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Selective Credit Controls

The Experience and Recent Interest

by Arnold Dill

Ask a typical economist how monetary policy works and chances are he will tell you how the Federal Reserve affects the total supply of money and bank credit, the general level of interest rates, or both. When asked about the allocation of this credit among borrowers, our typical economist will probably say that it is the financial markets that allocate credit to those who are willing and able to pay market interest rates.

However, he will also tell you that the financial markets do not allocate this credit uniformly and that the impact of monetary restraint or ease on different sectors of the economy is not equal. In particular, corporate borrowing in recent years seemed relatively immune to monetary restraint, whereas credit flows into housing and, to a lesser extent, into small businesses and municipalities, were highly susceptible to restraint. It has been argued that credit might be rationed in a more socially desirable way if general controls on the supply of money and bank credit were supplemented with selective controls.

In evaluating this suggestion, we should keep in mind that the U. S. does have considerable experience with selective credit controls, particularly during wartime when extensive controls were used in an effort to restrain the growth of credit to the private sector. This was to conserve financial resources for the war effort and to reduce inflationary pressures. During peacetime when there have been restraints on the use of general monetary policies or when their use might have had undesirable effects, selective credit controls have also been employed. Peacetime controls have tried to limit the expansion of specialized types of credit—namely, stock market credit and foreign lending—without affecting the expansion of other types.

The first part of this article reviews U. S. experience with selective credit controls. Later, the current interest in these controls is discussed in light of past experience.

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The Experience

World War I. This chronicle of U. S. experience with selective controls begins with the Capital Issues Committee (CIC) of the Federal Reserve Board. The CIC, given formal status in April 1918 by the War Finance Corporation Act, consisted of three FRB members and an advisory group of commercial and investment bankers. Subcommittees functioned in each Federal Reserve District.

The purpose of the CIC was to prevent a diversion of capital into industries not essential to the war effort (and away from Liberty Loans and defense-related industries). This was accomplished by screening prospective issues of stocks and bonds in excess of $100,000 and by approving only those in the national interest. The CIC was keenly aware of a flourishing traffic in fraudulent securities; such securities were not essential to the war effort and, therefore, not approved. Although the CIC had no enforcement powers, its disapproval hindered the marketability of an issue.

Excerpts from Letter of Capital Issues Committee to Federal Reserve Banks January 1918

"In order to win the war, it is imperative at this time that goods, credit, and savings be placed at the disposal of the Government in the largest possible measure. . . ."

"The committee will not pass upon the intrinsic merit of securities to be offered for sale; it will only examine into two questions:

(1) Whether the offer is timely with respect to the financial operations to be undertaken by the Government from time to time, and

(2) Whether the objects for which the funds are to be raised by the offer of securities are compatible with the public interest as above described."

By December 31, 1918, when it stopped active operation because of a return to a peacetime economy, the CIC had screened applications involving nearly $4 billion in securities, about $1 billion of which were not approved. What success the CIC had can be attributed to several factors. First, investment bankers saw the CIC as an expedient to a desirable end—namely, the financing of the war effort. Second, the CIC was pervasive, screening **all** applications by corporations (except railroads) or state or local governments wanting to issue securities in excess of $100,000. This means there were few legitimate loopholes for evading the CIC, although some borrowers may have been able to substitute short-term borrowing for security issues. Moreover, the administration of the CIC was aided by two factors: (1) the clearer distinction between essential and nonessential borrowing that exists during wartime and (2) an institutional setting conducive to controls—namely, the investment banking industry, which is more organized and geographically concentrated than other areas of finance, such as consumer and real estate finance.

The CIC had little success in controlling the issuing of fraudulent securities, many of which were exchanged for Liberty Bonds of naive investors. When the CIC terminated activities, Charles S. Hamlin, then Chairman, warned the public about worthless securities and urged Congress to enact laws outlawing these existing abuses. Carter Glass, then Secretary of the Treasury, shared this concern, but meaningful legislation was not forthcoming for many years, largely because public opinion would not permit it. In retrospect, CIC activities probably should have been continued, with emphasis on screening out fraudulent and doubtful security issues.

Stock Market—1929. Another security market problem—the use of credit in purchasing stock—prompted the next attempt to selectively control

Excerpt from Letter of Federal Reserve Board to Federal Reserve Banks February 2, 1929

"The Federal reserve act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

"The board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal reserve act nor is it conducive to the wholesome operation of the banking and credit system of the country."

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credit. The dilemma facing monetary authorities in the late 1920's was how to limit stock market credit without causing undesirable declines in "legitimate" business and agricultural loans as well. Finally, in February 1929, the Federal Reserve Board advised member banks that they were not within their reasonable claims for rediscount facilities when they borrowed for the purpose of making or maintaining speculative loans.

This move was ineffectual, since it applied only to member banks borrowing from the Federal Reserve—not to other member banks, nonmember banks, or other sources of stock market credit. Actually, in the first three quarters of 1929, foreign banking agencies, corporations, and individuals increased their loans for purchasing securities by nearly $3 billion.

The "crash" in October 1929 gave impetus to overdue regulation of security markets. In the years that followed, major sources of stock market credit were subjected to selective control.[1] The effectiveness of selective controls of stock market credit has been enhanced by their broad coverage of sources of stock market credit and sympathy for the regulations among the financial community and the general public.

World War II. The regulation of consumer instalment credit was first authorized by an executive order of the President in August 1941. By limiting instalment credit, it was hoped that consumers would reduce their demands for scarce goods and buy savings bonds instead. This would relieve inflationary pressures and ease the shift of resources from production of consumer durables to production of defense-related goods.

The drafters of the regulation—members of the staff of the Board of Governors, consultants, and representatives of the Office of Price Administration —had to decide the form, scope, and terms of the regulation. Controls took the form of Regulation W of the Board of Governors. Minimum down payments and maximum repayment periods were stipulated for purchases of durable goods in 47 categories ranging from air conditioners to water pumps. Original down payment requirements, which could be in the form of a trade-in, ranged from 10 percent for furniture and pianos to 33 percent for autos; the standard repayment period was 18 months. These terms, originally set near those prevailing at the time, were tightened and coverage was broadened in March and May of 1942.

The regulation was primarily aimed at instalment sales contracts on durable goods. But it also covered single payment loans, which were required to be paid within 90 days, and charge account balances, which were required to be paid by the tenth day of the second month after the purchase.

The implementation of the regulation was formidable, since nearly 200,000 granters of instalment credit had to be registered and informed of their responsibilities. A staff had to be assembled to investigate compliance with the regulation, but actual detection of violation was difficult to verify. Evasion did not require a great deal of ingenuity. For example, down payment requirements could sometimes be evaded by overstating both the price of an article and the value of a trade-in, in effect increasing the amount of the instalment credit extended to purchase the article. Also, durable goods were sometimes sold in component parts to avoid the regulation. Disciplinary action consisted of letters of admonition and "disciplinary conferences" and, eventually, criminal proceedings. However, during the six years the regulation was in effect, there were only six suspensions of licenses, by consent, and only one court case.

There was a high level of compliance with Regulation W during the war largely because of the scarcity of consumer durable goods, the liquid state of consumers that reduced the need for instalment credit, public sympathy with the war effort, and the rationing program of the Office of Price Administration. Compliance, however, began to deteriorate in early 1946, nearly one year before any official relaxation of the regulation.

1947-48. By the time Regulation W was suspended in November 1947, rapid increases in consumer instalment credit and bank loans were fanning inflationary fears. This revived interest in various selective controls, especially since traditional monetary curbs were largely nullified by the Federal Reserve's price support of marketable U. S. Government bonds. In November 1947, the same month that consumer credit controls were suspended, Federal and state bank supervisors sent a letter to commercial banks urging them to: (1) voluntarily curtail all loans for "speculation" in real estate, commodities, or securities; (2) guard against an overextension of consumer credit; and (3) confine credit extension to financing that would help "production" rather than merely

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[1] *Regulations G, T, and U, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended; margin requirements are the difference between the market value (100 percent) and the maximum loan value. The term, "margin stocks," is defined in the corresponding regulation.*

Regulation G and special margin requirements for bonds convertible into stocks were adopted by the Board of Governors effective March 11, 1968.

