

# monthly review

june

Federal Reserve Bank of Atlanta - 1971

## In this issue:

**1970 Bank Holding Company Amendments:  
What Is "Closely Related to Banking?"**

**The Move to Greener Pastures**

**The Georgia Economy: Building Momentum  
for a Quicker Pace?**

**District Banking Notes**

**District Business Conditions**



## 1970 Bank Holding Company Amendments

# What Is "Closely Related to Banking?"

by Charles D. Salley

If whaling were a regulated industry, we should likely find ourselves wondering whether the Bureau of Fisheries or the Bureau of Animal Husbandry has jurisdiction. "Whales ply the waters and have fins. They are clearly fish and are, therefore, of concern to us," one bureau chief would assert.

"If that is your criterion," might come the rebuttal, "then you would have to regulate submarines as well. Whales, on the contrary, are warm-blooded and give milk. Clearly, they are mammals and should come under control of the Bureau of Animal Husbandry."

The experts would then be consulted. The zoologists, of course, had faced this problem of classification many years ago. The whale, although it has many structural characteristics in common with both fish and mammals, is indeed a mammal. They based this answer to their dilemma on the concept of evolution. The whale is more closely linked with mammals through a common community of origin and development.

Now, banking is a regulated industry, and we are finding ourselves in the midst of a similar dilemma. The one-bank holding company, a behemoth equally elusive of category, has recently surfaced amid bank regulatory policy. Is it a creature of banking or of commerce?

The Board of Governors of the Federal Reserve System has the task of making this distinction. Under the 1970 Amendments to the Bank Holding Company Act of 1956, the Board may permit bank holding companies

---

*Monthly Review*, Vol. LVI, No. 6. Free subscription and additional copies available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

to acquire only those nonbanking firms that it classifies as **closely and properly related to banking**.

This article reviews the provisions of the new holding company act and the problem that the Federal Reserve now faces in constructing a banking-nonbanking classification. To understand what the Board must do, let us first take a look at the 1956 legislation.

### The Bank Holding Company Act of 1956

The initial Bank Holding Company Act was concerned primarily with the acquisition of additional banks by a banking organization. The Act, together with the 1966 Amendments, directed the Board of Governors to approve only those bank acquisitions that would be soundly managed, that would benefit the convenience and needs of the communities involved, and that would have no serious anticompetitive effects. The unique feature of the legislation provided that the Board can approve a bank acquisition that would lessen competition—short of an actual or attempted monopoly—if these anticompetitive effects are clearly outweighed by the public interest benefits. This is more a public utility approach to structural regulation than an anti-trust approach. It reflects a concern for bank stability and public convenience as well as for competition.

In addition to bank acquisitions, the 1956 legislation also provided for holding company acquisition of nonbanking subsidiaries. Under Section 4(c)(8),<sup>1</sup> such acquisitions were permissible where the activities of the nonbanking subsidiaries were closely related to the business of banking as conducted by the holding company or its subsidiary banks.

The Act did not, however, govern holding companies with only one bank. Only multibank companies were required to register and come under the Board's jurisdiction. This was intended to exclude the many small, family-owned companies pursuing more than a single business.

### Growth of the One-Bank Holding Company

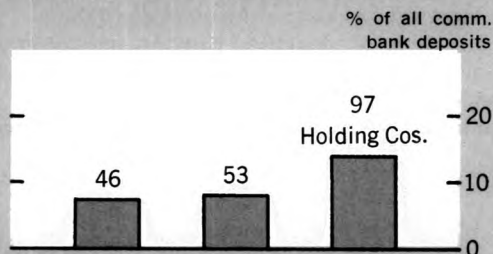
After passage of the 1956 Act, and especially in recent years, a phenomenal number of large banks formed one-bank holding companies and established subsidiaries that engage in numerous commercial activities. There are several incentives for such reorganization. One is a need to obtain new sources of loanable funds. For many years, the primary source of bank funds,

demand deposits, has declined as a percent of bank liabilities. During the 1960's, imaginative bank management had to focus on liabilities. This was especially true in periods of monetary restraint.

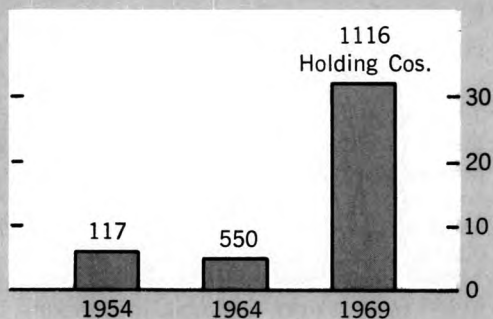
Moreover, bankers found that their investment in computer capacity and trained personnel gave them additional productive capability. Banks could offer additional services that utilize similar equipment and skills already in operation. This possibility drew management's attention to product expansion. They had already made the initial investment required to sell insurance, to underwrite revenue bonds, to perform accounting, data processing and leasing services, and to operate mutual funds.

Just as the multibank holding company had appealed to bankers as a vehicle for geographic expansion in the 1960's, the one-bank holding

#### Multibank holding company growth: substantial



#### One-bank holding company growth: phenomenal



company now appealed as a vehicle with the flexibility needed to obtain funds and to expand services in the Seventies. Thus, by the end of 1969, there were 1,116 one-bank organizations controlling 32 percent of U. S. bank deposits. This expansion appeared to threaten the traditional separation of banking and commerce and resulted

<sup>1</sup>Numbered Section 4(c)(6) prior to the 1966 Amendments.

in Congressional passage of the Amendments of 1970.

**Why Separate Banking and Commerce?** At one time in the United States, banking was looked upon by frontier developers as a means of securing funds for long-term capital investments such as railroads. Since the Civil War and the National Banking Act, however, the concept that the business of banking should be strictly banking has been a major tenet of bank regulation. In other words, banks should not directly undertake production or become otherwise entangled with commerce. This tenet is based primarily upon the historically justified concern for the safety of depositors' funds. These short-term liabilities should not become immobilized in the relatively fixed asset structure of commercial and industrial ventures. Inventories, much less plant and equipment, are not readily converted into cash on demand. Should a bank fail to make such conversion and eventually close its doors, the losses are not limited to the bank's stockholders alone but fall upon the entire community. There is, therefore, a concern for banking stability.

The tenet of separating banking and commerce is also based upon the underlying economic concern for the efficient allocation of credit. Economic theory and the American experience

have found that this, as with the allocation of any scarce resource, is best accomplished by many decision units competing at arms length in the marketplace. The direct linking of a number of these decision units, whether banks or commercial firms, can result in funds or other resources flowing into the immediate production of certain goods and services to which the consuming economy would not otherwise assign as high a priority. Thus, policy makers have tended to discourage the affiliation of banks, the affiliation of business firms, and the affiliation of banks with business firms. There is, in other words, a concern for competition.

Because of the concern for stability and for competition, regulators are wary of possible conflicts of interest and tie-in arrangements that might be brought about by the affiliation of banking and commerce. Preferential treatment in the granting of a loan by a holding company's bank to its commercial subsidiary might result in the funding of a risky, though profitable, undertaking that would not, otherwise, pass the purview of the bank's loan officer. Such a credit extension would jeopardize the safety of depositors' funds.

At the same time, preferential treatment might enable the subsidiary to continue as an inefficient producer or to gain an advantage over its competitors and, thus, artificially restrict production and raise prices. Such a credit extension would adversely affect market competition.

### The Amendments of 1970

With the goals of stability and competition in mind, and with the expansion of holding companies into nonbanking activities threatening the separation of banking and commerce, Congress enacted the Bank Holding Company Act Amendments of 1970. The new legislation extends the Federal Reserve Board's jurisdiction under the 1956 Act to one-bank holding companies and to companies that own less than 25 percent of a bank's voting stock but that, nevertheless, exercise control. It also prohibits certain tie-in arrangements, and (of concern to this article) it further specifies the evaluation of nonbanking acquisitions under Section 4(c)(8).

The Board must now determine whether the activity of a proposed nonbanking subsidiary (1) is so closely related to banking (2) as to be a proper incident to banking. In its determination of the activity's propriety to banking, the Board must specifically consider factors that might undermine banking stability and that might have adverse competitive effects. As with bank acquisitions, the Board can approve a nonbank acquisition if there are resulting public benefits that outweigh these possible adverse effects.

### Statutory Considerations By the Board of Governors in Nonbank Acquisitions

*The Bank Holding Company Act requires the Board, under Section 4(c)(8), to determine that the activities engaged in by the company to be acquired are so closely related to banking or managing or controlling banks as to be a proper incident thereto.*

*In determining whether a particular activity is a proper incident to banking or managing or controlling banks, the Board must consider whether its performance by an affiliate or a holding company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices.*

## The Problem of Classification

The Board's task under the new Section 4(c)(8) is to classify proposed holding company activities as closely related to banking and as properly related to banking. Such systematic classification of observed phenomena—whether banking and nonbanking activities or fish and whales—is as old as human inquiry. Empirical science has regarded classification as the first step to rational apprehension, leading to generalization and then to predictability. If an object has the traits typical of those objects classified as fish, it is predictable that it will swim off when thrown into the water. If an object exhibits traits typical of those classified as monopoly, it is predictable that it will restrict output and raise prices.

Strict boundaries for classifications, though, are difficult to establish. Rather than establish hundreds of neat pigeonholes, an investigator often constructs a scale running between two polar types. A market is rarely purely monopolistic (one firm) or perfectly competitive (many firms), but lies somewhere between the two extremes.

Thus, the concept of strict class generally fades into a comparative measure of some trait. In this case, markets are classed according to the **number** of firms; the fewer the firms, the more monopolistic the market. The problem of classification, then, actually lies in the choice of this basic trait.

### Standard Industrial Classification

In classifying industries, economists often place several firms in the same industrial category if the firms produce similar products. The basic trait chosen for the classification is product substitutability. For instance, several brands of soft drinks are close substitutes for each other; increased consumption of one generally results in decreased consumption of the other. They are substitutes or competing goods and are placed in the soft drink industry. On a larger scale, soft drinks compete with beer, and both activities are placed in the beverage industry.

Economists call the degree of substitutability in consumption "cross-elasticity." Soft drinks and beer have a degree of cross-elasticity; soft drinks and ink do not. Such a cross-elasticity classification is oriented to the demand side of the market, that is, toward the point of view of purchasers.

