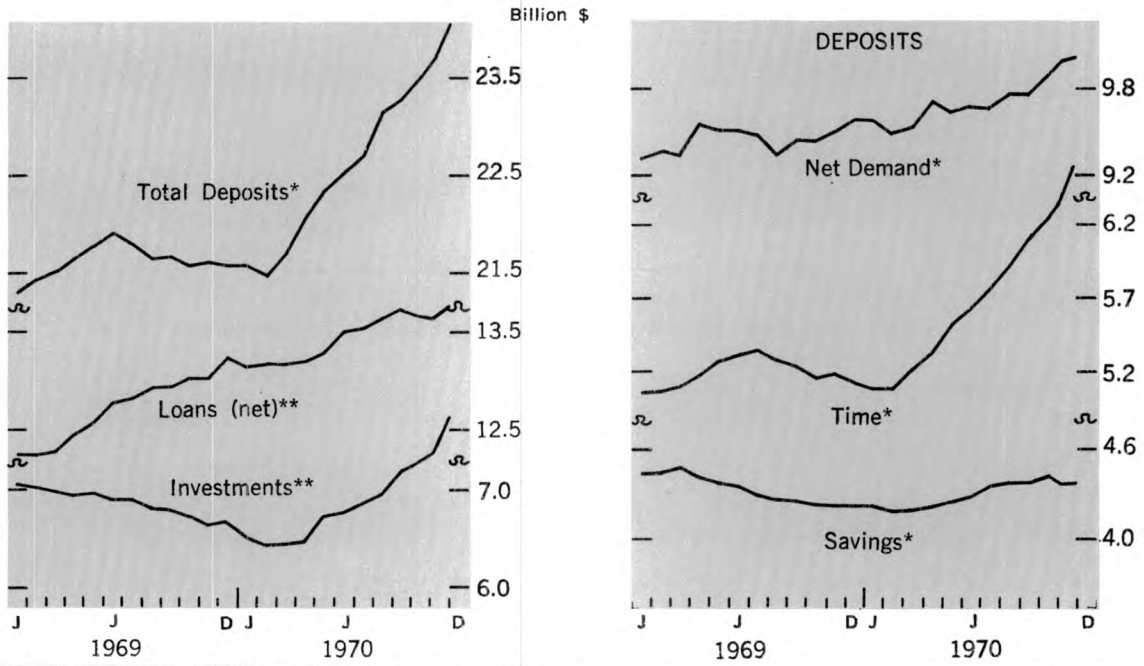
Case E: Purchasing Bank-Related Commercial Paper with Demand Deposits

Banking System
(including bank affiliates)

	Assets ($)		Liabilities ($)	
Step 1	loans at banks	−100	demand deposits	−100
	loans at affiliates	+100	CP	+100
	(excess reserves	+ 17.50)		
Steps 2, . . . , n	loans	+100	demand deposits	+100
	loans	+100	CP	+100