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Minimum Downpayments and Maximum Maturities Under Regulation Governing Consumer Instalment Credit Sept. 1, 1941-Nov. 1, 1947

Type of credit	Sept. 1, 1941-Mar. 22, 1942		Mar. 23, 1942-May 5, 1942		May 6, 1942-Nov. 30, 1946		Dec. 1, 1946-Nov. 1, 1947	
	Down-payment (percent)	Maximum maturity (months)	Down-payment (percent)	Maximum maturity (months)	Down-payment (percent)	Maximum maturity (months)	Down-payment (percent)	Maximum maturity (months)
1. Air conditioners, room units	20	18	33⅓	15	33⅓	12	33⅓	15
2. Air conditioning systems, home	15	18	33⅓	15	33⅓	12	......	......
3. Aircraft (including gliders)	33⅓	18	33⅓	15	33⅓	12	......	......
4. Attic ventilating fans	15	18	33⅓	15	33⅓	12	......	......
. . .								
45. Water pumps	15	18	20	18	33⅓	12	......	......
46. Wearing apparel and furs	......	......	......	......	33⅓	12	......	......
47. Yard goods	......	......	......	......	33⅓	12	......	......

increase consumer demand. Nine months later, in August 1948, a special session of Congress authorized an imposition of consumer credit controls, and Regulation W was reinstated effective September 1948 .

In retrospect, these controls were ill-timed because contractionary forces were already slowing economic activity when they were imposed. This is especially true of the consumer credit curbs, which went into effect one month prior to a period that the National Bureau of Economic Research later designated as an economic contraction.

In addition, the inflationary fears that prompted the controls may have been exaggerated. Part of the increases in published price indexes after the termination of wartime price controls in 1946 reflected an understatement of real price increases in the 1942-46 period that occurred through the elimination of discounts, poorer service, and the deterioration of quality. Also, the rapid increases in bank loans after 1945 reflected a shift in credit demands from the Government to private industry rather than an inflationary expansion of bank credit.

The growth of business loans slowed shortly after the November 1947 letter of bank supervisory agencies, a fact that can be attributed to a weakening of credit demands and, perhaps, to other restrictive measures as well as the 1947 letter.[2] In addition, some business credit demands may have been shifted from banks to stock and

Excerpts from Statement of Bank Credit Policy Issued by Bank Supervisors, 1947

"Our country is experiencing a boom of dangerous proportions. The volume of bank credit has been greatly inflated in response to the needs for financing the war effort."

". . . a further growth of outstanding bank credit tends to add to the already excessive demand and to make for still higher prices."

"Under existing conditions, however, the banks should curtail all loans either to individuals or businesses for speculation in real estate, commodities, or securities. They should guard against the overextension of consumer credit and should not relax the terms of instalment financing. As far as possible, extension of bank credit under existing conditions should be confined to financing that will help production rather than merely increase consumer demand."

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[2] *Other restrictive measures included a reduction in member bank reserves in the first half of 1948, increases in reserve requirements in February, June, and September 1948, and increases in the discount rate in January and August 1948.*

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bond markets, where new corporate issues jumped from $4.8 billion in 1947 to $6.2 billion in 1948.

At least the 1947 letter had an important advantage over the Federal Reserve Board's 1929 letter regarding stock market credit—it pertained to all commercial banks and not just to member banks borrowing from the Federal Reserve. However, the policy was hindered by the vague distinction between "speculative" and "productive" loans.

In the case of consumer instalment credit, growth slowed about the time that Regulation W was reimposed, but largely because the demand for the regulated items was already weakening. The Regulation was relaxed only six months later—in March 1949—and then terminated in June 1949. This was too short a period for serious enforcement attempts.

Korean War. Interest in selective controls renewed in mid-1950, when the demands of the military buildup reinforced a cyclical upswing in economic activity. Prices increased rapidly. Selective controls were used in an effort to limit demands of consumers and business, especially because the Federal Reserve's support of U. S. Government bond prices limited the use of general monetary controls.

On August 4, 1950, national and state bank supervisors urged lenders to decline to make business and consumer loans that might be used for speculative purposes or that might otherwise interfere with defense requirements. This action evidently had little impact on the allocation or expansion of bank credit.[3] On November 17, 1950, the Federal Reserve Board sent a letter to member banks calling "the attention of every member bank to the loan policy announcement of August 4, 1950. . . ." This letter was backed up by sharp increases in reserve requirements in January and early February 1951 and by the end of Federal Reserve support of Government bond prices (the Treasury-Federal Reserve Accord) in March. This stymied bank credit growth in the first half of 1951.

After being authorized by the Defense Production Act of 1950, consumer instalment credit controls—again in the form of Regulation W—were reissued in September 1950. The administration and especially the enforcement of Regulation W, however, proved a difficult task, and the original Regulation was amended five times during 1951.[4] Nevertheless, Regulation W was evidently partly responsible for slowing consumer instalment credit growth in late 1950 and 1951. Inventories of consumer durables began to build in the second quarter of 1951, a fact the Board of Governors attributed to a heavy volume of consumer buying in the late 1940's and 1950, as well as to the restrictions of Regulation W.

A month after Regulation W was reissued, Federal Reserve Regulation X (pertaining to real estate credit) was issued along with companion regulations by the Federal Housing Administration and the Veterans Administration. These regulations, which stipulated maximum loan values and maturities for credit extended for purchasing new one- or two-family houses, proved ineffective because of the large volume of building underway, a heavy volume of financing commitments outstanding, and the exclusion of credit granted on existing property. Mortgage debt continued to rise rapidly after the regulation. Administrative difficulties associated with the regulation are evidenced by the fact that the regulation was amended no less than ten times during 1951.

Finally, the National Voluntary Credit Restraint Committee (VCRC) was organized by the Federal Reserve in March 1951. Its purpose was to encourage financial institutions to channel their lendable funds into loans that increased "essential production" and away from loans that served only to effect transfers of ownerships, to permit speculative purchases of property or commodities, or to contribute to the production of "nonessential" items.[5] It was hoped this would facilitate the

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[3] *A survey of changes in business loans at selected member banks in leading cities indicated that commodity dealers, manufacturers of food, liquor, and tobacco, sales finance companies, and wholesale and retail trade received the largest increases in bank credit between July 1 and October 31, 1950. These industries were not closely associated with the defense effort.*

[4] *The Federal Reserve Banks had to build and train enforcement staffs, which were difficult to recruit because of uncertainty about the length of the Regulation. Staffs were too small to thoroughly implement the Regulation, which is borne out by the fact that only two-fifths of the 180,000 registered granters of instalment credit were contacted and examined from September 18, 1950 to December 31, 1951. Criminal proceedings were often drawn out and punitive action was not sufficient to deter offenders. Actually, there were only two suspensions of licenses to engage in instalment credit operations during the first 15 months the regulation was in effect. Also, there was a tendency to disassemble some goods into component parts, since items below $50 were exempt from regulations.*

[5] *Sections of the VCRC's "Statement of Principles," are reminiscent of the "real bills doctrine" that said if banks lend only to finance inventories an increase in*

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Excerpts from Board of Governors' Program for Voluntary Credit Restraint, 1951

"It shall be the purpose of financing institutions to extend credit in such a way as to help maintain and increase the strength of the domestic economy through the restraint of inflationary tendencies and at the same time to help finance the defense program and the essential needs of agriculture, industry and commerce."

"Any increase in lending at a more rapid rate than production can be increased exerts an inflationary influence. Under present conditions of very high employment of labor, materials and equipment, the extension of loans to finance increased output will have an initial inflationary effect; but loans which ultimately result in a commensurate increase in production of an essential nature are not inflationary in the long run whatever their temporary effect may be. It is most important, however, that loans for nonessential purposes be curtailed in order to release some of the nation's resources for expansion in more vital areas of production."

"Cooperation with this program of credit restraint makes it increasingly necessary for financing institutions to screen loan applications on the basis of their purpose, in addition to the usual tests of credit worthiness. The criterion for sound lending in a period of inflationary danger boils down to the following: Does it commensurately increase or maintain production, processing and distribution of essential goods and services?"

Items from Digest of Opinions Rendered by Regional Voluntary Restraint Committees on Typical Cases, November 1951

Business of borrower and purpose of loan	*Opinion*
Delicatessen — To build a new store building to serve a newly developed residential area.	Favorable
Retail farm tractor and implement dealer — To erect sales and service building in order to retain franchise.	Unfavorable
Retail ladies' ready-to-wear — To modernize store, add new front and increase floor capacity to maintain competitive position.	Unfavorable
Dentist — To purchase furnishings and equipment necessary to operate a dental office. Borrower recently graduated from dental school.	Favorable
Farmer — To clear 50 additional acres of land for pasturage.	Favorable
Farmer — To purchase farm land for lease as an investment.	Unfavorable

transfer of real resources to the defense effort and that it would reduce inflationary pressures.

The VCRC consisted of four representatives each from the banking, insurance, and investment banking industries, and two each from the mutual savings banks and savings and loan associations. Subcommittees in all Federal Reserve Districts advised lending institutions in determining the appropriateness of specific loans. Three bulletins were issued by the VCRC, setting guidelines for credit extended to finance inventories, plant and equipment expansion, and state and local governments. A digest of decisions on typical cases was also issued to serve as a guide for regional committees.