On the other hand, it is also possible for economists to orient an industrial classification to the supply side of the market, or toward the producer's point of view. Some products that are substitutable in consumption, like glass jars and aluminum cans, have such different production

## Major Categories Standard Industrial Classification

- 01 Agriculture, Forestry, Fisheries
- 10 Mining
- 15 Construction
- 19 Manufacturing
- 40 Transportation and Communication
- 50 Wholesale and Retail Trade
- 60 Finance, Insurance and Real Estate
  - Banking
    - 601 Federal Reserve Banks
    - 602 Commercial and Stock Savings Banks
    - 603 Mutual Savings Banks
    - 604 Nondeposit Trust Companies
    - 605 Exchange, cashing, and safe deposit companies
  - Credit Agencies
    - 611 Rediscount Institutions
    - 612 Savings and Loan Associations
    - 613 Agricultural Credit Institutions
    - 614 Personal Credit Institutions
    - 615 Business Credit Institutions
    - 616 Loan Brokers
  - Security and Commodity Brokers
    - 621 Security Brokers
    - 622 Commodity Brokers
    - 623 Exchanges
    - 628 Exchange and Transfer Services
  - Insurance Carriers
    - 631 Life Insurance
    - 632 Accident and Health Insurance
    - 633 Fire, Marine, and Casualty Insurance
    - 635 Surety Insurance
    - 636 Title Insurance
    - 637 Carriers not classified elsewhere
  - Insurance Agents and Brokers
  - Real Estate
    - 651 Operators and Lessors
    - 653 Agents and Brokers
    - 654 Title Abstract Companies
    - 655 Developers
    - 656 Operative Builders
  - Combination Real Estate and Law Offices
  - Holding and Investment Companies
- 70 Services
- 91 Government

# BANK HOLDING COMPANIES

## SECTION 4 (C) (8) DETERMINATIONS

Applicant	Nonbanking Companies	Action	Federal Reserve Bulletin Citation
Transamerica Corp., San Francisco, Calif.	Occidental Life Insurance Co.	Denied	1957 BULL. 1014
General Contract Corp., St. Louis, Mo.	23 subsidiaries of various types	Denied	1958 BULL. 260
Financial Institutions, Inc., Warsaw, N. Y.	Geneva Shareholders, Inc.	Granted	1958 BULL. 1162
Otto Bremer Co., St. Paul, Minn.	5 insurance agencies	Granted with conditions	1959 BULL. 892
First Bank Stock Corp., Minneapolis, Minn.	First Banccredit Corp. First Service Agencies	Denied Granted	1959 BULL. 917
Bank Shares, Inc. Minneapolis, Minn.	4 insurance agencies	Granted	1959 BULL. 954
Northwest Bancorporation, Minneapolis, Minn.	Northwestern Mortgage Co. South Side Insurance Agency Union Investment Co.	Denied Granted Granted	1959 BULL. 963
Wisconsin Bankshares Corp., Milwaukee, Wis.	First Wisconsin Co.	Granted	1959 BULL. 1136
First Virginia Corp., Arlington, Va.	2 insurance agencies	Granted	1959 BULL. 1247
Union Bond & Mortgage Co., Port Angeles, Wash.	Forks Building Corp. Peninsula Investment Co. Citizens Building Corp. First American Insurance Agency	Denied Denied Denied Granted	1960 BULL. 152
Otto Bremer Co., St. Paul, Minn.	Foster County Agency	Granted	1960 BULL. 621
Otto Bremer Co., St. Paul, Minn.	Western State Credit Co.	Granted	1961 BULL. 23
St. Joseph Agency, Inc., South Bend, Ind.	St. Joseph Insurance Agency, Inc.	Granted	1961 BULL. 290
Montana Shares, Inc., Havre, Mont.	Montana Agencies Liberty Corp.	Granted	1961 BULL. 767
Otto Bremer Co., St. Paul, Minn.	Farmers State Agency, Inc. Citizens Agency, Inc. Warren Agency, Inc.	Granted	1961 BULL. 1039
The Virginia Commonwealth Corp., Richmond, Va.	Virginia Standard Corp. State-Wide Insurance Agency, Inc.	Granted Granted	1963 BULL. 934
Otto Bremer Co., St. Paul, Minn.	Alex State Agency, Inc. Detroit State Agency, Inc. Farmers and Merchants Breckenridge Agency, Inc. Lisbon Insurance Agency, Inc. Polk County State Agency, Inc. Walsh County Insurance Agency, Inc.	Granted	1963 BULL. 1389
First Oklahoma Bancorporation, Inc. Oklahoma City, Okla.	First Oklahoma Baninsurance, Inc.	Granted	1965 BULL. 676

Applicant	Nonbanking Companies	Action	Federal Reserve Bulletin Citation
First Wisconsin Bankshares Corp., Milwaukee, Wis.	First Wisconsin Co.	Granted	1965 BULL. 680
First Virginia Corp., Arlington, Va.	First Virginia Life Insurance Agency, Inc.	Granted	1967 BULL. 373
Otto Bremer Co., St. Paul, Minn.	Farmers Insurance Agency, Inc. American Insurance Agency, Inc. International State Insurance Agency, Inc. Farmers Agricultural Credit Co., Inc. Carrington Credit Co.	Granted	1967 BULL. 1555
Otto Bremer Foundation, St. Paul, Minn.	Farmers Insurance Agency, Inc. American Insurance Agency, Inc. International State Insurance Agency, Inc. Farmers Agricultural Credit Co., Inc. Carrington Credit Co.	Granted	1967 BULL. 1559
Denver U. S. Bancorporation, Inc., Denver, Col.	Lincoln Agency, Inc. Fidelity National Life Insurance Co.	Granted	1968 BULL. 233
Otto Bremer Co. and Otto Bremer Foundation, St. Paul, Minn.	State Agency of Redwood Falls, Inc. American State Agency of Watertown, Inc. Cassabanka Insurance Agency, Inc. Elk Valley Agency, Inc. Citizens Insurance Agency, Inc.	Granted	1969 BULL. 388
First Security Corp., Salt Lake City, Utah	First Security Life Insurance Co. (or Firsco Life Insurance Co.) First Security Agency, Inc.	Granted	1969 BULL. 667
The Citizens and Southern Holding Company and The Citizens and Southern National Bank, Atlanta, Ga.	American Southern Life Insurance Co. The Citizens and Southern Agency, Inc.	Granted	1969 BULL. 673
Dacotah Bank Holding Co., Aberdeen, S. D.	Citizens Agricultural Credit Corp. F & M Agricultural Credit Corp. Citizens Insurance Agency, Inc. Roslyn Insurance Agency, Inc. Security Insurance Agency, Inc.	Granted	1970 BULL. 469
Central Banking System, Inc., Oakland, Calif.	Cenval Agency, Inc.	Granted	1970 BULL. 477
The First National Bancorporation, Inc., Denver, Col.	Diversified Insurance, Inc. Guaranty Insurors, Inc.	*	1970 BULL. 544
United Virginia Bankshares, Inc. Richmond, Va.	United Virginia Insurance Agency, Inc.	Granted	1970 BULL. 599
Otto Bremer Co., and Otto Bremer Foundation, St. Paul, Minn.	Farmers State Agency of Frederic Bank of Willmar Agency, Inc. Peoples State Agency of Colfax, Inc. Shelby State Agency, Inc. Washburn State-Bayfield Agency, Inc. Union State-Webster, Inc.	Granted with conditions	1971 BULL. 53

\*Special permission to appeal granted; hearing to be reconvened later

processes that the technical similarity of the production process with other products appears to be a more suitable basis of classification. The Bureau of the Budget's Standard Industrial Code takes this supply approach.

Suppose we wish to place firms producing soft drinks, milk, and orange juice into industrial categories. The demand basis would find that these commodities are similar in that they exhibit a degree of demand cross-elasticity. Therefore, the firms make up a single category, the beverage industry. The SIC code, however, would use the similarity of their production processes with those of other commodities as the basis of classifying the firms into the beverage, dairy, and frozen foods industries, respectively.

The point of our discussion is that an industry classification can be based upon either trait—product similarity or process similarity. The choice would likely depend on the importance of the trait to the objectives of the regulatory policy for which the classification is made.

### The Classification of Banking in Bank Acquisitions

The classification of the banking industry also entails choosing a basic trait. Identifying an essential banking trait, although a difficult problem, is one regulators have faced before.

When the Justice Department objected to the merger of the Philadelphia National Bank and Girard Trust Corn Exchange in 1963, identifying banking's essential product line became crucial. Two basic concepts of banking emerged during this important Supreme Court case. One was an extension of the standard economic model of a multiple-product firm. Such a firm produces and sells a number of distinct products to separate groups of customers. This view considers a bank to be an investment firm offering deposit and payment services, seasonal loans, term loans, mortgages, trust services, credit cards, and so on. A bank sets prices and seeks a profit in each of these product areas. The popular literature calls this emphasis on several distinct product lines "department store banking."

The second concept of banking in the Philadelphia case viewed banking as a composite service industry, not as a producer of distinctive product lines. The emphasis here is on a steady-customer relationship. A bank seeks a total profit from the customer over a period of time rather than a profit from each product line. In periods of credit restraint, it will often sell investments to accommodate long-standing deposit customers, even at the expense of incurring capital losses on securities. Its other services are offered merely as an accommodation to the deposit customer. Thus, the concept considers the product

of banking to be the "bundle of services" that a bank renders to its steady deposit customers.

The lower courts had subscribed to the first concept of a bank as a multiproduct firm. They viewed credit as the primary product, with various broad national markets for different lines. The Philadelphia merger probably would not monopolize these national markets. Conversely, the Supreme Court accepted the alternate concept, i.e., banks sell a composite service; hence, banking is a single line of commerce in a fairly narrow, localized market. On this basis, the Supreme Court reversed the lower courts and enjoined the merger.

Even though the multiproduct concept and the composite-service concept are based on different traits, both traits appear to produce a demand-oriented classification. The former classifies banking according to cross-elasticities of demand for separate products and services. The latter classifies banking according to the cross-elasticity of demand for a composite service.

### The Classification of Banking in Nonbank Acquisitions

Bank regulators have also faced the problem of classifying banking elsewhere, including the area of nonbank acquisitions by holding companies. Recall that the Bank Holding Company Act of 1956, in addition to bank acquisitions, also provided for acquisition of nonbanking subsidiaries by multibank holding companies under Section 4(c) (8).

From September 1957 until January 1971, the Board of Governors made 31 rulings involving 107 nonbanking subsidiaries of multibank holding companies. These subsidiaries were primarily insurance companies, insurance agencies, agricultural credit companies, installment loan companies, and real estate management companies. All came within the threshold criterion that nonbanking subsidiaries exempted from divestiture must be of a financial, fiduciary, or insurance nature.