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BANKING STATISTICS



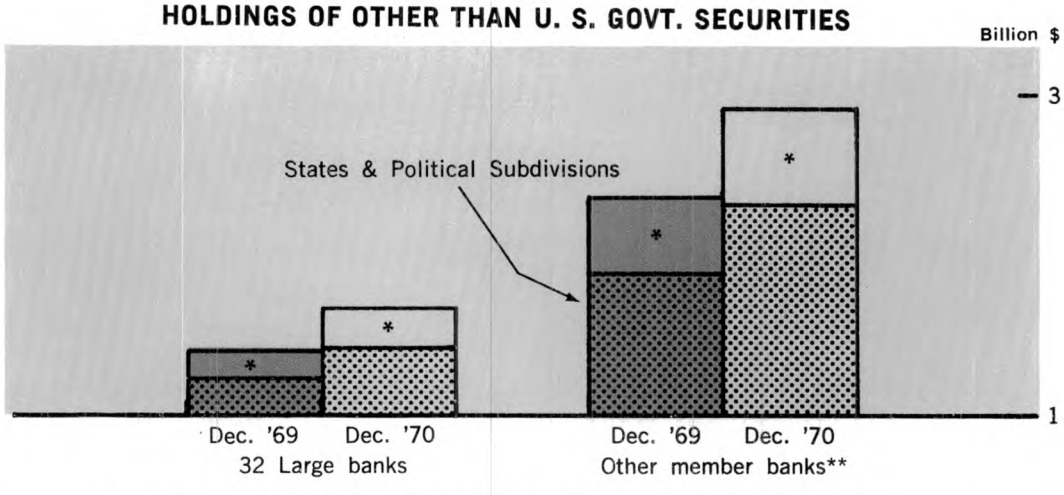
LATEST MONTH PLOTTED: DECEMBER

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

HOLDINGS OF OTHER THAN U. S. GOVT. SECURITIES



*Includes participation certificates in Federal agency loans and bonds of U. S. Government corporations

**Breakdown of Dec. 1970 figures is estimated.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

DISTRICT BANKS: HEAVY BUYERS OF MUNICIPALS

District bankers expanded their holdings of securities by more than $1 billion in 1970. Roughly three-fourths of this expansion went into securities that were other than U. S. Government obligations (usually grouped under the classification of "other securities"). Country banks accounted for over 70 percent of these purchases of "other securities".[1]

Two important factors in the heavy buying of securities were the strength of deposit inflows and the sluggishness of loan demand at both large and small banks. To illustrate: Reserve city banks increased their holdings of total time and savings deposits by $500 million, and country banks gained over $1 billion. The overall slack in loan demand—especially during the second half of 1970—was reflected in the loan-to-deposit ratio of District banks. This ratio dropped from 72.9 percent in July 1970 to 68.2 percent in December 1970.

Clarification of the legislative question regarding the tax-free status of interest earned on municipal securities strongly influenced the placement of investment funds in these issues. An early version of the Tax Reform Act of 1969 indicated that Congress was considering the removal of the Federal tax-exempt status of municipals. However, the final form of the bill that emerged at the end of 1969 did not remove the tax-exempt status and thus, maintained the attractiveness of municipal obligations.

In expanding their municipals during 1970, banks took advantage of a plentiful supply of new municipal issues. Concern over the tax issue discouraged many investors from buying municipals, thereby keeping some government units from issuing securities in 1969. Removal of the tax-exempt status would have forced issuers to raise yields, thus increasing their financing costs. When the tax reform legislation did not change the tax-exempt status these uncertainties disappeared, and units that had postponed borrowing in 1969 because of interest cost began again to offer securities. By the end of 1970's third quarter, new District issues totaled $1.9 billion and exceeded the total amount issued in 1969 by more than $100 million.

Member Bank Holdings of "Other Securities"
(Millions of $)
End of Year

	1969	1970	% chg.
Ala.	546	697	+ 28
Fla.	1,632	2,017	+ 25
Ga.	579	653	+ 13
La.*	440	509	+ 16
Miss.*	172	184	+ 7
Tenn.*	426	534	+ 25
Sixth District	3,795	4,594	+ 21

*Represents only District portion

With the drop in interest rates in the third and fourth quarters of 1970, most state and local governments were again able to offer securities with competitive yields. Prior to this, a combination of record high yields and legal interest rate ceilings had kept some governmental units from issuing competitive long-term securities in 1969 and the early months of 1970.

Many bankers traditionally purchase municipal securities because they feel a responsibility toward their local communities. During the last ten years, country banks increased their holdings of municipals even in periods of peak loan demand.

In early 1971, the average banker's appetite for municipals showed no let-up. However, any future strengthening in loan demand will probably cause bankers to expand their holdings of state and local securities at a slower rate. Banks tend to favor loans over investments because of their greater profitability.

JOSEPH E. ROSSMAN, JR.

[1]*The classification "other securities" includes obligations of state and local governments (municipal securities), participation certificates in Federal agency loans, bonds of U. S. Government corporations, and any corporation stock held. Municipal securities accounted for over 80 percent of District bank holdings of "other securities" at the end of 1970.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Board of Directors

Federal Reserve Bank of Atlanta and Branches

Effective January 1, 1971

ATLANTA

Class C[1]

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

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

****John C. Wilson** (Deputy Chairman)—1973
President, Horne-Wilson, Inc.
Atlanta, Ga.

BIRMINGHAM BRANCH

Appointed by Board of Governors

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

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

+**David Mathews**—1973
President, University of Alabama
University, Ala.