After the organization of the VCRC in March 1951, the allocation of bank and nonbank credit conformed more closely with the desires of bank regulators—namely, credit expanding to defense-related industries and contracting for others. To some extent, of course, this allocation of credit reflected shifts in credit demands toward defense-related firms, but in the judgment of the Board of Governors, the program was a success.

In appraising the role of VCRC, the Board of Governors concluded that such a program should be undertaken only when several conditions are present; namely, that a rapid inflation exists, that speculative fever is growing, that a rapid expansion of private credit is occurring, that vigorous use of general credit restraints is used, and that selective credit regulations are being used in those specific areas where experience shows such regulations can be effective. The Board concluded:

> *In the absence of these conditions, it is likely to be difficult to arouse widespread interest among*

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production, money and goods would rise simultaneously and there would be no pressure on prices. However, banks could lend larger and larger sums of money to finance a given quantity of goods during inflation.

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the financial community and to enlist the real measure of general acceptance and support without which a voluntary effort will not achieve substantial success. These basic conditions were present in the months following the outbreak of the Korean War and doubtless contributed to the achievements of the Voluntary Credit Restraint Program.[6]

Balance of Payments—1960's. Since the expiration of Korean War controls in 1952, selective controls on domestic credit, other than on stock market loans, have not been used. However, in an effort to reduce large and persistent deficits in the U. S. balance of payments during recent years, selective controls have been imposed on foreign lending and investment by U. S. residents. It was thought that the degree of general monetary and fiscal restraint required to eliminate the deficits would have severely reduced real economic growth and would have increased unemployment substantially. Consequently, selective controls were imposed in an effort to stem directly the dollar drain from certain elements of the balance of payments, while gaining time to make more fundamental adjustments.

The Interest Equalization Tax (July 1963) made investment in foreign securities less attractive by reducing after-tax yields on these securities. The Voluntary Foreign Credit Restraint Program (February 1965) asked banks and other financial institutions to keep their holdings of foreign loans and investments within ceilings, expressed as a percent of outstanding levels. The Voluntary Cooperation Program (March 1965) asked businesses to help reduce capital outflows by returning more foreign earnings to the U. S., repatriating short-term funds held abroad to earn higher interest, holding direct investment expenditures in developed countries to target levels, and making greater use of funds borrowed abroad. The Voluntary Cooperative Program became mandatory after January 1, 1968, and the other programs have been extended and expanded as balance of payments problems have continued.

The 1966 "Crunch." Still another attempt to control selectively the allocation of member bank credit occurred during the very tight money market conditions in 1966. The problem facing monetary authorities was to slow business loan growth at large banks without further curtailing credit flows into mortgages and municipal securities. More intense general monetary restraint, it was feared, would have aggravated stresses in the money and capital markets and would have increased the drain of funds from mortgage-oriented thrift institutions.

In a September 1966 letter, the Board of Governors told member banks that "the national economic interest would be better served by a slower rate of expansion of bank loans to business within the context of moderate overall money and credit growth." The Board specifically disapproved the practice of financing increases in business loans by liquidating other bank assets (municipal securities in particular) and by curtailing mortgage lending. The Board concluded: "Accordingly, this objective (the moderation of business loan growth) will be kept in mind by the Federal Reserve Banks in their extensions of credit to member banks through the discount window."

The problem with that approach, as previously mentioned concerning the Board's 1929 letter regarding loans to purchase stock, was that it applied only to a certain class of banks—member banks borrowing from the Federal Reserve—and not to other bank and nonbank sources of business credit. Business loan growth at major banks actually halted about the time the letter was issued. Even more so than the September letter, however, this seemed to be the result of a weakening in loan demand—which stopped business loan growth at all classes of banks—and another restrictive move—the runoff of CD's at large banks.

The Lessons Learned

At best, most U. S. selective credit controls have been somewhat successful. But experience has also revealed that selective controls have some serious administrative and enforcement difficulties, which, together with a general distaste for direct economic controls, partly explains why they have not been relied on more heavily.

Administrative costs have been one of the most obvious drawbacks. Congress had to authorize the controls and designate an administering authority. Then staffs were needed to write, implement, and enforce the regulations. Those affected by the controls had to be informed of their responsibilities; this sometimes included collecting additional data and submitting reports. Compliance had to be checked and, in the case of compulsory controls, disciplinary actions taken against offenders. In addition, experience indicated a recurring need to amend these regulations in order to plug loopholes and to adjust the effects of the controls. All of these proceedings involved considerable "red tape" and public and private expense.

The administrative task and expense was less when controls were relatively simple, such as in

[6] *Monetary Policy and the Management of the Public Debt, Joint Committee on the Economic Report, Part I, 82nd Congress, 2nd Session, 1952, p. 440.*

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the case of the Capital Issues Committee, where security issues in excess of $100,000 were screened. In general, the more complex the controls and the greater the number of borrowers and lenders in the market subjected to them, the more unwieldy the administration.

Perhaps the greatest shortcoming of selective controls has been the difficulty of enforcing them. Inadequate or ununiform accounting methods and drawn out criminal proceedings interfered with enforcement. Even more important, the substitutability of various sources and types of credit made it easy to evade the controls. For example, businesses that were denied Capital Issue Committee approval for a prospective security issue were, in some cases, able to turn to alternative credit sources, such as banks or life insurance companies. When denied additional loans to purchase stocks, speculators sometimes indirectly financed their portfolios by financing durable goods or mortgaging real estate holdings. In other words, it was not always possible to determine if loan proceeds were actually used for that stated purpose.

Because of the substitutability of various sources of credit, experience has shown that, to be effective, controls must be pervasive—that is, applied to all sources of a given type of credit. For example, in 1929, it did little good for the Federal Reserve Board to attempt to limit stock market loans at member banks without also trying to limit these loans from other sources.

Given the enforcement difficulties of selective controls, public support has usually been necessary in order to achieve satisfactory compliance. Part of the generally high level of compliance with controls during wartime can be attributed to public acceptance of the need for Government interference in economic decisions during a national emergency. Conversely, deterioration in compliance with instalment credit regulations after World War II and near the end of the Korean War was related, in part, to a growing dissatisfaction with controls.

Recent Interest

In the past year, the allocation of credit flows and conditions in financial markets were nearly the reverse of those that led to Congressional authorization of standby credit controls in December 1969. Monetary policy has eased and interest rates have dropped; thrift institutions have been swamped with funds; and credit flows to mortgage markets have expanded sharply. Credit flows to state and local governments have also markedly increased, while flows to businesses have declined slightly. Yet, the very institutional arrangements that helped produce these reversals could again dry up mortgage credit if market interest rates turn upward rapidly once more. Should this happen, interest in using selective controls for influencing the allocation of credit could again mount.

For now, it is only conjecture as to what types of controls might be suggested. However, one selective control proposal that has been receiving considerable attention is the extension of reserve requirements to member bank assets. By setting different reserve requirements against various types of assets, it is argued, effective rates of return on various assets can be altered and, in turn, bank lending behavior and the allocation of credit influenced. If one type of bank loan—for instance, loans to businesses—was considered inflationary, reserve requirements applied to increases in these loans would be set relatively high, whereas requirements for favored assets—perhaps residential mortgages or municipal securities—would be set at a lower rate. In this way, banks would be encouraged to invest in mortgages and municipal securities and discouraged from increasing their business loans.

Remembering that selective controls must be pervasive to be effective, asset reserve requirements, or some equivalent, would also have to be applied to nonmember banks and other sources of business and mortgage credit. Otherwise, if member bank business loans were cut back because of a penalty reserve requirement, it is likely that corporations would turn to nonmember banks and to the nonbank sector of the money and capital markets. In the case of home mortgage credit, banks do not supply a large enough portion of this credit—only about 15 percent in the 1960-70 period—to be able to significantly counter the slowdown in mortgage lending during tight money.

The asset reserve requirement scheme raises some difficult technical and philosophical questions; some of the more obvious include:

(1) Who shall determine the relative asset reserve requirements on whose social priorities?
(2) How can asset reserve requirements, or some equivalent, be extended to nonmember banks and the nonbank sector of the money and capital markets?
(3) When, and by how much, should relative asset reserve requirements be changed to have the desired effect of credit allocation?
(4) How would asset reserve requirements affect the relationship between reserves and the money supply?