Each hearing, then, had to determine if the activity as conducted by the holding company (1) were related to banking and (2) whether so closely related as to make it a proper incident to the business of banking. An activity was properly related to banking if it conformed to the purposes of the Bank Holding Company Act.

The Board, in the first hearing in 1957 (Transamerica Corporation-Occidental Life Insurance Company), recognized one of these purposes to be the separation of banking and commerce. The purpose of Section 4 is "to remove . . . **potential** . . . sources of evil." A holding company should not be so structured, the Board specified as to **enable** a subsidiary to obtain preferential



treatment over that of their competitors in obtaining bank credit. Proof of the existence of actual discriminatory conduct is not necessary.

In this ruling, the Board decided that there are enough similarities in the operations of a bank and of an insurance company to make them closely related. However, because of the dissimilarities—primarily demand deposits—and the structural capability of self-dealing, the Board ruled that insurance carrying is not a proper incident to banking. It required Transamerica to divest the insurance subsidiary.

The next year, in its second hearing (General Contract Corporation), the Board again ruled that general insurance subsidiaries tend to augment the danger of tie-in arrangements, violating the purpose of Section 4. It did rule, however, that credit life and collateral property insurance are directly connected with lending transactions. Hence, the Board ruled, these activities are properly related to banking, since there is no occasion for their use outside the area of lending.

In 1959, during the fourth hearing (Otto Bremer Company), the Board disqualified real estate agencies but permitted general insurance agencies. Insurance agencies, according to the Board, are closely related to banking because, in this instance, there was complete operational integration of the agency with the bank. As part of a full financial service, it offered insurance services to established banking customers. It was properly incidental to banking because such agencies were sufficiently prevalent among competing banks to give no rise to preferential treatment or to competitive advantage.

In the following case in 1959 (First Bank Stock Corporation), the Board ruled against the multistate purchase of instalment paper by a subsidiary for resale to affiliated banks. The activity was closely related to the banks' lending operations, the Board's opinion stated. And although soliciting and servicing such paper would be properly incidental to banking, actual purchase would not be. In purchasing such third party paper, local bank officers would not be ruling directly on credit allocation. Also, independent banks would not be able to marshal the capital needed to undertake a similar operation and would suffer a competitive disadvantage.

In subsequent rulings from 1959 to 1971, the Board concluded that subsidiaries acting as insurance agents do not have to restrict their activities exclusively to bank customers. Insurance affiliates, however, can underwrite credit life and collateral policies if they limit this service to their affiliated bank customers and personnel. The Board also approved of subsidiaries dealing with agricultural loans sold to the Federal Intermediate Credit Bank.

**What Is "Closely Related to Banking?"** In these decisions, the Board appeared to recognize two banking traits in determining whether the activities are closely related to banking. The first trait is process similarity to bank lending. The Board found that finance companies, commercial paper companies, and factors all exhibit process similarities in the lending activity that allow them to be placed in the category "closely related to banking." The subclasses are implied in terms of the final liabilities involved, i.e., whether credit paper is purchased with or without recourse.

The second trait recognized by the Board in establishing the closeness of an activity's relation to banking appears to be operational integration of the activity into the bank lending process. Underwriting credit life insurance is operationally integrated into the lending transaction and is, therefore, closely related to banking. On the other hand, ordinary life and property insurance is not a part of the lending process. It is operationally integrated with a bank only through common bank personnel and customers. Therefore, only the agency function, and not the underwriting of such insurance, is closely related to banking.

**What Is "Properly Incidental to Banking?"** In determining whether an activity is properly incidental to banking, the Board's decisions also appeared to recognize two banking traits. One trait is the avoidance of the structural possibility (potential) for conflicts of interest. This could result in misallocation of credit and threaten banking stability. The second trait is the ability—potential or existing—of competing banks to perform the same activity and, thus, avoid any competitive disadvantage.

An interesting observation is that these classifications of banking in nonbank acquisitions are on the production or supply side, much like the SIC classification. The classifications in the Philadelphia bank acquisition case were on the demand side.

## Conclusion

As pointed out, holding companies are anxious to expand into new activities to exploit their newly developed capabilities and excess capacity. Which of these many possible new activities are **so closely related to banking** as to be a **proper incident to banking**? Although the theory of classification tells us how to use criteria to make this determination, the regulatory record of both banking and nonbanking acquisitions reveals that there are a number of possible criteria to use.

The choice of a criterion, as previously indicated, usually depends on its importance to the purpose for which the classification is made. If a banking classification is made for a regulatory policy

concerned primarily with stability of depositors' funds, the criterion probably will be a measure of liquidity and risk. If, though, the banking classification is made for a regulatory policy concerned primarily with competition and efficient resource allocation, the criterion probably will be a measure of process capability.

More than likely, the classification of an activity under the new holding company act as closely and properly related to banking, then, will reflect the purposes of traditional bank regulatory policy. If so, it will be a dual proposition: properly related to banking stability and properly related to banking competition. Which aspect the Board

of Governors chooses to emphasize under the new Act should significantly affect not only the classification but our future banking structure as well.■

*Note: Available upon request:*

Atkinson, Emerson, "A Decade of Sixth District Bank Merger Activity," *this Review*, April 1971, pp. 62-70.

Salley, Charles D., "A Decade of Holding Company Regulation in Florida," *this Review*, July 1970, pp. 90-99.

---

## Recent Publications

Preliminary "1970 Operating Ratios, Sixth District Member Banks." This is a summary report of various ratios computed for 1970 from the Reports of Condition and Consolidated Reports of Income. Member bank groupings are by deposit size for the District and for the Sixth District states.

*A Review of Florida's Economy, 1960-71*, revised June 1971.

*A Review of Mississippi's Economy, 1960-71*, revised June 1971.

### Monthly Review Reprints

*Selective Credit Controls: The Experience and Recent Interest*  
Arnold Dill, May 1971, pp. 78-86

*Econometric Models: What They Are and What They Say for 1971*  
Frederick R. Strobel and William D. Toal, March 1971, pp. 42-51

*Liability Management Banking: Its Growth and Impact*  
Arnold Dill, February 1971, pp. 22-31

*Incomes Policies: A Quick Critique*  
Robert H. Floyd, December 1970, pp. 174-181

*Measuring Monetary Policy*  
William N. Cox, III, December 1970, pp. 182-187

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

# The Move To Greener Pastures

by Gene D. Sullivan

Greener pastures are on the Southeastern side of the fence, judging from the growth in the beef cattle industry in the Sixth District. Not only have cattle numbers increased but the performance of cattle herds has improved rapidly. In addition, District gross farm income from cattle and calves, as well as the number of animals marketed, has more than doubled since 1950. The increase in the number of livestock on farms was not as large, however, indicating that most of the growth in the region has come through more efficient production.

## Numbers of Cattle

The total number of cattle and calves within the District states has increased about 50 percent since 1950. Although this increase is rather moderate by some standards, it exceeds the 38-percent rate of growth for the nation as a whole during the same period.

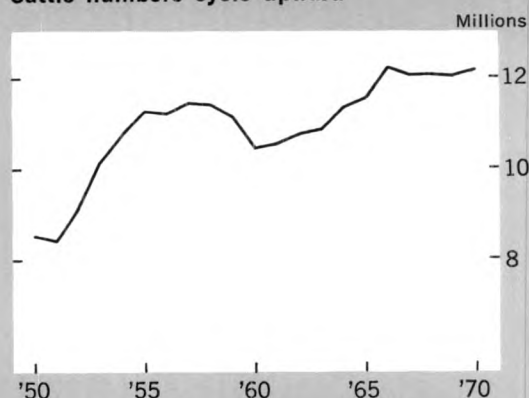
The region's growth in total cattle numbers is even more significant when it is noted that the number of milk cows in the area declined by 50 percent during the same period. Veal output, which has come primarily from dairy herds in the past, has also dropped sharply. Thus, not only have cattle herd sizes in the region increased but their composition has changed markedly as well.

The growth in cattle numbers has been fairly uniform throughout the region, although individual states show some differences. Cattle populations in Georgia and Tennessee changed most perceptibly since 1950. Georgia had the fewest number of cattle in 1950, but in the most recent inventory, Louisiana occupied the bottom spot. Throughout this 20-year period, Mississippi was the most populous cattle state.

## Calving Rates

Changes in cattle numbers do not tell the entire story of what has happened to the Southeastern cattle industry. Production efficiency has improved dramatically. In five of the six District states, the number of calves produced per 100 adult cows (calving rate) has increased about 10

### Cattle numbers cycle upward



percent since 1950. Although Tennessee, the exception, experienced little change during this period, it is still leading all other states in calves produced per cow.

Improved breeding stock has contributed to more efficient cattle production in the Southeast. The majority of the region's cattle, however, still show a predominance of mixed breeding, and recent experimental results show that crossbred animals outperform purebred cattle. Yet, hybridization cannot substitute for proper care and feeding, which in recent years has probably done more to improve cattle performance than

has the infusion of higher-quality blood lines.

Though getting better, the efficiency of production of cattle herds still lags behind the U. S. average. Calving rates in each District state fall below the national average of 88 percent; Florida trails most significantly, with only 73 calves being produced for every 100 adult females. The increased fertility of the hybrid offspring has been one of the most remarkable benefits of crossbreeding. Florida's calving rates could be further improved by widespread adoption of crossbreeding.

### Increased Marketings

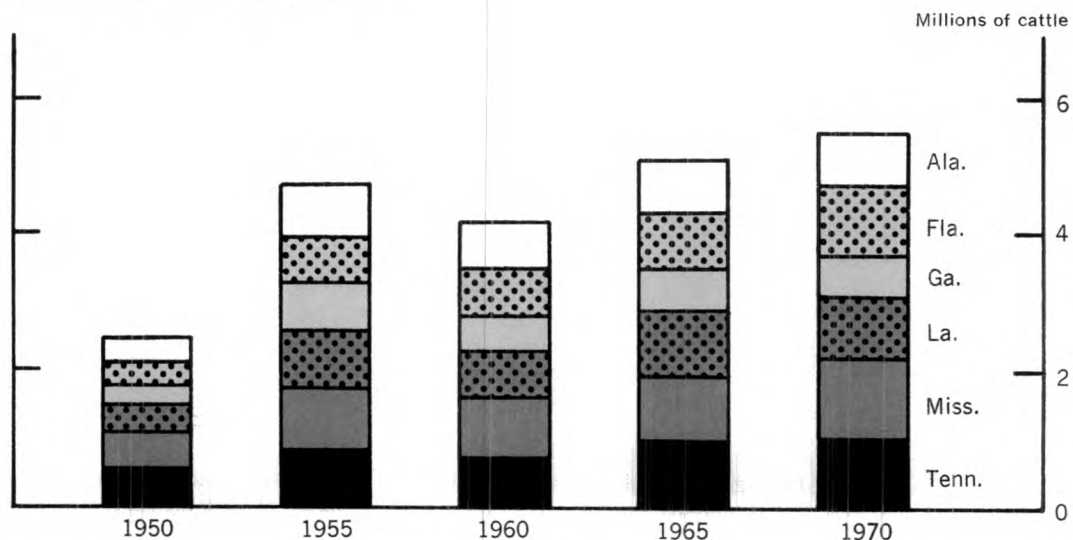
The growth in cattle numbers and more efficient production have jointly produced a 200-percent increase in the numbers of cattle marketed since 1950. In this way, too, the region has outpaced the nation's 167-percent growth rate during the same period.