Appointed by Federal Reserve Bank

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

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

+**W. D. Malone, Jr.**—1973
President and Chairman, The First National Bank
Dothan, Ala.

+**C. Logan Taylor**—1973
Chairman, The First State Bank
Oxford, Ala.

JACKSONVILLE BRANCH

Appointed by Board of Governors

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

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

****Henry Cragg**—1973
Vice President
The Coca-Cola Company Foods Division
Orlando, Fla.

Appointed by Federal Reserve Bank

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

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

+**Malcolm C. Brown**—1973
President and Chairman
Florida First National Bank at Brent
Pensacola, Fla.

+**A. Clewis Howell**—1973
President, Marine Bank & Trust Company
Tampa, 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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Class B[2]

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

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

*__Hoskins A. Shadow__—1973
President, Tennessee Valley Nursery, Inc.
Winchester, Tenn.

Class A[3]

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

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

*__A. L. Ellis__—1973
Chairman, First National Bank
Tarpon Springs, Fla.

NASHVILLE BRANCH

Appointed by Board of Governors

Edward J. Boling (Chairman)—1971
President, University of Tennessee
Knoxville, Tenn.

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

+__James W. Long__—1973
Farmer
Springfield, Tenn.

Appointed by Federal Reserve Bank

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

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

+__Dan B. Andrews__—1973
President, First National Bank
Dickson, Tenn.

+__Kenneth L. Roberts__—1973
Executive Vice President
Commerce Union Bank
Nashville, Tenn.

NEW ORLEANS BRANCH

Appointed by Board of Governors

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

D. Ben Kleinpeter (Chairman)—1972
Wholesale Manager
Kleinpeter Farms Dairy, Inc.
Baton Rouge, La.

+__Broadus N. Butler__—1973
President, Dillard University
New Orleans, La.

Appointed by Federal Reserve Bank

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

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

+__Tom A. Flanagan, Jr.__—1973
President, Lakeside National Bank
Lake Charles, La.

+__Lawrence A. Merrigan__—1973
President
The Bank of New Orleans and Trust Company
New Orleans, La.

MEMBER, FEDERAL ADVISORY COUNCIL
Harry Hood Bassett
Chairman, The First National Bank
Miami, Fla.