Even if satisfactory answers to these questions can be found, there is still a fundamental objection to the use of asset reserve requirements, or any other selective control mechanism, to reduce gyrations in home mortgage financing. Such

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controls fail to get at the source of the problem—which is not bank portfolio behavior—but the inability of mortgage-oriented thrift institutions to compete effectively for savings flows when market interest rates are rising rapidly.[7] The long-run solution to this problem is not selective controls but, rather, improving the functioning of the financial markets that causes the problem in the first place. This may involve making changes in institutional arrangements such as the diversification of existing mortgage-oriented intermediaries, the development of new ones, and changes in the mortgage instrument and in the mediums for investing in mortgages.■

[7] *During periods of tight money, the supply of home mortgage credit was more seriously curtailed than other areas of credit, basically because interest rates on competing instruments have eclipsed rates paid by mortgage-oriented thrift institutions, the chief suppliers of home mortgage credit. Funds were then shifted from these institutions to intermediaries not specializing in home mortgages or into money and capital market instruments.*

Bank Announcements

MARCH 20, 1971
BARNETT BANK OF AUBURNDALE
Auburndale, Florida

Opened for business as a nonmember. Officers: Andrew P. Ireland, chairman; Alton F. Ridley, president; A. G. Hancock, Jr., executive vice president; John P. Derham, Jr., senior vice president; E. R. Komlodi, comptroller; Gilbert K. Grass, vice president and cashier; June D. Williams, assistant vice president; and Richard T. Furry, auditor. Capital, $250,000; surplus and other capital funds, $250,000.

APRIL 1, 1971
LAUDERDALE LAKES NATIONAL BANK
Lauderdale Lakes, Florida

Opened for business. Officers: A. W. Saarinen, president; William E. Nevling, executive vice president; and James Overdorff, cashier. Capital, $500,000; surplus and other capital funds, $250,000.

APRIL 12, 1971
MIDWAY NATIONAL BANK
Miami, Florida

Opened for business as a member. Officers: Charles M. Volk, chairman and chief executive officer; Charles W. Meyers, president; and Frederick B. Brundrett, cashier. Capital, $300,000; surplus and other capital funds, $300,000.

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Tennessee's Economic Horizon Brightens

by John M. Godfrey

During recent months, Tennessee's business picture has brightened considerably. In contrast, when we last reviewed Tennessee's economy, the pace of economic activity had begun to slacken.[1] Also, at that time, we expected future developments in the economy to be largely dependent on economic conditions nationally. As we now know, business activity declined in the nation, and, as expected, these same economic developments carried over into Tennessee's business activity. Now we need to determine what aspects of the Volunteer State's economy have declined and what areas of the general economic horizon have brightened.

Personal Income: Up, but Weak

Although Tennesseans' incomes presently exceed what they received this time last year, much of this growth is illusory and clouds the underlying weaknesses that have developed in the State's economy since 1969. In terms of purchasing power, the average Tennessean's income is virtually the same as it was in late 1969, since rising prices have offset nearly all of the increased dollar gains of the last year and a half.

After rising at a fairly brisk pace throughout the latter part of the 1960's, the growth of personal income slowed during the first year of the new decade. Perhaps a more ominous sign was the slight dip in income during the third quarter of last year. However, there was encouragement from the rebound that occurred during the next three months.

Equally important as an indication of the slower economic activity was the change in the different income components. Wage and salary payrolls grew more slowly, with the greatest weaknesses appearing in the private sector. The manufacturing industries were especially hard hit, but a faster rate of

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[1] *John M. Godfrey, "Tennessee's Pace Begins To Slacken," this Review, October 1969, pp. 127-129.*

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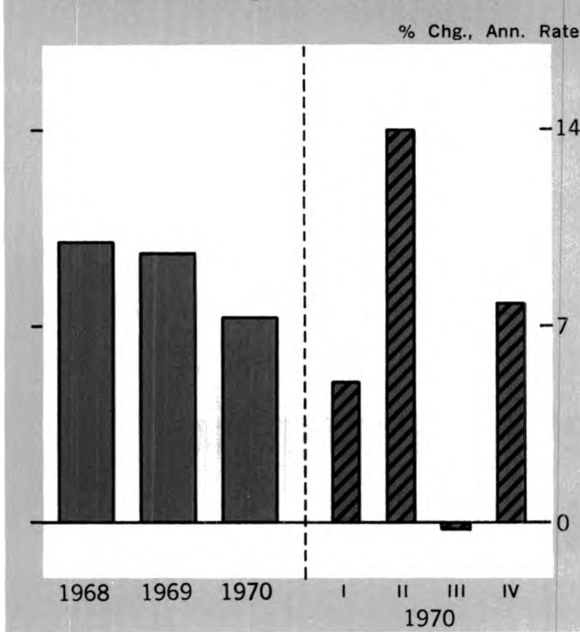

income growth in the Federal, state, and local government sectors partly offset this softness. Transfer payments—primarily a reflection of larger Social Security payments and increased unemployment compensation—also rose sharply and helped stabilize total income. In fact, increased governmental incomes and transfer payments last year accounted for more than half of the increase in personal income.

A favorable combination of production and prices for crops and livestock helped boost total receipts. As a result, farm proprietors were one part of the private sector to obtain a large increase in gross income. But the income gains from this area subsided in the latter part of 1970. In addition, costs have risen and are cutting into this increased income.

Taken as a whole, the fourth quarter recovery in personal income was encouraging. Income derived from the private sector is now advancing, particularly in manufacturing and in the service industries. This should signal that the Tennessee economy has turned the corner and is now well on the road to recovery.

Employment Turns Up

Some additional evidence of the upturn in Tennessee's nonfarm sector is confirmed by developments in nonfarm employment, but some signs of weakness are still lingering. Employment growth slowed during 1969 and the early part of 1970 and then declined until early fall. Since then, total employment advanced more than 4 percent, sparked by a brisk performance throughout many nonmanufacturing lines. Meanwhile, manufacturing employment is now leveling off, but this reflects the settlement of some of last year's large labor-management disputes.

Despite a higher level of employment in Tennessee now than a year ago, employment growth is still less than satisfactory and not sufficient to absorb those who have been laid off and those who have just entered the job market. As a result, unemployment approached 5 percent in the first quarter of 1971, up from an average of 3.5 percent in 1969 and 4.4 percent in 1970. This increase in unemployment will not begin to subside until there is more rapid real growth.

Signs of the slowdown showed up most in the manufacturing sector, where employment cutbacks last year were severe. This sector is still not operating at full capacity. Total manufacturing payrolls, however, are rising, although not nearly as rapidly as in previous years. Higher pay for the employed tended to counter the loss in income, which resulted from reduced employment and the elimination of plant overtime and premium pay.

During periods of slack economic activity, industries that manufacture durable goods products normally exhibit the sharpest declines in output and employment. Last year was no exception. Reduced employment in the lumber industry is partly explained by the drop in residential construction. Agricultural equipment sales also slowed, followed by reduced operations. Nondurable goods manufacturers fared relatively better than durable goods producers.

There are, however, some soft spots that will not recover immediately, even when the economy accelerates: Reductions in defense contracts are continuing to affect those business firms tied to the ordnance sector, where employment cutbacks have been relatively large. Also, chemical manufacturers, the aircraft industry, and defense- and aerospace-related research activities have been forced to retrench in the wake of declining defense expenditures. The Tri-Cities area has experienced relatively large employment losses in the chemical industry—associated with declining defense orders—but has managed to counter these losses by expanding production of electrical equipment. Just recently, a Nashville manufacturer of aircraft wings cut back employment in order to stretch out production.

The apparel industry—the State's largest manufacturing employer—experienced only a minor slowdown, contrasting with the less enviable performance of apparel makers in other states. But declines in orders for textile products, including sharply reduced defense orders, forced some plants to contract their operations. Other

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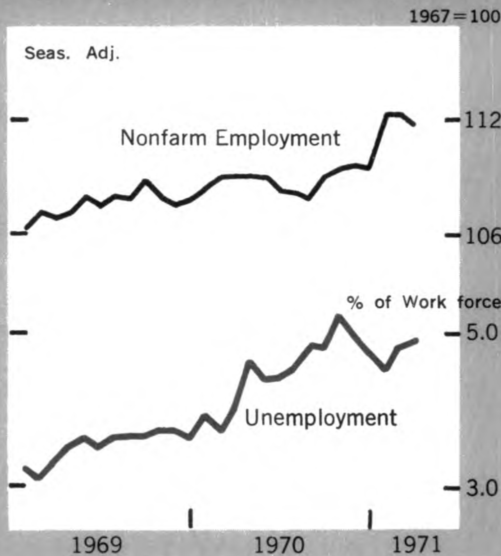

employment losses centered around paper producers and were the result of reduced orders and a cost-price squeeze. These pressures led a few large producers to close some marginal operations in an attempt to improve their overall profit picture.