Marketings increased considerably in all District states, but Louisiana experienced the fastest rate of growth. Mississippi, with the greatest improvement in calving rate since 1950, edged out Tennessee for the lead in the number of cattle marketed in 1970.

### Prices

Cattle and calf prices in both the District and the U. S. have historically followed a cyclical pattern that is closely associated with changes in cattle numbers. The next illustration shows

### Marketings more than double



that the duration of recent cycles, the period from one low price period to the next or from one peak to the next, has been about 10 years. Since

lower quality of animals produced in this region has been a major reason for this price disadvantage. The mix of animals moving to market has also been important, however, particularly with respect to differences in cattle prices. Cattle culled from breeding herds have made up a much larger proportion of marketings in the Southeast than in the U. S. as a whole. The Southeast, for example, has marketed few feedlot finished cattle, whereas these relatively high-priced animals have influenced U. S. average prices quite heavily.

The gap between District and U. S. prices has narrowed in recent years, reflecting an improvement in the quality of beef cattle within the region. For example, District calf prices trailed U. S. prices by as much as \$2.50 per cwt. or 15 percent in 1954, but the difference had shrunk to \$.75 per cwt. or 2 percent by 1970. Although District calf prices dropped more than U. S. prices during periods of downswings, this difference, too, has become less noticeable in recent periods.

Several factors, in addition to improvement in quality, have probably helped to reduce the gap between District and U. S. calf prices. As a result of looking at meat quality independent of animal pedigrees, cattle buyers are becoming less discriminative of animals that show mixed breeding and varying coat colors. Thus, the hybrids and grade livestock of the Southeast have recently begun to enjoy an improved market.

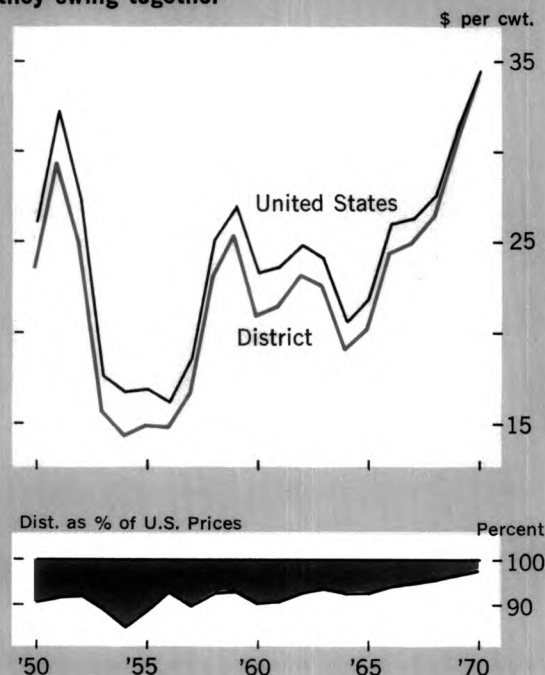
Some price improvement for feeder calves has undoubtedly been caused by the growth of the cattle feeding industry within the region and in areas adjacent to the Southeast, such as in Oklahoma and Texas. Since it is no longer necessary to ship calves to the Midwest to reach their ultimate destinations, the price paid for Southeastern calves has tended to increase by the amount of savings in shipping costs.

Cattle prices have not been uniform throughout the District. Tennessee calves commanded a premium of as much as \$3.10 per cwt. in 1953 over the District's average price, probably because of Tennessee's preferred breeds of cattle and because of the Volunteer State's proximity to the traditional Midwestern cattle-feeding area. Relative to the District's average price, Florida prices have shown the greatest advance during the past two decades. Quality improvement has also been most evident in Florida.

### Income from Cattle and Calves

The rapid growth in farm income is perhaps the best measure of the combined changes in the region's cattle industry. Increasing numbers, improved efficiency, and higher-quality animals have all contributed to this rapid growth in

### District and U. S. calf prices close ranks as they swing together



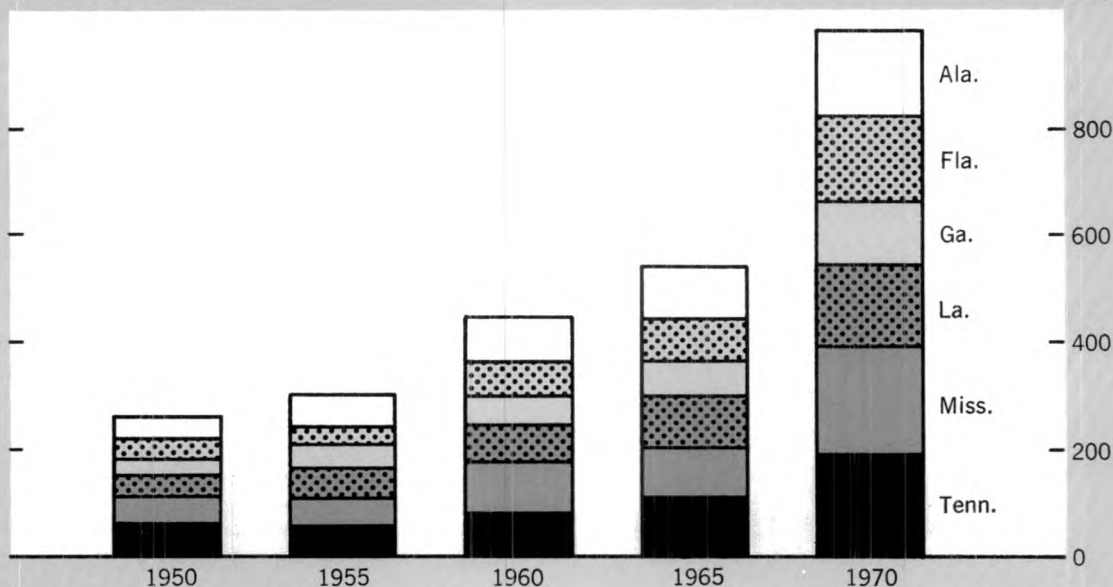
1930, however, the length of time between price changes and corresponding changes in District cattle numbers has averaged seven years.<sup>1</sup>

District prices for both cattle and calves have typically lagged behind the U. S. average. The

<sup>1</sup>The first differences, as well as one-through 10-year lags, of U. S. average cattle prices ( $X_1$ ) and calf prices ( $X_2$ ) were regressed on the first differences of total cattle numbers within the District ( $Y$ ). The best fit (highest  $r^2$ ) was obtained when the first differences of U. S. annual cattle prices, lagged by 7 years, were regressed on the first differences of District cattle numbers. The correlation coefficient ( $r$ ) of .52 was significant at the 1 percent level of probability and was twice as high as the equations employing either a six- or eight-year lag of price differences. The relationship between changes in District cattle numbers and changes in average calf prices was nearly identical to that with average cattle prices (for example,  $r = .50$  at seventh lag of first differences in calf prices). Thus, changes in District cattle numbers were more closely related to changes in U. S. average cattle prices seven years earlier than to any other period tested.

## Cattle income soars

Million \$



Southeastern farm income from cattle and calves over the past two decades. An industry that accounted for \$260 million of District gross farm income in 1950 (a relatively high price period for cattle) produced an income of nearly \$1.0 billion in 1970.

Although all states have shared in this growth, Florida experienced the lion's share, with gross cattle income reaching a level 5 times higher than in 1950. The cattle industry, however, still accounts for no more than 10 percent of total farm income in either Florida or Georgia. In all other states, cattle produced at least 15 percent of farm income and as much as 20 percent in Tennessee.

### Financing

Supplying credit to livestock farmers has become big business for farm lenders in the Southeast. Based on data from the latest available farm loan survey at commercial banks, the number of borrowers classified as meat animal producers doubled during the period from 1956 to 1966. Loans outstanding increased more than 4 times, from \$37.9 million to \$150.8 million. Indications are that this growth in bank financing of livestock production has continued to gain momentum.

The structure of the Southeastern cattle industry has undergone changes in the past two decades that have made it a more attractive source of business to agricultural lenders. Although the

number of all livestock farms has declined, the size of the remaining farms has increased rapidly. For example, Census figures indicate that, from 1950 to 1964, the number of farms with cattle herds of 100 animals or more increased from 4,000 farms to nearly 20,000 farms, almost a five-fold increase. The number of farms with herds of 1,000 or more cattle more than doubled during this period. Thus, it has been possible for lenders to conduct more business with customers owning larger farms—which, obviously, has been to the liking of bankers, as evidenced by the rapid growth in the number as well as the amount of livestock loans. With District cattle producers numbering about 380,000 in 1964, however, and total bank loans to meat animal producers numbering less than 25,000 in 1966, there can be little doubt that the capacity for expansion of livestock financing remains quite substantial.

The recent acceptance of beef cattle production as a commercial enterprise has required adjustments in lending policies and procedures. Many lenders have been reluctant to base loans on anything other than a conservative estimate of the value of collateral security. Livestock loans have often been patterned after the traditional crop production loan that was designed to be paid off within one year. Farmers in some areas have had difficulty in obtaining beef cattle loans that extend beyond this one-year period. Stretching the repayment period of a loan over the expected productive period of life

of a brood cow is a practice in livestock lending that has been slow to gain acceptance.

A widely used rule of thumb in cattle financing has been to lend not more than 50 percent of the market value of an animal, or, in other words, to require a chattel mortgage on two cows for each cow financed. Such a lending policy is conservative and easily administered and may be appropriate when nearing a position in the cattle cycle when a sharp drop in prices is anticipated. A more realistic basis for lending, however, concentrates on the potential returns from the productive use of an animal in an efficiently operated herd or feedlot. Such an approach also tends to involve the lender in the management of an operation because of his added incentive to ensure that the business is successful. Such lender participation in farm management decisions can be beneficial to both lender and borrower.