---

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

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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
SIXTH DISTRICT					
INCOME AND SPENDING					
Manufacturing Payrolls	Dec.	261	261r	260	262
Farm Cash Receipts	Nov.	129	167	142	156
Crops	Nov.	128	124	102	133
Livestock	Nov.	164	175	179	193
Instalment Credit at Banks* (Mil. $)					
New Loans	Dec.	348	323	338	338
Repayments	Dec.	347	327	329	296
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment	Dec.	152	152r	152	152
Manufacturing	Dec.	145	144r	144	149
Nondurable Goods	Dec.	136	136r	135	138
Food	Dec.	120	120r	118	117
Textiles	Dec.	110	110r	112	116
Apparel	Dec.	175	175r	175	176
Paper	Dec.	127	126r	123	131
Printing and Publishing	Dec.	157	156r	156	154
Chemicals	Dec.	141	141r	142	144
Durable Goods	Dec.	159	158r	159	168
Lbr., Wood prods., Furn. & Fix.	Dec.	106	106r	106	108
Stone, Clay, and Glass	Dec.	130	129r	130	133
Primary Metals	Dec.	130	130r	131	135
Fabricated Metals	Dec.	173	174r	174	180
Machinery, Elec. & Nonelec.	Dec.	256	258r	259	265
Transportation Equipment	Dec.	186	179r	179	212
Nonmanufacturing	Dec.	154	154r	155	152
Construction	Dec.	132	131r	130	141
Transp., Comm., & Pub. Utilities	Dec.	135	134r	135	132
Trade	Dec.	147	148r	148	145
Fin., ins., and real est.	Dec.	165	165r	165	161
Services	Dec.	174	174r	178	174
Federal Government	Dec.	126	125r	125	123
State and Local Government	Dec.	189	188r	186	181
Farm Employment	Dec.	56	54	53	57
Unemployment Rate (Percent of Work Force)†	Dec.	5.0	4.8	4.8	3.5
Insured Unemployment (Percent of Cov. Emp.)	Dec.	2.9	3.0	3.1	1.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	40.4	40.3	40.1	40.8
Construction Contracts*	Dec.	291	217	201	292
Residential	Dec.	383	230	233	332
All Other	Dec.	214	207	174	258
Electric Power Production**	Oct.	166	168	165	164
Cotton Consumption**	Nov.	97	101	102	98
Petrol. Prod. in Coastal La. and Miss.**	Dec.	309	311	311	272
Manufacturing Production	Nov.	242	246	245	241
Nondurable Goods	Nov.	209	209	207	205
Food	Nov.	170	169	167	161
Textiles	Nov.	235	235	234	229
Apparel	Nov.	264	265r	260	257
Paper	Nov.	198	196	195	201
Printing and Publishing	Nov.	166	167	165	171
Chemicals	Nov.	270	269	268	265
Durable Goods	Nov.	281	291	290	284
Lumber and Wood	Nov.	170	169	168	167
Furniture and Fixtures	Nov.	185	184	184	190
Stone, Clay and Glass	Nov.	168	169r	169	167
Primary Metals	Nov.	196	202	202	200
Fabricated Metals	Nov.	242	241	241	244
Nonelectrical Machinery	Nov.	342	358r	370	371
Electrical Machinery	Nov.	626	657r	615	571
Transportation Equipment	Nov.	341	360	378	370
FINANCE AND BANKING					
Loans*					
All Member Banks	Dec.	372	362	360	338
Large Banks	Dec.	311	299	300	286
Deposits*					
All Member Banks	Dec.	254	252	247	238
Large Banks	Dec.	210	204	203	199
Bank Debits*/**	Dec.	289	292r	286r	268
ALABAMA					
INCOME					
Manufacturing Payrolls	Dec.	224	228r	232	225
Farm Cash Receipts	Nov.	114	114	133	131
EMPLOYMENT					
Nonfarm Employment†	Dec.	132	132r	132	134
Manufacturing	Dec.	133	133r	133	137
Nonmanufacturing	Dec.	131	131r	131	132
Construction	Dec.	99	100r	100	125
Farm Employment	Dec.	57	53	49	60
Unemployment Rate (Percent of Work Force)†	Dec.	5.6	5.3r	5.1	3.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	39.7	40.2r	40.4	40.8
FINANCE AND BANKING					
Member Bank Loans	Dec.	336	332	327	306
Member Bank Deposits	Dec.	240	233	230	218
Bank Debits**	Dec.	257	258	246	238
FLORIDA					
INCOME					
Manufacturing Payrolls	Dec.	337	347r	349	343
Farm Cash Receipts	Nov.	124	286	198	198
EMPLOYMENT					
Nonfarm Employment†	Dec.	181	180r	181	177
Manufacturing	Dec.	173	174r	173	177
Nonmanufacturing	Dec.	181	181r	182	176
Construction	Dec.	126	128r	130	134
Farm Employment	Dec.	90	90	93	85
Unemployment Rate (Percent of Work Force)†	Dec.	4.2	4.2r	3.9	2.5
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	40.7	41.3r	41.2	41.4
FINANCE AND BANKING					
Member Bank Loans	Dec.	420	408	402	379
Member Bank Deposits	Dec.	294	292	286	278
Bank Debits**	Dec.	308	312	309	284
GEORGIA					
INCOME					
Manufacturing Payrolls	Dec.	258	258r	251	278
Farm Cash Receipts	Nov.	93	129	172	160
EMPLOYMENT					
Nonfarm Employment†	Dec.	152	152r	152	154
Manufacturing	Dec.	136	135r	136	145
Nonmanufacturing	Dec.	160	160r	160	157
Construction	Dec.	148	145r	141	151
Farm Employment	Dec.	50	48	48	54
Unemployment Rate (Percent of Work Force)†	Dec.	4.2	4.0r	4.1	3.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	39.4	39.4r	39.0	40.5
FINANCE AND BANKING					
Member Bank Loans	Dec.	369	357	358	347
Member Bank Deposits	Dec.	252	252	246	242
Bank Debits**	Dec.	339	340	331	307
LOUISIANA					
INCOME					
Manufacturing Payrolls	Dec.	229	229r	222	213
Farm Cash Receipts	Nov.	167	187	116	158
EMPLOYMENT					
Nonfarm Employment†	Dec.	132	132r	132	133
Manufacturing	Dec.	120	119r	119	122
Nonmanufacturing	Dec.	134	134r	135	135
Construction	Dec.	122	118r	116	133
Farm Employment	Dec.	49	49	43	51
Unemployment Rate (Percent of Work Force)†	Dec.	6.6	6.8r	6.6	5.2
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	43.4	43.2r	41.9	40.8
FINANCE AND BANKING					
Member Bank Loans*	Dec.	295	295	295	281
Member Bank Deposits*	Dec.	201	198	195	186
Bank Debits*/**	Dec.	210	221	213	204
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	Dec.	295	297r	291	274
Farm Cash Receipts	Nov.	146	131	78	126
EMPLOYMENT					
Nonfarm Employment†	Dec.	152	152r	152	150
Manufacturing	Dec.	160	160r	159	160
Nonmanufacturing	Dec.	149	149r	149	147
Construction	Dec.	160	159r	160	169
Farm Employment	Dec.	47	46	43	45