Other areas have performed better than manufacturing. As government activities expand to meet increased public demands, more and more jobs are opening up to the point where nearly one out of every seven nonfarm jobs is with either the state or local government. Gains in these types of jobs were nearly 30 percent greater in 1970 than in 1969. More than half of the state and municipal employment is centered around providing educational related services, an area that is rapidly expanding. Enrollment at the State's universities, colleges, vocational schools, and technical institutes is continuing to rise, and larger budget appropriations have followed in order to meet these educational needs. Other growth in Tennessee's governmental employment has occurred in the highway department, in providing health and sanitation services, and police and fire protection.

Even though sales in 1970 failed to advance with their previous vigor, employment in the trade industries rose. Several new distribution centers opened last year, helping to hold employment in wholesale trade almost constant. New jobs in retail trade did open up with the completion of convenient, suburban shopping centers.

Until last year, when employment growth in the various service-type firms dropped below one percent, this rapidly growing part of the Tennessee economy vied with the state and municipal governments in providing new employment opportunities. The financial and insurance lines posted satisfactory gains in 1970, but the number of new jobs in other service lines dropped sharply. Less demand for lodging and miscellaneous business services was partly responsible for this overall weakness.

Construction Recovers

By all measures, the construction industry in Tennessee staged a marked recovery throughout 1970, and 1971 will probably be an even better year. The total value of construction contracts advanced nearly 5 percent in 1970, but construction activity continued to be buoyed mainly by the letting of large TVA electric power generating plant contracts, new military construction awards, and road, water, and sewer projects. This renewed surge of building activity, however, only brought most areas of construction up to their pre-1970 performance. In spite of work stoppages in some areas, total construction employment climbed nearly 8 percent, but this was not enough to bring the level of employment back up to earlier levels.

During 1970, residential and nonresidential building contract activity combined rose nearly 25 percent in dollar volume, reversing the weak 1969 performance. A large part of this advance came from higher building costs, rather than from

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any sharp recovery in physical output. To illustrate: While the **value** of residential construction awards last year was slightly higher than in 1967, the **number** of dwellings was nearly 8 percent below the 1967 level.

Beginning in 1970 and continuing on into the first quarter of 1971, deposit inflows at thrift institutions hit record highs. This development should spur further advances in homebuilding, since mortgage financing has become more readily available and financing terms have eased. Even though the funds for interim construction financing also eased last year, permanent mortgage credit generally did not become available soon enough to have its full impact immediately. More recently, there are growing signs that lenders are not only increasingly willing to extend mortgage credit but have increased their mortgage commitments, all to the good of future construction activity and the economy.

Farm Receipts Advance

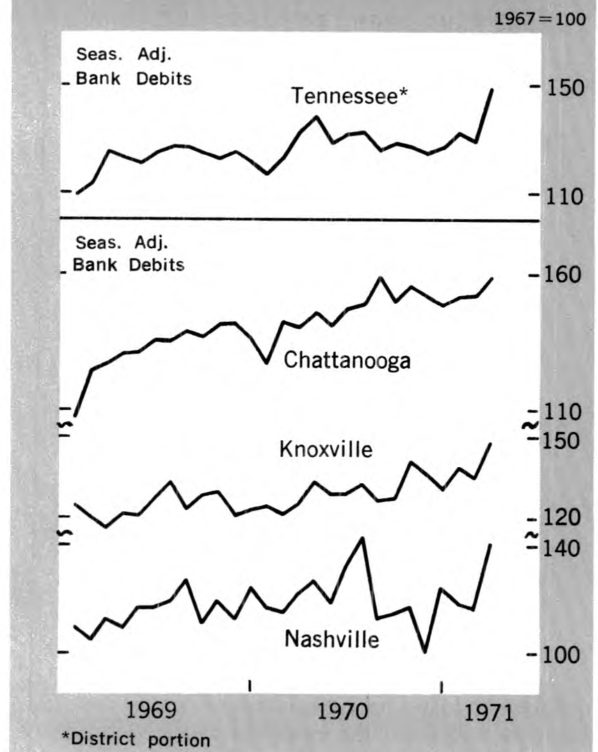
Tennessee farmers had higher gross incomes last year. Net income also advanced but was reduced by rising costs, particularly for taxes, interest payments, and wages. Cash receipts for livestock and related products went up nearly 6 percent. Higher prices for Tennessee's major crops—tobacco, soybeans, hay, cotton, and corn—more than made up for the reduced production of these crops.

The number of Tennessee farms declined by nearly 3,000 in 1970, but not all of this land has been lost to production. Most of the land is being consolidated into larger units, giving rise to more efficient and productive operations. In addition, fewer family workers and more hired help are now being employed.

Consumers Reduce Spending

The slowdown in income growth and consumer apprehensions over increased unemployment and rising prices have caused a slower rate of spending. As measured by sales tax receipts, spending on the part of consumers in the state trailed the advances of other years. Spending in Chattanooga and the Tri-Cities (measured by total check payments) remained the strongest of all major trading areas in the state. There is some encouragement that the small spending advance occurring during the last few months signals a general revival in spending.

Last year when spending was sluggish and unemployment an unpleasant possibility, households placed a large portion of their savings in banks and savings and loan associations. Consumers in Tennesseee, like those in other parts of the country, reduced their use of instalment debt and tended to repay their outstanding loans. This trend was particularly evident in bank loans for automobiles and home repairs and modernization.



Strong Deposit Inflows Spur Bank Investment Purchases

The weakened economic picture and hesitant consumer spending also influenced the operations of Tennessee's banks. While total deposits advanced nearly 9 percent last year at the member banks in the Sixth District portion of Tennessee, interest-bearing deposits surged nearly 20 percent—a gain of more than a quarter of a billion dollars. And this trend is continuing, since consumers and businesses added over one-half again as much to these bank accounts during the first three months of 1971. The banks, in turn, have found loan demand generally weak. Exceptions, however, included increased lending for conventional mortgages and some business loans, particularly at banks outside of the larger cities.

The greatest addition to bank credit during the past year came from the nearly 20-percent gain in securities held by banks. Rebuilding liquidity was a major concern last year. This is

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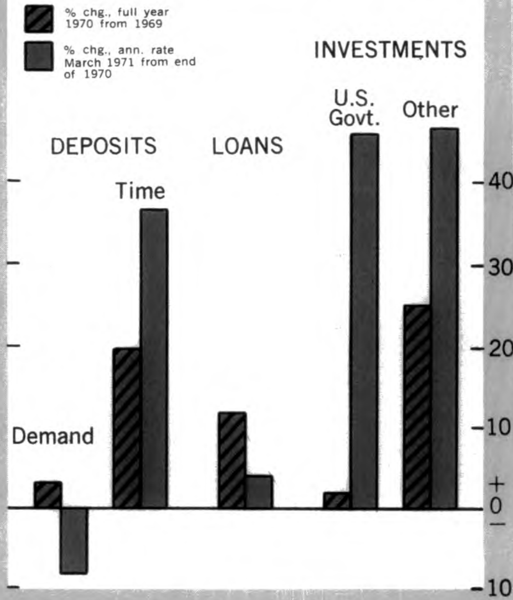

evident from the increase in U. S. Government securities in Tennessee bank portfolios during 1970, a sharp contrast to the decline in 1969.

But generally overlooked is the important role local banks play in financing securities sold by the state and local government bodies. Last year, the state of Tennessee, city and county governments, and housing and other special authorities sold over $500 million in new obligations —50 percent more than in the year before. The predominant uses of the bond proceeds were for schools, housing, and urban renewal. Financing of these projects partly explains the large volume of construction activity throughout the State. The Tennessee member banks in this District alone added over $60 million in municipal obligations to their investment portfolios, and, undoubtedly, a large portion of this total consisted of "home-state" securities. Moreover, if savings continue at a high rate and if loan demand remains relatively slack, banks can be counted on to aid in financing many local public projects. These undertakings provide both an attractive tax-exempt investment outlet for bank funds and a boost for the Tennessee economy. ■