To become so involved in livestock financing requires a level of expertise that some lenders have been reluctant to acquire. Nevertheless, those who have become knowledgeable of the agricultural operations they finance have usually been well rewarded for their efforts. Over a period of time, borrowing farmers tend to gravitate to lenders who can provide the benefits of expert advisory services along with the needed funds.

## Future Trends

The region's beef cattle industry is likely to continue to change rapidly in the years ahead. The improvement in management techniques, as reflected in rising calving rates and increased marketings, will continue to raise the productivity of Southeastern cattle. The emergence of the practice of crossbreeding European and Indian breeds of cattle will make available larger numbers of productive, high-quality animals that are better acclimated to the Southeastern environment. The market discrimination against cattle of mixed breeding will continue to diminish as the industry becomes more aware that the consumer pays for high-quality meat and not for the color or pedigree of the animal from which it originated.

Advancing technology, abundant forages, increasing availability of a locally produced grain supply, and expanding local demand for meat are prime factors that will contribute to the continued rapid growth of the Southeastern livestock economy. With growth and expansion of capital-intensive feedlot operations in the Southeast, demand for credit will also continue to expand rapidly. Increased competition for the profitable business of livestock financing will improve the availability of credit to efficient livestock farmers as lenders join in the move to greener pastures.■

# The Georgia Economy: Building Momentum For a Quicker Pace?

by Emerson Atkinson

At one time, the term “jogging along” was used to describe the tempo of Georgia’s economic activity—which in 1970 slowed further, even to the point of approaching a treadmill-like movement. But recently it has become increasingly evident that, once again, the Peach State’s economy may be gaining momentum in nearing a full stride.

## Income Expansion Moderates

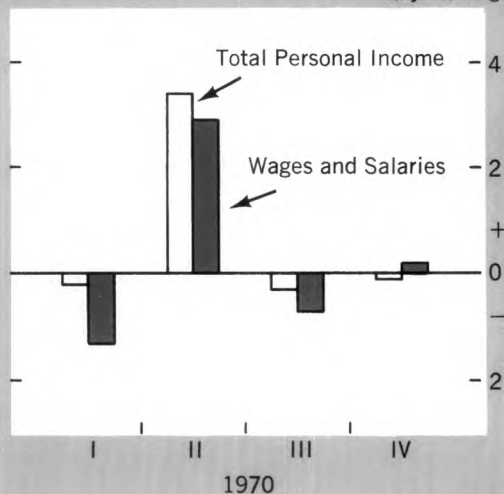
The nationwide economic downturn explains much of the tarnished performance of personal income in 1970, but declines in the State’s military payrolls and farm income and only a fractional increase in construction payrolls were other influencing factors. Most of last year’s fluctuations in total personal income were accounted for by wages and salaries, which make up 70 percent of Georgia’s total personal income. Wages and salaries in manufacturing, which make up 20 percent of total personal income, rose about 5 percent in the second quarter of 1970, then declined and leveled off for the remainder of the year. Wages and salaries for the trade and farm sectors also showed little growth in 1970 but rebounded in the construction industry during the latter part of the year. The movement of government wages and salaries was more volatile. Property income and personal contributions also moved in essentially the same downward direction.

Because of these and other influences, per capita income grew only 4.6 percent between 1969 and 1970, making the Georgia income level 84 percent of the U. S. per capita figure. Georgia’s growth rate was somewhat below that of the nation’s (5.7 percent) and was the slowest among the states making up the Sixth Federal Reserve District. It should be remembered, however, that during the 1960’s Georgia’s per capita personal income



### Peach State's personal income moves in tandem with wages and salaries

Qtly. % chg.



nearly doubled, compared with the national gain of 76 percent. In fact, the increase in per capita income in the Peach State for the last decade was the fourth-highest among the fifty states.

### Employment Strengthens in Late 1970

Nonfarm employment, which faltered during most of 1970, regained its upward movement in 1971. A further encouraging sign was the recent stabilization in the State's seasonally adjusted unemployment rate. For the first four months of 1971, the seasonally adjusted unemployment rate held close to 4.0 percent. This was down only slightly from the 4.2-percent peak in December 1970, but up considerably from the 3.0-percent rate of early 1970.

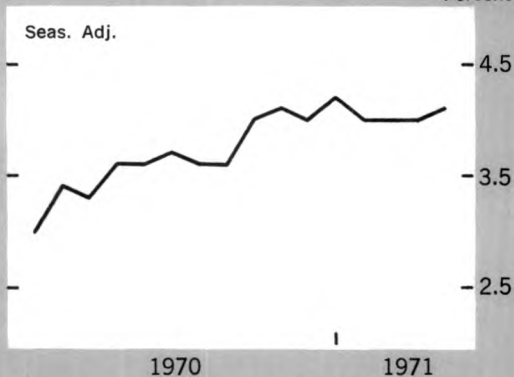
The nonmanufacturing job sector, which makes up slightly more than 70 percent of Georgia's total employment, showed definite improvement after ending its downslide in midsummer of 1970. On the other hand, the manufacturing job sector was a latecomer. It did not show signs of picking up until the end of 1970—a movement that continued into the first four months of 1971.

The somewhat uncertain economic conditions of three of Georgia's largest manufacturing employers—textiles, apparel, and transportation equipment—contributed to manufacturing employment's sluggish performance last year. During 1970, the average number of workers in textile mill products was 115.9 thousand, compared with 119.8 thousand in 1969. In apparel, the year-to-year change was slight—69.4 thousand in 1970,

### Unemployment rate stabilizes by early '71

Percent

Seas. Adj.



measured against 69.9 thousand in 1969. The largest decline among the three was in transportation equipment, which fell to 46.9 thousand from 65.5 thousand in 1969. Much of this decline was in the aircraft industry. As of early 1971, employment in transportation equipment and apparel had moderate gains, though the improvement was short-lived in the textile industry. Undoubtedly, the outlook for the industries will take a turn for the better as the general economic health of the State and nation improve. As a matter of fact, the growth of these industries is likely to pick up even more when the economic problems unique to each are worked out.

Economic disturbances—which, in the past have had a more direct effect on manufacturing than on nonmanufacturing employment—will probably have less impact on the behavior of total employment in the future because of the change in employment mix. Since 1965, manufacturing employment as a percentage of total employment in the State has declined from 31.7 percent to 29.0 percent. Similar shifts in manufacturing employment have occurred in Georgia's major metropolitan areas. In addition, the importance of contract construction and other components of nonmanufacturing employment has changed noticeably since 1965.

### Farm Income Swells

Georgia crop farmers ended 1970 on a relatively cheerful note, despite the late summer gloom resulting from the corn leaf blight. The principal crops produced in the Peach State totaled \$477 million, a 17-percent gain or \$68 million above the 1969 crop value. Higher prices, coupled with a greater production of cotton, wheat, tobacco, and

**Between 1965 and 1970, the Employment Mix Shifted for the State and Its Major Metropolitan Areas\***

<u>Year</u>	<u>Manufacturing</u>	<u>Contract Construction</u>	<u>Trade</u>	<u>Services</u>	<u>Government</u>
<b><u>GEORGIA</u></b>					
1965	31.7	5.7	21.9	11.4	17.6
1970	29.0	5.1	22.1	12.0	19.5
<b><u>ALBANY</u></b>					
1965	24.5	7.7	23.1	10.1	24.4
1970	22.6	8.6	24.7	9.2	24.7
<b><u>ATLANTA</u></b>					
1965	22.6	6.1	27.1	13.9	14.0
1970	18.3	5.5	28.5	14.9	16.0
<b><u>AUGUSTA</u></b>					
1965	37.5	9.2	16.9	9.3	19.7
1970	32.7	6.8	18.2	11.2	23.3
<b><u>COLUMBUS</u></b>					
1965	29.8	6.8	22.6	10.2	21.2
1970	27.0	6.1	20.3	12.8	23.2
<b><u>MACON</u></b>					
1965	20.9	5.2	19.6	9.8	34.8
1970	18.0	4.7	20.2	11.9	35.6
<b><u>SAVANNAH</u></b>					
1965	26.8	5.8	22.6	12.8	15.9
1970	23.2	6.8	22.5	14.0	16.8

\*Components expressed as a percentage of nonagricultural employment

peanuts, more than offset the lower production of corn, oats, peaches, and pecans. In terms of value of production, peanuts were first, with \$145 million; tobacco was second, with \$102 million; and corn was third, with \$71 million. On the other hand, livestock and poultry producers found their cash receipts to be slightly less than in 1969, since lower prices were received for broilers, chickens, and eggs. But large gains in cash receipts were noted for hogs, dairy products, turkeys, and cattle and calves.

For the most part, the outlook for the agricultural sector of the Peach State is good, although the production of some main crops may

not be up to par. Less cotton and corn were planted this year, and peach production is expected to be slightly below the level of output for 1970, but down less than in the period between 1969 and 1970. Moreover, less cotton and corn have been planted in 1971 than in the previous year.

#### **Construction Activity Builds Momentum**

As of early 1971, construction activity was moving upward, and it is generally expected to continue to rise during the remainder of the year. If so, 1971 will be a better year than 1970. Though residential contracts awarded did show a 28.4-

percent cumulative gain over 1969 levels, all other contracts awarded declined 28.3 percent. This decline, however, is misleading because a large electric power contract late in 1969 unduly influenced the 1969 total. The residential sector's leadership in 1970 and continued strong performance in 1971 partly reflect the greater availability of credit.

### **Credit Becomes More Readily Available**

Banks and other financial institutions went into 1970 still feeling the carryover effects of the tight money situation that prevailed in 1969. Monetary and credit conditions began improving as monetary policy became less stringent—which included a suspension in June of the ceiling rates on short-maturity, large-denomination certificates of deposit, an increase in the maximum interest rates banks could pay on time deposits, and a cut from 6 percent to 5 percent in the reserve requirement for bank time deposits in excess of \$5 million.

Total deposits continued to expand during early 1971, a movement that began in the second half of 1970. The inflow of time deposits has

been especially strong for several reasons: The allowable interest rates that member banks could pay on time deposits were raised in early 1970; the minimum denominations of Treasury bills that could be purchased was increased from \$1,000 to \$10,000 (thus discouraging the small investor from purchasing the bills); interest rates on other marketable securities declined (thus making time deposits more attractive to savers); and, in response to economic uncertainty, there was a widespread increase in the consumer's inclination to save. Along with banks, savings and loan associations experienced a substantial inflow of time deposits. This development began in April 1970, the month following the denomination change in Treasury bills and continued into 1971. Additionally, total loans made at banks that are members of the Federal Reserve System picked up in 1971, following sluggish performance during much of 1970.

In summary, 1970 was a year of economic slowdown. But unlike 1969, signs appeared that an economic upturn was in the making. And, judging from Georgia's economic performance in the early stages of 1971, the Peach State's economy is moving toward a full stride. ■

## **Bank Announcements**

MAY 3, 1971

**FIRST NATIONAL CITY BANK (Interamerica)**  
*Miami, Florida*

Opened for business.

MAY 14, 1971

**CITY BANK OF LAUDERHILL**  
*Lauderhill, Florida*

Opened for business as a nonmember. Officers: Daniel K. Gill, chairman; James J. Hunter, president; Emerson Allsworth, vice president; and Lloyd

A. Stryker, cashier. Capital, \$600,000; surplus and other capital funds, \$470,000.

MAY 26, 1971

**BOULEVARD BANK**  
*Key West, Florida*

Opened for business as a nonmember. Officers: J. L. Lester, Jr., M.D., chairman; John M. Koenig, president; and Jean E. Collins, cashier. Capital, \$300,000; surplus and other capital funds, \$300,000.

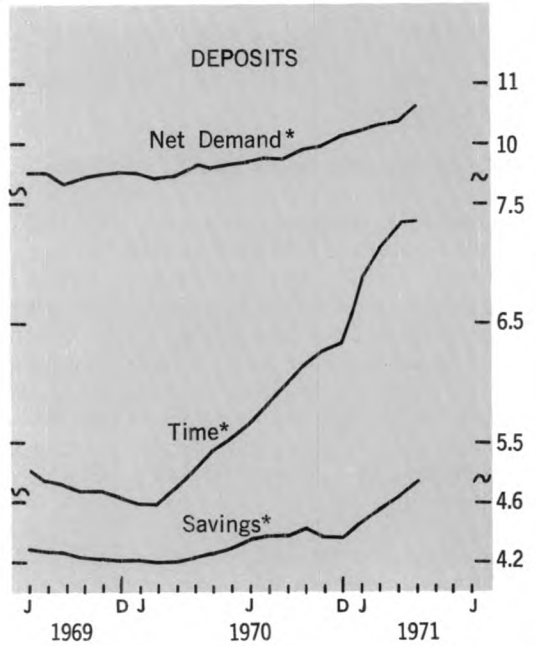
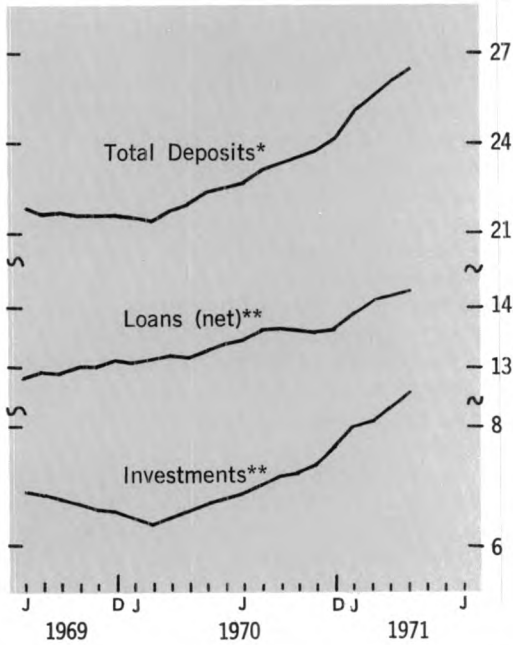
MAY 29, 1971

**BANK OF GERALDINE**  
*Geraldine, Alabama*

Opened for business as a par-remitting nonmember. Officers: Vance Parris, chairman; William F. Coker, president and cashier; Coolidge Isbell and C. C. Lowrey, vice presidents; and Autry Bailey, secretary. Capital, \$150,000; surplus and other capital funds, \$150,000.

## BANKING STATISTICS

Billion \$



LATEST MONTH PLOTTED: APRIL

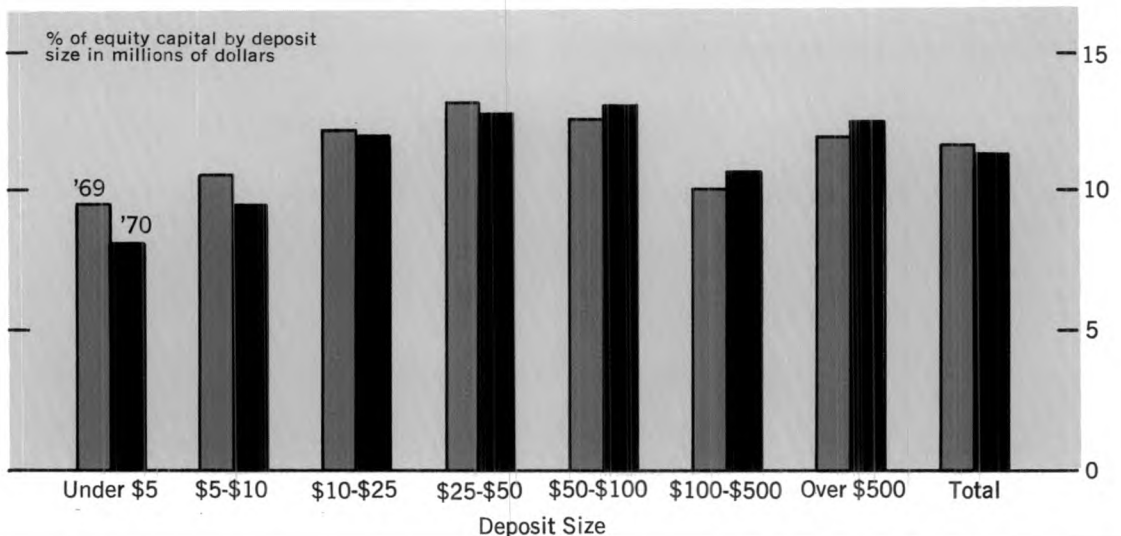
Note: All figures are seasonally adjusted and cover all Sixth District member banks.

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

SIXTH DISTRICT

# BANKING NOTES

## INCOME AFTER TAXES



Note: Figures shown are before gains or losses on securities and cover all Sixth District member banks.

## DISTRICT MEMBER BANKS' NET INCOME CUT BY RISING INTEREST COSTS

Throughout 1970, banks operated under greatly reduced financial pressures, just the reverse of the restrictive credit conditions that characterized 1969. In spite of this, District member banks, as a group, failed to perform as well as in 1969, and this performance showed up on the bottom line of their income statements. Income—after taxes but before gains or losses on securities, as a percent of equity capital—declined to 11.3 percent in 1970 from 11.7 percent in 1969.<sup>1</sup> Cash dividends, however, rose.

### Profits

When compared with 1969 rates, there was a noticeable contrast in the characteristics of banks whose earnings rose and banks whose earnings fell. The 446 member banks with deposits below \$50 million earned less—as a group—in 1970 than in 1969, while the 91 larger banks earned more. (Of course, some of the smaller banks performed better in 1970, and some of the larger banks did not perform as well.) Another point of contrast: While total operating income rose last year for banks of all sizes, total operating expenses rose faster at smaller banks and cut into net income.

### Income

Higher returns on loans and on most investments contributed to higher gross incomes for both small and large banks during 1970. Bank incomes were further aided by a shift to those earning assets with higher yields. Higher returns on state and municipal obligations and increased holdings of these tax-exempt securities provided an important boost to operating incomes. In general, revenue from lending provided more than 63 percent of a bank's total operating income. Whereas the average return on loans rose, net loan losses went up 25 percent and offset some of this increased return on lending. Weak loan demand, however, prevented banks from expanding their proportion of loans to other earning assets.

The average return on U. S. Treasury securities slipped only slightly, in spite of the significant decline in rates on short-term Treasury issues in late 1970. And, the proportion of total income derived from Treasury securities dropped further as banks reduced their relative holdings of Treasury securities.

### Expenses

Since operating income, in general, was up for all banks, we must examine differences in expenses to explain the variation in profit performance for the large and small banks. The difference in deposit structure had a major influence on expenses. The smaller banks tend to have a higher proportion of their deposits in interest-bearing form, and this ratio rose even further in 1970. While 17 percent of the smaller banks have more than three-fifths of their total deposits in the form of time and savings deposits, only 4 percent of the larger banks are similarly situated. On the other hand, nearly 40 percent of the larger banks have less than two-fifths of their total deposits in interest-bearing form, compared with just 15 percent for the smaller banks.

This difference in deposit structure, combined with the increase in deposit interest rates paid on time and savings deposits—which followed the change in Regulation Q in January 1970—had the greatest impact on the smaller banks. For the most part, the smaller banks could attribute nearly all of the net increase in their operating expenses to increased interest payments on deposits.

Moreover, the large and small banks generally paid different rates on their time and savings deposits prior to the rate change in January 1970. In 1969, the larger banks were already paying the maximum or near-maximum rates on time and savings deposits—an average of 4.52 percent. Under the new rate ceilings permitted by Regulation Q in 1970, the larger banks paid an average of 4.89 percent, up 37 basis points. In contrast, the smaller banks paid an average of only 4.17 percent in 1969; this rose to 4.75 percent in 1970, up 58 basis points and, thus, had a greater impact on their earnings. Many of the smaller banks not only offered higher rates in 1970 but had a large amount of their deposits either shifted to or placed in the newly offered longer-maturity time deposits that carried the highest rate among consumer-type deposits.

Other interest rate changes also affected bank earnings last year. Interest rates on borrowed funds (mostly Federal funds) declined. Since large banks are usually net Federal funds borrowers, lower interest costs reduced their expenses. On the other hand, the smaller banks generally are on the lending side of Federal funds transactions, with the result that falling rates reduced their income. By increasing their gross Federal funds sales to banks mainly outside of the District, the small banks were able to offset some of the adverse effects of lower Federal funds rates.

JOHN M. GODFREY

<sup>1</sup>Data are based upon information contained in preliminary "1970 Operating Ratios, Sixth District Member Banks" and are subject to the footnotes and explanatory remarks contained therein. Copies of this release are available upon request.