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

	Latest Month 1970		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)†	Dec.	4.5	5.1r	5.2	3.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	Dec.	40.4	40.0r	40.0	40.6
FINANCE AND BANKING					
Member Bank Loans*	Dec.	470	460	449	408
Member Bank Deposits*	Dec.	305	301	298	279
Bank Debits*/**	Dec.	296	298r	283r	264
TENNESSEE					
INCOME					
Manufacturing Payrolls	Dec.	254	247r	249	250
Farm Cash Receipts	Nov.	156	122	116	147
EMPLOYMENT					
Nonfarm Employment†	Dec.	149	149r	148	149
Manufacturing	Dec.	153	152r	153	157
Nonmanufacturing	Dec.	147	147r	146	145
Construction	Dec.	163	157r	154	165
Farm Employment	Dec.	55	53	57	58
Unemployment Rate (Percent of Work Force)†	Dec.	N.A.	4.9	5.2	3.6
Avg. Weekly Hours in Mfg (Hrs.)	Dec.	40.0	39.6r	39.7	40.4
FINANCE AND BANKING					
Member Bank Loans*	Dec.	366	347	355	319
Member Bank Deposits*	Dec.	232	230	226	213
Bank Debits*/**	Dec.	283	277	284	273

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

Sources: Manufacturing production 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 Div., McGraw-Hill Information Systems Co.; 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

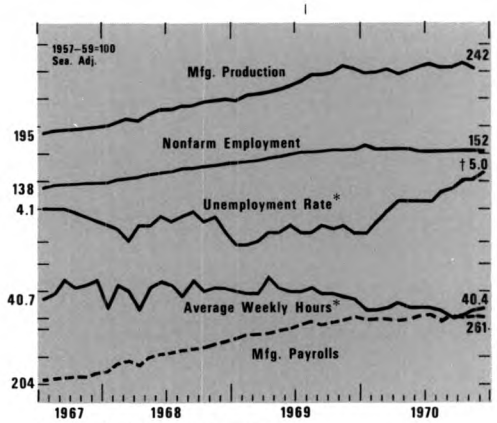
(In Thousands of Dollars)