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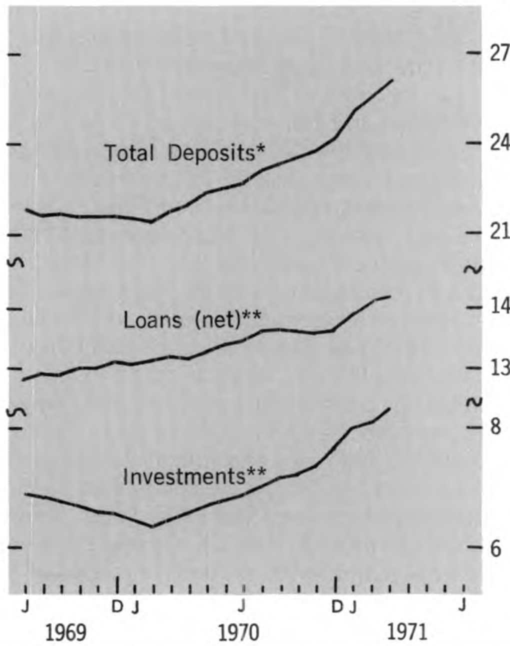
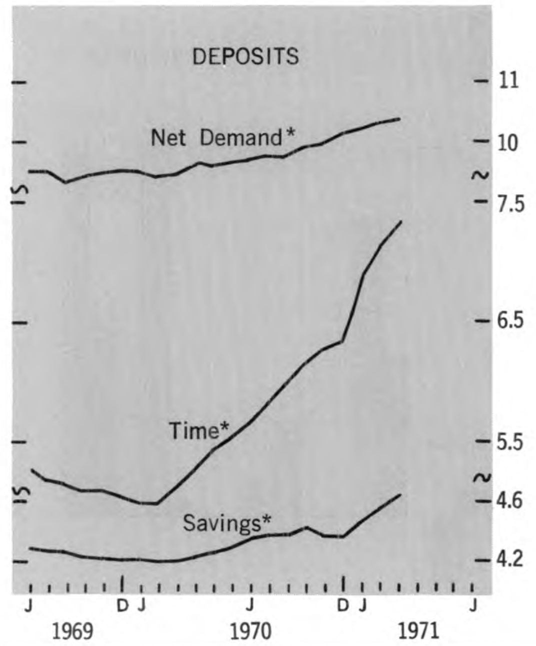
BANKING STATISTICS

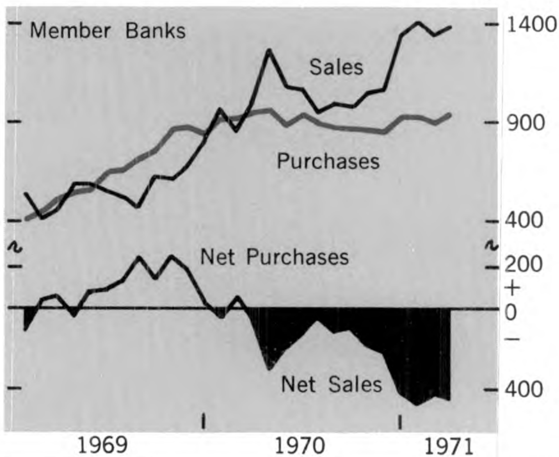


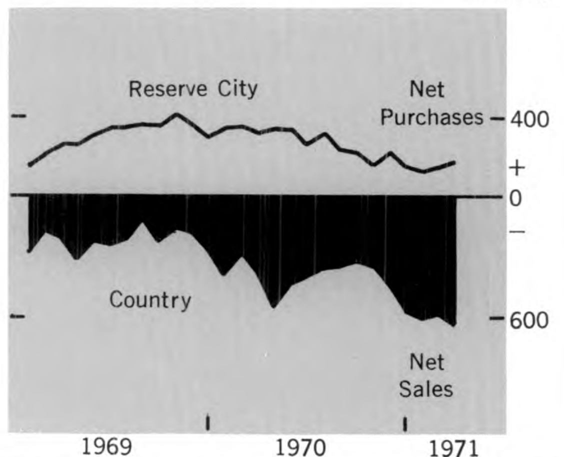


LATEST MONTH PLOTTED: MARCH
Note: All figures are seasonally adjusted and cover all Sixth District member banks.
*Daily average figures **Figures are for the last Wednesday of each month.

SIXTH DISTRICT BANKING NOTES

Federal Funds Transactions





Note: Net purchases (purchases less sales); net sales (sales less purchases)

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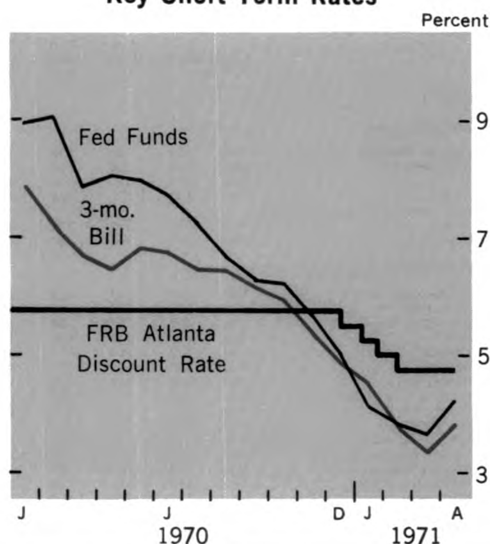
DISTRICT BANKS: HEAVY SELLERS OF FEDERAL FUNDS

Figures for the opening months of 1971 indicate that District banks have returned to their normal pattern of selling more Federal funds than they purchase.[1] Sales during this period exceeded purchases by about $450 million per day. During 1969 and early 1970, banks strayed from this usual pattern because of a need to replace reserves lost by deposit outflows and a strong demand for loans. Purchases (borrowings) exceeded sales by $250 million in late 1969, but by the spring of 1970 banks again were selling more than they purchased.

Customarily, reserve city and very large country banks in the District are net buyers of Federal funds, whereas most country banks are net sellers. But in 1970, both groups of banks increased their sales of these overnight reserves, particularly during the last quarter of the year. At that time, Sixth District banks increased their gross sales of Federal funds per day by more than $300 million, bringing total daily sales to $1.3 billion. This growth was equally shared by reserve city and country banks. No further increases in Federal funds sales occurred during the early months of 1971: Sales stabilized at the high level achieved in late 1970. Borrowings in the Federal funds market have also remained stable, averaging about $900 million per day.

Several factors account for these developments. District banks have experienced strong deposit gains during the last six months, with nearly all the gains coming in the form of time and savings deposits. This continuing increase in resources, combined with a weakness in regional loan demand, has encouraged small and large banks alike to sell their excess reserves in the Federal funds market, although the Federal funds rate, until recently, has declined sharply during the past nine months. As pressures on bank reserve positions eased during this period, the Federal funds rate dropped from a high of around 9 percent to the current level of about $4^1/_4$ percent. Other money market rates followed a similar pattern.



Even when the Federal funds rate dropped below yields on comparable short-term investments, many bankers still looked upon Federal funds as a more attractive short-term investment than Treasury bills and other short-term U. S. Government securities. This preference was directly related to the fact that Fed funds are easy to trade, have very little market risk, and are more readily available, because they are returned to the lending bank within a very short time period.

Unless reserve pressures tighten substantially, District banks will probably maintain their overall position as net suppliers of Federal funds. However, if loan demand increases, banks can be expected to become less willing to put their resources into this money market instrument.

JOSEPH E. ROSSMAN, JR.

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[1] *Federal funds transactions involve the purchase (borrowing) or sale (lending) of reserve balances of member banks at Federal Reserve Banks, usually for one business day and at a specified rate of interest.*