# Sixth District Statistics

## Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

		Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago		Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago
<b>SIXTH DISTRICT</b>						<b>Unemployment Rate</b>				
<b>INCOME AND SPENDING</b>						(Percent of Work Force)† . . . . . Apr.				
						Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . . Apr.				
Manufacturing Payrolls . . . . . Apr.	134	134	133	128			5.4	5.2	4.9	4.7
Farm Cash Receipts . . . . . Mar.	125	130	128	123			40.2	40.2	39.9	40.3
Crops . . . . . Mar.	138	143	136	101		<b>FINANCE AND BANKING</b>				
Livestock . . . . . Mar.	127	130	133	137		Member Bank Loans . . . . . Apr.	146	144	144	133
Installment Credit at Banks* (Mil. \$)						Member Bank Deposits . . . . . Apr.	137	136	133	117
New Loans . . . . . Apr.	387	377	365	359		Bank Debits** . . . . . Apr.	285	265r	257	255
Repayments . . . . . Apr.	356	347	344	321		<b>FLORIDA</b>				
<b>EMPLOYMENT AND PRODUCTION</b>						<b>INCOME</b>				
Nonfarm Employment† . . . . . Apr.	112	112	112	111		Manufacturing Payrolls . . . . . Apr.	138	138	141	136
Manufacturing . . . . . Apr.	106	106	106	108		Farm Cash Receipts . . . . . Mar.	110	116	101	85
Nondurable Goods . . . . . Apr.	107	107	107	108		<b>EMPLOYMENT</b>				
Food . . . . . Apr.	103	105	106	104		Nonfarm Employment† . . . . . Apr.	120	119	119	119
Textiles . . . . . Apr.	103	103	104	108		Manufacturing . . . . . Apr.	108	108	109	112
Apparel . . . . . Apr.	103	103	102	103		Nonmanufacturing . . . . . Apr.	123	121	121	120
Paper . . . . . Apr.	109	109	110	112		Construction . . . . . Apr.	135	136	134	141
Printing and Publishing . . . . . Apr.	114	113	114	113		Farm Employment . . . . . Apr.	99	90	89	91
Chemicals . . . . . Apr.	104	105	105	106		Unemployment Rate				
Durable Goods . . . . . Apr.	104	104	105	108		(Percent of Work Force)† . . . . . Apr.	4.8	4.6	4.4	3.1
Lbr., Wood prods., Furn. & Fix. . . . . Apr.	98	99	101	101		Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . . Apr.	40.3	40.7	41.4	41.4
Stone, Clay, and Glass . . . . . Apr.	104	106	107	106		<b>FINANCE AND BANKING</b>				
Primary Metals . . . . . Apr.	105	104	105	105		Member Bank Loans . . . . . Apr.	164	165	160	148
Fabricated Metals . . . . . Apr.	112	109	113	114		Member Bank Deposits . . . . . Apr.	158	160	156	131
Machinery, Elec. & Nonelec. . . . . Apr.	160	159	159	170		Bank Debits** . . . . . Apr.	356	332	326	303
Transportation Equipment . . . . . Apr.	104	106	106	110		<b>GEORGIA</b>				
Nonmanufacturing . . . . . Apr.	114	114	114	112		<b>INCOME</b>				
Construction . . . . . Apr.	112	112	113	110		Manufacturing Payrolls . . . . . Apr.	133	133	132	127
Transp., Comm., & Pub. Utilities Apr.	104	106	106	110		Farm Cash Receipts . . . . . Mar.	134	133	132	129
Trade . . . . . Apr.	113	113	114	111		<b>EMPLOYMENT</b>				
Fin., ins., and real est. . . . . Apr.	119	119	118	116		Nonfarm Employment† . . . . . Apr.	112	111	112	111
Services . . . . . Apr.	116	116	116	114		Manufacturing . . . . . Apr.	103	103	104	107
Federal Government . . . . . Apr.	102	102	100	105		Nonmanufacturing . . . . . Apr.	115	115	115	113
State and Local Government . . . . . Apr.	120	120	119	115		Construction . . . . . Apr.	106	105	105	106
Farm Employment . . . . . Apr.	92	92	92	87		Farm Employment . . . . . Apr.	89	91	94	90
Unemployment Rate						Unemployment Rate				
(Percent of Work Force)† . . . . . Apr.	5.1	5.0	4.8	4.3		(Percent of Work Force)† . . . . . Apr.	4.1	4.0	4.0	3.6
Insured Unemployment						Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . . Apr.	41.0	40.4	39.8	40.6
(Percent of Cov. Emp.) . . . . . Apr.	2.9	2.9	2.9	2.6		<b>FINANCE AND BANKING</b>				
Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . . Apr.	40.8	40.4	40.0	40.6		Member Bank Loans . . . . . Apr.	143	141	138	132
Construction Contracts* . . . . . Apr.	176	217	131	157		Member Bank Deposits . . . . . Apr.	127	129	123	111
Residential . . . . . Apr.	154	158	143	153		Bank Debits** . . . . . Apr.	379	374	365	328
All Other . . . . . Apr.	197	276	120	160		<b>LOUISIANA</b>				
Electric Power Production** . . . . . Apr.	165	167	162	162		<b>INCOME</b>				
Cotton Consumption** . . . . . Mar.	107	94r	93	93		Manufacturing Payrolls . . . . . Apr.	128	125	127	118
Petrol. Prod. in Coastal La. and Miss.** Apr.	301	296	311	277		Farm Cash Receipts . . . . . Mar.	120	124	118	119
Manufacturing Production . . . . . Mar.	250	247	246	241		<b>EMPLOYMENT</b>				
Nondurable Goods . . . . . Mar.	214	212	212	207		Nonfarm Employment† . . . . . Apr.	105	106	106	104
Food . . . . . Mar.	174	173	170	162		Manufacturing . . . . . Apr.	100	101	101	102
Textiles . . . . . Mar.	239	236	239	230		Nonmanufacturing . . . . . Apr.	106	106	107	104
Apparel . . . . . Mar.	267	264r	264	258		Construction . . . . . Apr.	89	90	92	83
Paper . . . . . Mar.	198	199	200	200		Farm Employment . . . . . Apr.	82	82	83	78
Printing and Publishing . . . . . Mar.	165	165	166	169		Unemployment Rate				
Chemicals . . . . . Mar.	258	260	263	257		(Percent of Work Force)† . . . . . Apr.	6.6	6.5	6.2	6.2
Durable Goods . . . . . Mar.	294	288	286	284		Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . . Apr.	42.6	41.5	42.5	41.6
Lumber and Wood . . . . . Mar.	170	171r	167	171		<b>FINANCE AND BANKING</b>				
Furniture and Fixtures . . . . . Mar.	173	175r	180	185		Member Bank Loans* . . . . . Apr.	137	139	135	126
Stone, Clay and Glass . . . . . Mar.	172	171	171	172		Member Bank Deposits* . . . . . Apr.	135	135	129	113
Primary Metals . . . . . Mar.	208	207	204	200		Bank Debits/** . . . . . Apr.	245	234	216	212
Fabricated Metals . . . . . Mar.	244	246r	246	247		<b>MISSISSIPPI</b>				
Nonelectrical Machinery . . . . . Mar.	373	349	363	355		<b>INCOME</b>				
Electrical Machinery . . . . . Mar.	609	609r	615	569		Manufacturing Payrolls . . . . . Apr.	140	139	134	128
Transportation Equipment . . . . . Mar.	388	369	354	369		Farm Cash Receipts . . . . . Mar.	152	170	192	168
<b>FINANCE AND BANKING</b>						<b>EMPLOYMENT</b>				
Loans*						Nonfarm Employment† . . . . . Apr.	110	110	110	108
All Member Banks . . . . . Apr.	151	151	147	138		Manufacturing . . . . . Apr.	111	110	109	108
Large Banks . . . . . Apr.	138	140	136	129		Nonmanufacturing . . . . . Apr.	110	110	110	108
Deposits*						Construction . . . . . Apr.	108	107	111	107
All Member Banks . . . . . Apr.	142	143	138	121		Farm Employment . . . . . Apr.	89	107	99	92
Large Banks . . . . . Apr.	129	132	126	113						
Bank Debits/** . . . . . Apr.	332	317r	303	287						
<b>ALABAMA</b>										
<b>INCOME</b>										
Manufacturing Payrolls . . . . . Apr.	134	135	132	129						
Farm Cash Receipts . . . . . Mar.	144	155	162	173						
<b>EMPLOYMENT</b>										
Nonfarm Employment† . . . . . Apr.	105	106	107	106						
Manufacturing . . . . . Apr.	107	108	108	109						
Nonmanufacturing . . . . . Apr.	105	106	106	105						
Construction . . . . . Apr.	106	104	106	102						
Farm Employment . . . . . Apr.	87	84	86	83						

		Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago			Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago
<b>UNEMPLOYMENT RATE</b> (Percent of Work Force)† . . . . . Apr. 5.2 5.3 5.0 5.2 Avg. Weekly Hrs. in Mfg. (Hrs.) . . . Apr. 40.3 40.3 39.2 40.0						<b>EMPLOYMENT</b> Nonfarm Employment . . . . . Apr. 111 111 112 109 Manufacturing . . . . . Apr. 106 107 107 108 Nonmanufacturing . . . . . Apr. 114 114 115 110 Construction . . . . . Apr. 110 113 117 98 Farm Employment . . . . . Apr. 98 90 91 86 Unemployment Rate (Percent of Work Force)† . . . . . Apr. 4.9 5.0 4.8 4.6 Avg. Weekly Hours in Mfg (Hrs.) . . Apr. 40.7 40.1 38.8 40.1					
<b>FINANCE AND BANKING</b> Member Bank Loans* . . . . . Apr. 157 159 152 138 Member Bank Deposits* . . . . . Apr. 144 142 138 125 Bank Debits** . . . . . Apr. 343 338 320 282						<b>FINANCE AND BANKING</b> Member Bank Loans* . . . . . Apr. 151 152 148 140 Member Bank Deposits* . . . . . Apr. 136 138 133 122 Bank Debits** . . . . . Apr. 338 331r 287 307					
<b>TENNESSEE</b> <b>INCOME</b> Manufacturing Payrolls . . . . . Apr. 133 133 129 125 Farm Cash Receipts . . . . . Mar. 142 128 111 121											

\*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, loans, deposits, 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)

Percent Change							Percent Change						
			Year to date Apr. 1971 from 4 mos. 1971						Year to date Apr. 1971 from 4 mos. 1971				
Apr. 1971	Mar. 1971	Apr. 1970	Mar. 1971	Apr. 1970	from 1970	Apr. 1971	Mar. 1971	Apr. 1970	Mar. 1971	Apr. 1970	from 1970		
STANDARD METROPOLITAN STATISTICAL AREAS													
Birmingham	2,365,380	2,251,786	2,004,818	+ 5	+18	+ 9	Gainesville	150,462	148,146	127,554	+ 2	+18	+20
Gadsden	81,682	77,350	70,377	+ 6	+16	+10	Lakeland	203,405	210,345	169,456	- 3	+20	+14
Huntsville	246,895	250,460	218,242	- 1	+13	+ 6	Monroe County	52,185	52,542	47,958	- 1	+ 9	+11
Mobile	760,523	720,385	769,388	+ 6	- 1	+ 1	Ocala	116,271	117,432	107,393	- 1	+ 8	+ 7
Montgomery	445,782	461,718	386,660	- 3	+15	+14	St. Augustine	27,435	26,843	25,899	+ 2	+ 6	+ 1
Tuscaloosa	152,926	147,194	127,346	+ 4	+20	+14	St. Petersburg	682,180	672,181	543,287	+ 1	+26	+31
							Sarasota	224,139	217,115	218,404	+ 3	+ 3	- 2
							Tampa	1,309,214	1,331,616	1,129,438	- 2	+16	+10
							Winter Haven	108,671	111,870	96,343	- 3	+13	+11
Ft. Lauderdale—							Athens	174,060	172,067	107,465	+ 1	+62	+55
Hollywood	1,479,838	1,422,381	1,319,193	+ 4	+12	+12	Brunswick	70,952	69,049	57,080	+ 3	+24	+13
Jacksonville	2,314,454	2,320,477	2,043,262	- 0	+13	+ 6	Dalton	131,558	134,182	121,578	- 2	+ 8	+13
Miami	4,825,266	4,927,575	3,911,548	- 2	+23	+19	Elberton	16,148	16,766	18,874	- 4	-14	-14
Orlando	1,115,921	974,813r	892,456	+14	+25	+16	Gainesville	98,692	95,573	90,915	+ 3	+ 9	+ 3
Pensacola	339,965	340,224	276,571	- 0	+23	+28	Griffin	51,303	52,581	43,654	- 2	+18	+15
Tallahassee	282,331	278,122	191,396	+ 2	+48	+32	LaGrange	33,459	27,738	24,732	+21	+35	+14
Tampa—St. Pete.	2,640,247	2,641,738	2,233,708	- 0	+18	+15	Newnan	35,697	31,999	33,229	+12	+ 7	+ 3
W. Palm Beach	835,974	827,834	784,739	+ 1	+ 7	+ 9	Rome	104,785	104,543	96,972	+ 0	+ 8	+ 6
							Valdosta	73,814	74,502	69,263	- 1	+ 7	+ 6
Albany	140,751	139,130	127,759	+ 1	+10	+10	Abbeville	13,652	14,895	12,870	- 8	+ 6	+ 3
Atlanta	8,955,452	9,119,636r	7,758,093	- 2	+15	+10	Alexandria	167,052	175,093	151,171	- 5	+11	+ 7
Augusta	379,430	353,509	327,824	+ 7	+16	+11	Bunkie	8,176	8,399	7,507	- 3	+ 9	+ 6
Columbus	335,738	335,467	296,836	+ 0	+13	+12	Hammond	54,033	54,149	45,846	- 0	+18	+14
Macon	373,368	378,339	312,854	- 1	+19	+15	New Iberia	48,238	47,707	42,874	+ 1	+13	+11
Savannah	412,207	400,967	351,913	+ 3	+17	+15	Plaquemine	13,055	13,381	13,174	- 2	- 1	- 4
Baton Rouge	1,031,773	1,010,958r	753,348r	+ 2	+37	+21	Thibodaux	31,953	31,966	26,554	- 0	+20	+14
Lafayette	193,621	192,213	188,452	+ 1	+ 3	+ 5	Hattiesburg	94,468	102,205	64,435	- 8	+47	+51
Lake Charles	184,222	190,527	163,143	- 3	+13	+ 8	Laurel	57,239	59,868	47,880	- 4	+ 7	+10
New Orleans	3,181,415	3,316,248	2,855,435	- 4	+11	+12	Meridian	84,673	88,780	79,737	- 5	+ 6	+ 4
Biloxi—Gulfport	179,868	181,997	168,897	- 1	+ 6	+ 4	Natchez	52,531	43,709	42,548	+20	+23	- 0
Jackson	1,025,511	1,013,476	801,196	+ 1	+28	+13	Pascagoula—						
Chattanooga	976,422	1,016,936r	886,117	- 4	+10	+12	Moss Point	98,750	101,621	88,609	- 3	+11	+11
Knoxville	700,285	689,276	614,065	+ 2	+14	+13	Vicksburg	55,059	55,898	50,289	- 1	+10	+10
Nashville	2,259,196	2,377,620	2,077,705	- 5	+ 9	+ 7	Yazoo City	40,445	34,076	39,263	+19	+ 3	+22
OTHER CENTERS													
Anniston	85,565	83,407	81,461	+ 3	+ 5	+ 7	Bristol	117,437	115,236	104,035	+ 2	+13	+ 8
Dothan	111,952	108,268	92,570	+ 3	+21	+16	Johnson City	120,194	111,819	112,881	+ 7	+ 6	+ 8
Selma	53,078	53,218	50,684	- 0	+ 5	+ 1	Kingsport	195,312	237,286	199,836	-18	- 2	+ 4
Bartow	39,834	40,515	37,672	- 2	+ 6	- 2	District Total	50,768,221	50,713,560r	40,011,439r	+ 0	+15	+12
Bradenton	111,141	118,838	117,917	- 6	- 6	+ 4	Alabama†	5,834,460	5,592,839r	5,211,054	+ 4	+12	+ 7
Brevard County	246,924	227,269	239,912	+ 9	+ 3	- 3	Florida†	17,474,571	17,336,047r	14,872,812	+ 1	+17	+14
Daytona Beach	122,175	113,149	112,520	+ 8	+ 9	+ 7	Georgia†	13,334,175	13,373,587r	11,548,552	- 0	+15	+11
Ft. Myers—							Louisiana†	5,732,796	5,860,082r	4,951,042r	- 2	+16	+13
N. Ft. Myers	179,079	173,197	149,951	+ 3	+19	+19	Mississippi†	2,241,875	2,240,752	1,844,605	+ 0	+22	+12
							Tennessee†	6,150,344	6,310,253r	5,583,374	- 3	+10	+10

\*Includes only banks in the Sixth District portion of the state

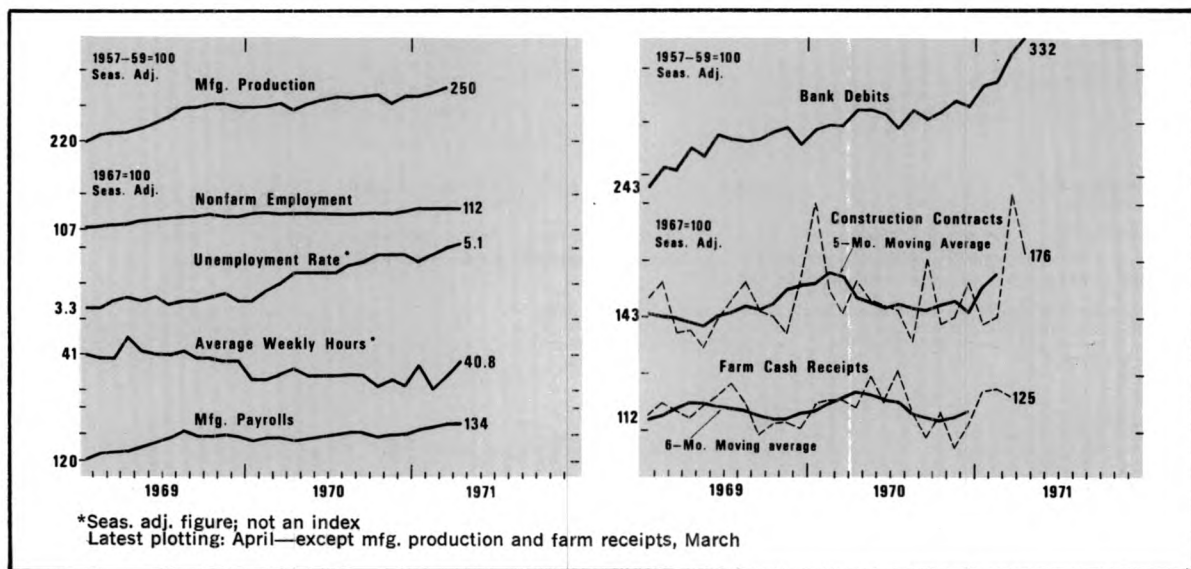
†Partially estimated

‡Estimated

r-Revised



# District Business Conditions



Sailing in a gentle breeze of an economic upturn, the regional economy continues to search for the winds of a strong economic recovery. Latest available data show that business loan demand strengthened and consumer instalment credit continued on its expansionary path; nonfarm employment remained essentially unchanged; the recovery in construction activity may be less strong than previously expected; and prices received by farmers increased slightly.

Throughout the region, business lending at most large banks continued to strengthen. The April advance was the largest monthly gain in almost two years, and indications are that the lending upturn continued in May. Bank holdings of U. S. Government securities declined sharply through the first half of May while additions to holdings of other securities proceeded at a much slower pace than in past months.

Consumer instalment credit outstanding at commercial banks continued to grow substantially in April. The monthly expansion resulted from strength in the auto loan sector and from a slight reduction in the total volume of repayments. In April, unit auto sales surpassed the April 1970 level, though the gain was somewhat less than the year-ago increases for recent months.

With employment gains in nonmanufacturing offsetting losses in the manufacturing sector, labor market conditions, on the whole, remained essentially unchanged in April. Since January 1970, manufacturing employment has continued to trend downward. Manufacturing payrolls increased partly

on the strength of a sharp advance in average manufacturing hours.

Preliminary data suggest that the recovery in construction may not be as strong as previously indicated. A principal concern is that mortgage money rates, having come down quite rapidly, may have already bottomed out. Discounts on FHA-VA home mortgages have increased appreciably in recent weeks. Another concern is that individuals and private mortgage buyers may become attracted to rising competitive yields in the capital markets. Advance reports of savings inflows indicate that while remaining substantially stronger than in early 1970, less sensational gains occurred in April.

Prices of hogs, eggs, and beef cattle in April were decidedly below last year's levels, while prices of nearly all crops went up. Tobacco and citrus prices in April were up sharply from March. Preliminary data indicate that broiler and hog prices improved in May, offering some relief to producers who were hit hard by low prices and high feed costs. Rainfall in early May relieved Florida's severe drought somewhat and improved crop prospects.

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