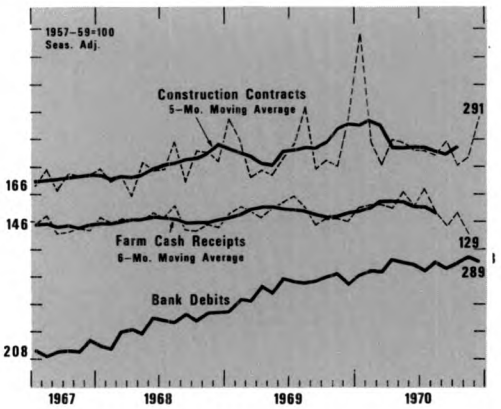
	Dec. 1970	Nov. 1970	Dec. 1969	Percent Change Dec. 1970 From Nov. 1970	Dec. 1969	Year to date 12 mos. 1970 from 1969
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham	2,301,729	2,074,560	2,026,191	+11	+14	+ 8
Gadsden	78,170	70,488	75,572	+11	+ 3	+ 6
Huntsville	247,584	216,401	232,575	+14	+ 6	+ 8
Mobile	685,712	592,923	642,848	+16	+ 7	+13
Montgomery	464,322	407,256	414,754	+14	+12	+ 8
Tuscaloosa	141,018	130,176	130,569	+ 8	+ 8	+ 4
Ft. Lauderdale–Hollywood	1,219,240	1,096,614	1,188,891	+11	+ 3	+ 8
Jacksonville	2,256,347	2,068,112	2,117,522	+ 9	+ 6	+ 6
Miami	4,708,264	3,665,857	4,077,135	+28	+15	+10
Orlando	1,015,083	803,671	865,205	+26	+17	+15
Pensacola	323,472	264,498	289,451	+22	+12	+13
Tallahassee	235,605	221,555	199,410	+ 6	+18	+15
Tampa–St. Pete.	2,513,506	2,177,820	2,431,998	+15	+ 3	+13
W. Palm Beach	778,517	651,673	714,643	+19	+ 9	+10
Albany	139,921	126,903	125,157	+10	+12	+15
Atlanta	8,860,144	7,589,829	8,044,201	+17	+10	+14
Augusta	349,627	292,417	344,707	+20	+ 1	+ 3
Columbus	334,155	279,894	294,697	+19	+13	+ 5
Macon	403,731	338,757	376,178	+19	+ 7	+ 5
Savannah	401,162	358,261	382,427	+12	+ 5	+ 2
Baton Rouge	821,797	797,328	793,071	+ 3	+ 4	+18
Lafayette	183,502	176,105	166,585	+ 4	+10	+ 7
Lake Charles	181,423	166,939	180,997	+ 9	+ 0	− 1
New Orleans	3,263,373	2,668,292	3,015,465	+22	+ 9	+ 5
Biloxi–Gulfport	175,372	172,052r	173,542	+ 2	+ 1	+18
Jackson	1,002,898	864,163	854,612	+16	+17	+ 8
Chattanooga	967,578	876,231	881,706	+10	+10	+11
Knoxville	675,991	607,687	630,543	+11	+ 7	+ 4
Nashville	2,089,748	1,788,069	2,110,042	+17	− 1	+ 4
OTHER CENTERS						
Anniston	83,962	79,134	83,594	+ 6	+ 0	+ 5
Dothan	97,772	91,390	89,153	+ 7	+10	+12
Selma	60,416	53,072	59,501	+14	+ 2	+ 1
Bartow	44,734	36,399	46,067	+23	− 3	− 3
Bradenton	112,171	88,574	107,654	+27	+ 4	+ 4
Brevard County	260,735	206,232	272,604	+26	− 4	− 2
Daytona Beach	117,367	92,231	106,312	+27	+10	+ 3
Ft. Myers–N. Ft. Myers	168,481	129,966	142,282	+30	+18	+ 6
Gainesville	142,031	118,940	121,746	+19	+17	+11
Lakeland	219,125	157,778	167,546	+39	+31	+10
Monroe County	60,358	44,918	44,787	+34	+35	+12
Ocala	106,681	94,965	99,014	+12	+ 8	+18
St. Augustine	27,576	20,959	27,236	+32	+ 1	− 7
St. Petersburg	603,813	513,586	490,593	+17	+22	+15
Sarasota	199,376	165,502	211,410	+20	− 6	+ 6
Tampa	1,324,278	1,148,556	1,361,756	+15	− 3	+13
Winter Haven	99,139	80,427	93,374	+23	+ 6	+12
Athens	165,884	129,334	118,188	+28	+40	+24
Brunswick	66,985	54,951	58,159	+22	+15	+10
Dalton	143,529	124,357	128,685	+15	+12	− 2
Elberton	20,078	17,743	17,216	+13	+17	+10
Gainesville	102,292	89,082	92,984	+15	+10	+15
Griffin	53,693	39,840	45,917	+35	+17	+14
LaGrange	25,358	23,276	25,155	+ 9	+ 1	− 4
Newnan	36,248	32,086	30,066	+13	+21	+24
Rome	109,461	90,370	103,497	+21	+ 6	+ 5
Valdosta	75,693	67,722	67,783	+12	+12	+ 9
Abbeville	17,332	12,358	15,635	+40	+11	+ 1
Alexandria	178,611	157,589	181,058	+13	− 1	− 5
Bunkie	10,471	11,046	9,012	− 5	+16	− 1
Hammond	52,117	46,200	45,087	+13	+16	+ 8
New Iberia	50,461	42,135	47,849	+20	+ 6	+ 5
Plaquemine	17,469	13,452	14,730	+30	+19	− 1
Thibodaux	33,251	26,638	32,103	+25	+ 4	+ 2
Hattiesburg	81,821	76,226	60,282	+ 7	+36	− 1
Laurel	55,208	48,063	52,430	+15	+ 5	+ 9
Meridian	82,676	74,170	84,156	+16	− 2	− 8
Natchez	48,739	41,961	52,767	+16	− 8	− 5
Pascagoula–Moss Point	96,473	86,825	94,010	+12	+ 3	+ 6
Vicksburg	64,457	57,883	49,547	+11	+30	+16
Yazoo City	38,601	30,943	27,487	+25	+40	+ 7
Bristol	113,427	100,158	103,996	+13	+ 9	+11
Johnson City	115,135	93,335	107,797	+23	+ 7	+ 7
Kingsport	200,414	172,588	189,825	+16	+ 6	− 1
SIXTH DISTRICT, Total	48,571,904	41,811,049r	45,075,662	+16	+ 8	+ 8
Alabama‡	5,679,876	5,127,966	5,253,868	+11	+ 8	+ 7
Florida‡	16,410,773	13,632,199	15,153,705	+20	+ 8	+ 9
Georgia‡	13,153,350	11,232,053	11,938,671	+17	+10	+11
Louisiana†*	5,407,682	4,817,095	5,243,153	+12	+ 3	+ 6
Mississippi†*	2,153,311	1,914,937r	1,921,707	+12	+12	+ 7
Tennessee†*	5,766,912	5,086,799	5,564,558	+13	+ 4	+ 6