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Sixth District Statistics

Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

		Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Manufacturing Payrolls	Mar.	134	133	132	129
Farm Cash Receipts	Feb.	130	128	106	122
Crops	Feb.	143	136	112	139
Livestock	Feb.	130	133	141	129
Instalment Credit at Banks* (Mil. $)					
New Loans	Mar.	377	365	321	328
Repayments	Mar.	347	344	324	316
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment†	Mar.	112	112	112	110
Manufacturing	Mar.	106	106	106	108
Nondurable Goods	Mar.	107	107	108	108
Food	Mar.	106	106r	105	104
Textiles	Mar.	103	104	104	108
Apparel	Mar.	102	102	103	102
Paper	Mar.	109	110	110	112
Printing and Publishing	Mar.	113	114	115	113
Chemicals	Mar.	105	105	106	108
Durable Goods	Mar.	104	105	105	108
Lbr., Wood prods., Furn. & Fix.	Mar.	99	99r	101	101
Stone, Clay, and Glass	Mar.	106	107r	107	107
Primary Metals	Mar.	104	105	106	105
Fabricated Metals	Mar.	110	113	112	115
Machinery, Elec. & Nonelec.	Mar.	159	159r	160	168
Transportation Equipment	Mar.	105	106	104	109
Nonmanufacturing	Mar.	114	114	114	111
Construction	Mar.	113	113	114	111
Transp., Comm., & Pub. Utilities	Mar.	111	113	113	110
Trade	Mar.	113	114	113	112
Fin., ins., and real est.	Mar.	119	118r	118	115
Services	Mar.	116	116	116	114
Federal Government	Mar.	103	102r	99	102
State and Local Government	Mar.	120	119	119	114
Farm Employment	Mar.	92	92	93	89
Unemployment Rate (Percent of Work Force)†	Mar.	5.0	4.8	4.6	4.0
Insured Unemployment (Percent of Cov. Emp.)	Mar.	2.9	2.9	2.9	2.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Mar.	40.5	40.0	40.7	40.4
Construction Contracts*	Mar.	217	131	126	134
Residential	Mar.	158	143	123	134
All Other	Mar.	276	120	130	133
Electric Power Production**	Feb.	167	162	165	165
Cotton Consumption**	Feb.	93	93	90	91
Petrol. Prod. in Coastal La. and Miss.**	Mar.	296	311	303	273
Manufacturing Production	Feb.	247	246r	245	240
Nondurable Goods	Feb.	212	212r	210	205
Food	Feb.	173	170r	169	161
Textiles	Feb.	236	239	236	228
Apparel	Feb.	263	264r	265	252
Paper	Feb.	199	200	199	203
Printing and Publishing	Feb.	165	166r	165	170
Chemicals	Feb.	260	263r	267	258
Durable Goods	Feb.	288	286	286	281
Lumber and Wood	Feb.	170	167r	168	172
Furniture and Fixtures	Feb.	176	180	182	187
Stone, Clay and Glass	Feb.	171	171r	172	176
Primary Metals	Feb.	207	204	198	201
Fabricated Metals	Feb.	247	246	246	246
Nonelectrical Machinery	Feb.	349	363r	371	353
Electrical Machinery	Feb.	610	615r	627	570
Transportation Equipment	Feb.	369	354	346	353
FINANCE AND BANKING					
Loans*					
All Member Banks	Mar.	382	373	369	345
Large Banks	Mar.	320	308	305	287
Deposits*					
All Member Banks	Mar.	273	264	258	228
Large Banks	Mar.	223	215	212	187
Bank Debits*/**	Mar.	318	303	301	279
ALABAMA					
INCOME					
Manufacturing Payrolls	Mar.	135	132r	132	129
Farm Cash Receipts	Feb.	155	162	121	151
EMPLOYMENT					
Nonfarm Employment†	Mar.	106	107	107	106
Manufacturing	Mar.	107	108	108	108
Nonmanufacturing	Mar.	106	106	106	104
Construction	Mar.	104	106	101	101
Farm Employment	Mar.	84	86	88	85

		Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)†	Mar.	5.2	4.9	4.9	4.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Mar.	40.3	39.9	40.6	40.5
FINANCE AND BANKING					
Member Bank Loans	Mar.	342	342	333	311
Member Bank Deposits	Mar.	252	247	244	216
Bank Debits**	Mar.	266	257	264	253
FLORIDA					
INCOME					
Manufacturing Payrolls	Mar.	139	141	140	136
Farm Cash Receipts	Feb.	116	101	117	130
EMPLOYMENT					
Nonfarm Employment†	Mar.	119	119	119	117
Manufacturing	Mar.	108	109	109	112
Nonmanufacturing	Mar.	121	121	121	118
Construction	Mar.	135	134	132	141
Farm Employment	Mar.	90	89	97	90
Unemployment Rate (Percent of Work Force)†	Mar.	4.6	4.4	4.0	3.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	Mar.	41.0	40.8r	41.0	41.2
FINANCE AND BANKING					
Member Bank Loans	Mar.	436	423	421	391
Member Bank Deposits	Mar.	318	309	300	260
Bank Debits**	Mar.	332	326	318	279
GEORGIA					
INCOME					
Manufacturing Payrolls	Mar.	133	132	127	130
Farm Cash Receipts	Feb.	133	132	117	120
EMPLOYMENT					
Nonfarm Employment†	Mar.	111	112	112	111
Manufacturing	Mar.	103	104	103	108
Nonmanufacturing	Mar.	115	115	116	113
Construction	Mar.	105	105	110	107
Farm Employment	Mar.	91	94	87	91
Unemployment Rate (Percent of Work Force)†	Mar.	4.0	4.0	4.0	3.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Mar.	40.4	39.8	40.3	40.3
FINANCE AND BANKING					
Member Bank Loans	Mar.	371	363	362	348
Member Bank Deposits	Mar.	270	257	257	233
Bank Debits**	Mar.	374	365	349	340
LOUISIANA					
INCOME					
Manufacturing Payrolls	Mar.	125	127r	127	119
Farm Cash Receipts	Feb.	124	118	99	121
EMPLOYMENT					
Nonfarm Employment†	Mar.	105	106	106	104
Manufacturing	Mar.	101	101	102	103
Nonmanufacturing	Mar.	106	107	107	105
Construction	Mar.	91	92	93	86
Farm Employment	Mar.	82	83	85	79
Unemployment Rate (Percent of Work Force)†	Mar.	6.5	6.2r	6.4	5.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Mar.	41.6	42.8r	42.4	40.6
FINANCE AND BANKING					
Member Bank Loans*	Mar.	317	306	303	280
Member Bank Deposits*	Mar.	218	209	203	179
Bank Debits*/**	Mar.	234	216	233	195
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	Mar.	139	134	135	125
Farm Cash Receipts	Feb.	170	192	103	138
EMPLOYMENT					
Nonfarm Employment†	Mar.	110	110	110	108
Manufacturing	Mar.	110	109	110	109
Nonmanufacturing	Mar.	110	110	111	108
Construction	Mar.	107	111	116	103
Farm Employment	Mar.	107	99	98	100

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	Latest Month 1971		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate					
(Percent of Work Force)†	Mar.	5.6	5.0	4.7	4.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	Mar.	40.4	39.2	40.0	40.0
FINANCE AND BANKING					
Member Bank Loans*	Mar.	487	464	468	422
Member Bank Deposits*	Mar.	322	313	307	275
Bank Debits*/**	Mar.	338	320	300	291
TENNESSEE					
INCOME					
Manufacturing Payrolls	Mar.	133	129r	134	127
Farm Cash Receipts	Feb.	128	111	102	116
EMPLOYMENT					
Nonfarm Employment†	Mar.	112	112	112	109
Manufacturing	Mar.	106	107	108	108
Nonmanufacturing	Mar.	115	115r	115	110
Construction	Mar.	114	117r	122	100
Farm Employment	Mar.	90	91	91	84
Unemployment Rate					
(Percent of Work Force)†	Mar.	4.9	4.8	4.5	4.0
Avg. Weekly Hours in Mfg. (Hrs.)	Mar.	40.1	38.8r	40.5	39.8
FINANCE AND BANKING					
Member Bank Loans*	Mar.	373	364	354	332
Member Bank Deposits*	Mar.	248	240	233	208
Bank Debits*/**	Mar.	336	287	294	294

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

Note: Indexes for construction contracts, cotton consumption, employment, farm cash receipts, and payrolls: 1967=100. All other indexes: 1957-59=100.

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)

	Mar. 1971	Feb. 1971	Mar. 1970	Percent Change: Mar. 1971 from Feb. 1971	Mar. 1971 from Mar. 1970	Year to date 3 mos. 1971 from 1970
STANDARD METROPOLITAN STATISTICAL AREAS						
Birmingham	2,251,786	1,909,179	2,011,147	+18	+12	+ 7
Gadsden	77,350	70,198	68,730	+10	+13	+ 8
Huntsville	250,460	209,677	219,690	+19	+15	+ 2
Mobile	720,385	624,001	728,233	+15	− 1	+ 2
Montgomery	461,718	384,434	382,874	+20	+21	+14
Tuscaloosa	147,194	133,439	127,080	+10	+16	+11
Ft. Lauderdale—Hollywood	1,422,381	1,178,364	1,144,686	+21	+24	+12
Jacksonville	2,320,477	1,989,672	2,068,690	+17	+12	+ 4
Miami	4,927,575	3,880,782	3,713,421	+27	+33	+18
Orlando	992,751	826,795	822,413	+20	+21	+13
Pensacola	340,224	296,128	251,426	+15	+35	+30
Tallahassee	278,122	248,634	202,321	+12	+37	+26
Tampa—St. Pete.	2,641,738	2,299,018	2,071,073	+15	+28	+14
W. Palm Beach	827,834	742,784	685,654	+11	+21	+14
Albany	139,130	119,176	126,231	+17	+10	+10
Atlanta	9,120,050	7,806,929	7,964,260	+17	+15	+ 8
Augusta	353,509	325,761	316,129	+ 9	+12	+10
Columbus	335,467	277,674	278,850	+21	+20	+12
Macon	378,339	326,077	327,206	+16	+16	+14
Savannah	400,967	354,958	349,278	+13	+15	+14
Baton Rouge	1,008,605	785,479	726,763r	+28	+39	+16
Lafayette	192,213	157,118	167,046	+22	+15	+ 6
Lake Charles	190,527	174,326	163,691	+ 9	+16	+ 7
New Orleans	3,316,248	2,648,226	2,636,230	+25	−26	+13
Biloxi-Gulfport	181,997	156,877	168,205	+16	+ 8	+ 3
Jackson	1,013,476	903,865	830,940	+12	+22	+ 8
Chattanooga	1,087,792	810,017	889,246	+34	+22	+16
Knoxville	689,276	558,832	574,375	+23	+20	+13
Knoxville	2,377,620	1,813,249	2,015,922	+31	+18	+ 7
OTHER CENTERS						
Anniston	83,407	74,708	75,178	+12	+11	+ 7
Dothan	108,268	94,162	91,165	+15	+19	+14
Selma	53,218	47,526	51,629	+12	+ 3	+ 0
Bartow	40,515	34,085	36,709	+19	+10	− 4
Bradenton	118,838	105,700	103,538	+12	+15	+ 8
Brevard County	227,269	199,811	238,261	+14	− 5	− 5
Daytona Beach	113,149	102,922	99,443	+10	+14	+ 6
Ft. Myers—N. Ft. Myers	173,197	142,786	135,261	+21	+28	+19
Gainesville	148,146	134,254	112,840	+10	+31	+21
Lakeland	210,345	180,602	160,760	+16	+31	+13
Monroe County	52,542	45,667	45,961	+15	+14	+12
Ocala	117,432	102,325	98,178	+15	+20	+ 6
St. Augustine	26,843	21,018	24,370	+28	+10	+ 1
St. Petersburg	672,181	561,377	456,551	+19	+46	+33
Sarasota	217,115	173,757	196,572	+25	+10	− 4
Tampa	1,331,616	1,198,031	1,117,475	+11	+19	+ 8
Winter Haven	111,870	103,425	96,029	+ 8	+16	+10
Athens	172,067	145,231	100,808	+18	+71	+52
Brunswick	69,049	53,363	54,062	+30	+28	+10
Dalton	134,182	120,042	117,860	+12	+14	+15
Elberton	16,766	13,185	18,804	+27	−11	−14
Gainesville	95,573	88,366	89,282	+ 8	+ 7	+ 1
Griffin	52,581	46,677	44,420	+13	+18	+14
LaGrange	27,738	23,530	26,651	+18	+ 4	+ 7
Newnan	31,999	26,957	29,978	+19	+ 7	+ 1
Rome	104,543	83,203	93,118	+26	+12	+ 5
Valdosta	74,502	63,655	64,268	+17	+16	+ 6
Abbeville	14,895	12,502	13,012	+19	+14	+ 2
Alexandria	175,093	161,583	161,565	+ 8	+ 8	+ 6
Bunkie	8,399	7,406	7,632	+13	+10	+ 5
Hammond	54,149	47,811	45,618	+13	+19	+12
New Iberia	47,707	39,914	41,829	+20	+14	+11
Plaquemine	13,381	12,644	12,787	+ 6	+ 5	− 5
Thibodaux	31,966	27,051	27,233	+18	+17	+13
Hattiesburg	102,205	79,409	61,406	+29	+66	+53
Laurel	59,868	50,151	50,164	+19	+19	+ 7
Meridian	88,780	74,272	78,577	+20	+13	+ 3
Natchez	43,709	41,061	44,916	+ 6	− 3	− 3
Pascagoula—Moss Point	101,621	90,434	93,427	+12	+ 9	+11
Vicksburg	55,898	52,847	51,321	+ 6	+ 9	+10
Yazoo City	34,076	29,775	25,047	+14	+36	+32
Bristol	115,236	89,382	109,625	+29	+ 5	+ 6
Johnson City	111,819	95,762	106,563	+17	+ 5	+ 8
Kingsport	237,286	162,316	207,156	+46	+15	+ 6
District Total	50,805,972	42,746,745r	42,576,327r	+19	+19	+11
Alabama‡	5,601,813	4,837,452	5,106,140	+16	+10	+ 5
Florida‡	17,331,361	14,788,716r	13,945,656	+17	+24	+13
Georgia‡	13,373,983	11,520,795	11,626,230	+23	+15	+ 9
Louisiana†*	5,858,531	4,780,655	4,676,123r	+16	+25	+12
Mississippi†*	2,240,752	1,937,602	1,854,082	+16	+21	+10
Tennessee†*	6,399,532	4,881,525	5,368,096	+13	+19	+11

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

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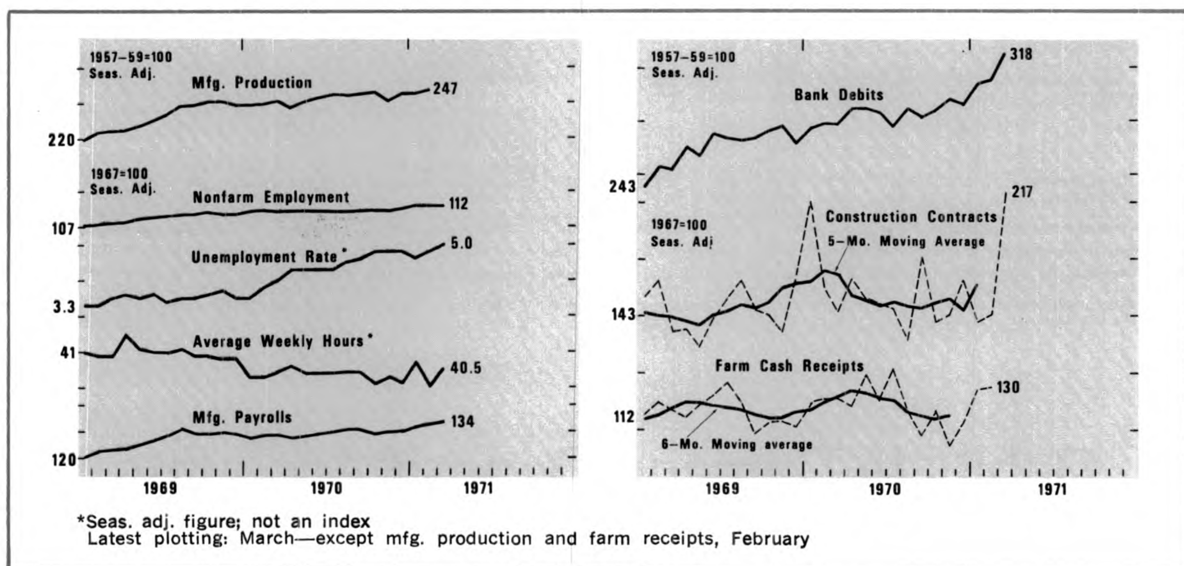
District Business Conditions



*Seas. adj. figure; not an index
Latest plotting: March—except mfg. production and farm receipts, February

The Southeastern economic picture shows a pattern of gains and losses. Latest available data indicate increases in consumer spending, suggesting that consumers may be in a better spending mood. Construction contract awards rebounded strongly. Although farmers enjoyed higher prices, drought restricted production in many areas. And the general atmosphere in the labor market continued weak.

Department store sales during the Easter season were generally better than expected. This sales improvement may be a sign that a thaw in consumer spending is under way. In March, consumer instalment credit outstanding at commercial banks increased sizably, with most loan sectors posting large gains. Unit auto sales continued to increase, with March sales well above the year-ago level.

Continued softness characterized the labor market in March. The unemployment rate rose to 5.0 percent of the civilian work force, and nonfarm employment declined after a two-month advance. Employment losses occurred in durable and nondurable goods manufacturing and in construction and trade. A month-long national strike against three major can manufacturers was responsible for sharp employment declines in fabricated metals.

Led by a very strong increase in the nonresidential and "all other" sectors, construction contracts rose sharply in March. A very large electric utility system in Alabama and several large Florida projects were chiefly responsible for the strong gains in the nonresidential sector. Residential contract volume also increased vigorously and helped to offset the previous two months of declines.

Agricultural prices advanced further in March but remained below last year's level. Prices of citrus and vegetable crops were up sharply, but prices of eggs, hogs, and rice declined. Preliminary data indicate that prices of most livestock items slid downward in April. Dry weather, particularly in Florida, restricted agricultural production in most parts of the region.

Although banks continued to experience large deposit inflows throughout most of April, the growth of time and savings deposits slowed decidedly. Additions to interest-bearing deposit accounts trailed considerably behind the strong advances of the previous three months. Following the lead of major banks in other areas, many of the larger District banks raised their prime lending rate to 5½ percent in mid-April. These same banks also reported a pickup in business loans to textile and apparel manufacturers and to wholesale and retail businesses.

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

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