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

District Business Conditions





*Seas. adj. figure; not an index
Latest plotting: December—except mfg. production and farm receipts, November
†Preliminary figure

As in women's fashions, the Southeastern economy continues to experience its ups and downs. Latest available data indicate that the unemployment rate increased; manufacturing production declined; and nonfarm employment edged up. The dollar volume of residential construction contract awards reached a record high for December. Consumers continued to make moderate use of instalment credit. With deposit inflows strengthening further, commercial banks became more active in the sale of Federal funds. Freezing weather damaged citrus and vegetable crops, but farm prices continued to decline.

In December, nonfarm employment rose only slightly; average weekly factory hours increased; and the unemployment rate climbed to 5.0 percent. The return of auto workers at an Atlanta area plant added to the job totals, but declines in other durable goods industries offset this gain. Construction employment went up; and January figures will probably show further increases because of the settlement of Birmingham's 135-day construction strike. In the fourth quarter, public announcements of new and expanded plants declined from third quarter levels.

Sieges of severe winter weather battered the District in January. Florida vegetables and citrus were damaged by freezing temperatures. Because of the bumper crop, however, the freeze damage probably will not result in general price increases for the citrus industry. The December citrus price level was more than 50 percent below that recorded for December 1969. Broilers and cotton also registered significant price declines that were partially offset by advances for eggs and corn. Cash farm income for the District remains higher than it was a year ago.

In December, the dollar volume of instalment loans made by commercial banks to consumers increased somewhat; the amount of repayments also went up. Consequently, total consumer credit outstanding increased only slightly.

At many District banks outside the larger metropolitan areas, strong deposit inflows and slack loan demand have encouraged increased sales of excess reserves through the Federal funds market. Because of slow lending activity and lower borrowing costs, further downward adjustments in lending rates took place during January. Discount activity has remained weak since late fall. The discount rate of this Bank was lowered from 5½ percent to 5¼ percent, effective January 11 and from 5¼ percent to 5 percent, effective January 19.

The dollar volume of residential construction contract awards recorded a new December high. For 1970 as a whole, the gain in total construction awards was just over 9 percent; this was substantially below the previous year's increase. A surge of new apartment contract awards reflects the recent easing in cost and availability of mortgage money.

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis