

monthly review

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Federal Reserve Bank of Atlanta - 1971

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Changing Priorities in Federal Expenditures

by Robert H. Floyd

The composition of Federal expenditures greatly influences the allocation of the nation's resources and the distribution of national income. Although it is less generally realized, the composition of Federal expenditures can also have a powerful effect on efforts to stabilize prices and to maintain full employment.

This article focuses on the trends and changes in the composition of Federal expenditures in the Sixties. It notes the implicit priorities in these expenditures for resource allocation and income distribution. And it points out some of the problems that these trends may create for the conduct of future economic stabilization policies.

Government Expenditures: Not All The Same

One common approach in studying priorities is to break down Federal expenditures into basically two categories — transfer payments and purchases of goods and services. In either case, the Government spends money. The two categories, however, have substantially different economic effects. Where transfer payments are involved, the Government acts essentially as a funnel. For example, consider the major transfer expenditure — Social Security payments. Social Security taxes are collected from the younger members of society who are employed. Social Security benefits, however, are paid to the elderly members of the society. Essentially, the role of the Government is to transfer purchasing power from the young to the elderly. The Government itself does not determine the final disposition of the funds — that is, it does not determine which goods and services are purchased with the funds. It does not tell the recipients of benefits that they must spend their money on rent, or automobiles, or clothing, or anything else. Consequently, the Government does

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not exercise direct command over the nation's resources. Although the fundamental nature of these expenditures is to transfer purchasing power, they also have effects on stabilization policies.

Likewise, Federal grants-in-aid to state and local governments transfer purchasing power from taxpayers to state and local governments. There is, however, an important difference. Usually, grants-in-aid are accompanied by restrictions on how the funds are to be spent. Thus, the Federal Government retains some control of the use of these funds and, therefore, the uses of national resources. In addition, it influences the uses of any required matching funds. Of course, to the extent that grants-in-aid are not accompanied by restrictions, they do not increase the influence of the Federal Government over the use of the nation's resources. Instead, the state or local government receiving the funds would exercise the control. Here, again, the Federal Government would essentially act as a funnel.

Government purchases of goods and services are a different story. These expenditures are comprised primarily of purchases of commodities and wage and salary payments. The expending government itself decides the uses of these funds and, therefore, the uses of the resources that they purchase. The government has a direct effect on the allocation of the economy's resources. Suppose, for example, that the Government decides to reduce expenditures for military aircraft and to increase expenditures for pollution control, either directly through purchases of equipment or indirectly through restricted grants-in-aid. This policy would obviously represent a significantly different use of resources. The effects on the economy are both obvious and intractable. On the one hand, workers in the aircraft and related industries would, no doubt, lose their jobs. On the other hand, new jobs would be created in the pollution control industries. This is not a simple problem, however. Aircraft workers could not simply apply for a new job in the pollution control factory. The workers might not be qualified, or they might find that they are over-qualified in terms of education and skills required. These are difficult — but, hopefully, temporary — effects of a governmental decision to reallocate resources. It might even be argued that the change in resource allocation gives rise to another high-priority need for use of Federal Government tax revenues — that is, the expenditures of funds to help displaced aircraft workers find new jobs that match their skills or to obtain new skills to match other available jobs.

The Trend in the 1960's

During the first half of the decade, total Federal expenditures absorbed a declining part of our Gross National Product (GNP). From 1965 to 1968,

these expenditures rose rapidly as a percentage of GNP, reaching a high of 21 percent in 1968. Since 1968, however, a leveling off has occurred. Most of the increase during the latter half of the decade can be attributed to the war in Southeast Asia and to the concurrent growth of domestic programs. These two factors combined to increase slightly the part of national income that has been absorbed by the Government. If either of these activities had not occurred, it is not likely that any increase would have resulted.

To what uses has the Government put approximately one-fifth of our GNP? What has been the trend in the composition of Government expenditures? While the overall trend in purchases of goods and services is essentially flat, there have been three discernible movements during the decade. Federal purchases of goods and services moved from about 10.5 percent to more than 11 percent and then downward to less than 10 percent during the first half of the decade. With the increasing commitment to the war in Southeast Asia, however, purchases began to rise rapidly in 1966 and reached a peak of 11.5 percent in 1968. Since fiscal 1968, however, direct Federal purchases of goods and services have absorbed a shrinking proportion of GNP. By fiscal year 1970, Federal purchases of goods and services constituted about 10.5 percent of GNP, a smaller part of GNP than in any year during the 1960's, except 1965 and 1966. It now appears that in fiscal 1971 these Federal purchases will shrink to less than 10 percent.

Thus, through its purchases of goods and services during the last few years, the Federal Government has exercised direct control over a relatively declining part of the economy's output and resources. For reasons to be explained later in this article, it is logical to expect this downward trend to continue. It is interesting to note that the percentage in the United States is somewhat lower than in European nations. For example, in the United Kingdom, comparable government expenditures were 16 percent of GNP in 1960 and 18 percent in 1969. In West Germany, they were 14 percent and 16 percent for the same years.

In contrast, transfer payments to individuals (such as Social Security) and foreigners absorbed an increasing share of GNP during the last decade. With the exception of 1964 and 1965, each year has seen an increase in this share. This trend reflects the strengthening of various welfare, poverty, Social Security, and other domestic programs. Both fiscal years 1961 and 1971 were periods of accelerated unemployment. In both cases, transfer payments jumped significantly. Overall, this category has increased from about 4½ percent of GNP in 1960 to more than 6½ percent estimated for fiscal 1971, with most of the increase occurring between 1966 and 1971.

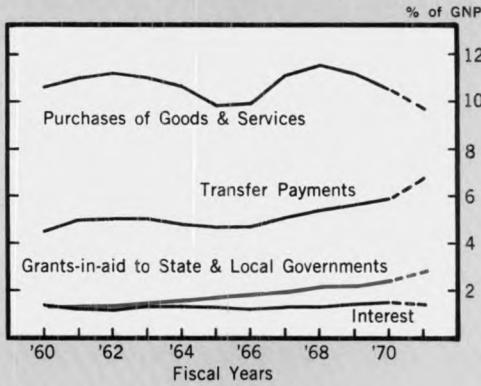
The latter figure, however, may be somewhat higher than it normally would be because of the current above-normal unemployment.

Grants-in-aid expenditures to state and local governments also increased gradually, but steadily, during the decade. These expenditures rose from slightly more than 1 percent of GNP in 1960 to about 2½ percent in 1970. This increase reflects the response of the Federal Government to the growing needs of state and local governments and their financing difficulties.

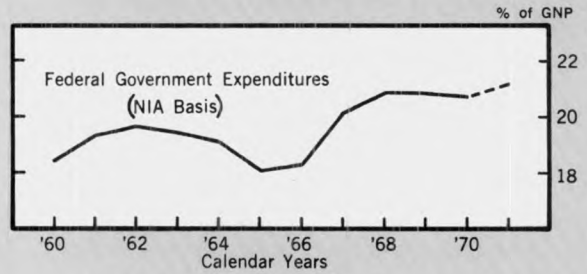
Finally, interest payments on the national debt remained a relatively constant portion of GNP during the decade — slightly less than 1½ percent. Though the Federal debt rose, it did so more slowly than the increase in GNP. Consequently, the general increase in interest rates was largely offset by a decline in the ratio of the Federal debt to GNP. Thus, the financing did not require a growing portion of GNP.

Therefore, although Federal expenditures rose only slightly as a percentage of GNP, there were significant changes in the types of expenditures undertaken. As noted, the impact of the Federal Government on the nation's resource use through its own purchases of goods and services varied during the Sixties, although, most recently, there has been a substantial downward movement. Its impact on resource allocation through grants-in-aid to state and local governments, however, has risen steadily. The Federal Government's influence on the distribution of income also increased somewhat, as seen in the rising importance of transfer payments during the latter half of the decade. The impact on income distribution of servicing the national debt, however, remained relatively unchanged.

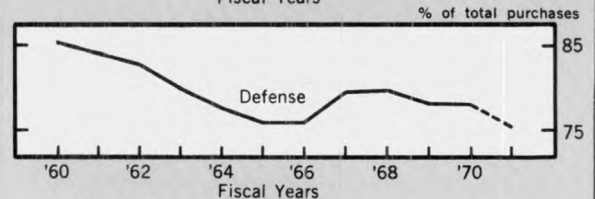
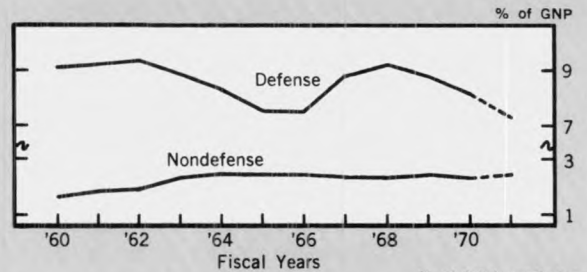
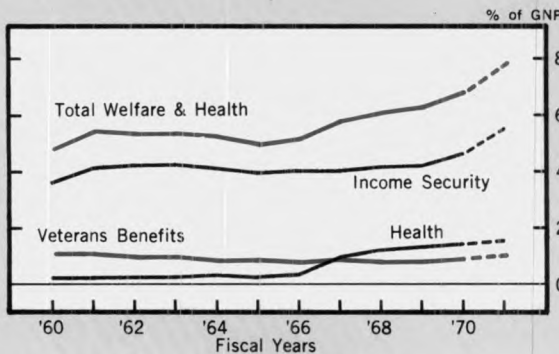
The movements in total purchases of goods and services are largely explained by fluctuations in defense expenditures. Most Federal purchases



As transfer payments begin to play a larger role, Federal expenditures outgrow the economy.



Income security and health programs gain in importance, while defense activities take a smaller share.



of goods and services are defense oriented. Since defense is a traditional and almost exclusive function of every national government, this is to be expected. In 1960, Federal purchases comprised over 9 percent of GNP but by 1965 had fallen to slightly more than 7 percent. With the escalation of the war in Southeast Asia, however, defense purchases rose rapidly until 1968. Since 1968, defense purchases again have absorbed a smaller part of GNP — falling to slightly over 8 percent in fiscal 1970 — and are expected to continue to fall during fiscal 1971. During the Sixties, the war-related buildup largely offset what, apparently, would have been a tendency for defense expenditures to absorb a declining portion of the nation's output.

Federal nondefense purchases, on the other hand, rose from slightly more than 1½ percent of GNP in 1960 to about 2½ percent in 1964. With minor fluctuations, they have remained at approximately that level to the present. Because of this small increase and because of the downward trend in defense purchases, nondefense purchases have represented a small, but growing, part of total Federal purchases of goods and services. Whereas nondefense purchases comprised 16 percent of all purchases in 1960, they made up about 23 percent by 1970. Only in fiscal year 1967 did this ratio fall. Nondefense purchases constituted almost 25 percent in 1965 and are estimated to return to approximately that level in fiscal 1971. From this, it appears that Federal expenditures have tended to allocate directly a smaller part of GNP to defense and to allocate a slightly rising part of the nation's resources to nondefense usages.

To summarize the trends in Federal expenditures during the Sixties, the decade may be broken down into three distinct periods. From 1960 to 1965, defense and total purchases declined as a share of GNP, and transfer payments remained a relatively constant share. Consequently, Federal expenditures constituted a declining share of GNP. The period 1965 to 1968 saw an increasing commitment to both the war in Southeast Asia and to domestic social programs. Defense purchases, transfer payments, and total Federal expenditures rose as a percent of GNP. Since 1968, declining defense purchases have been offset by increasing transfer payments, so that total Federal expenditures have constituted a fairly steady share of GNP.

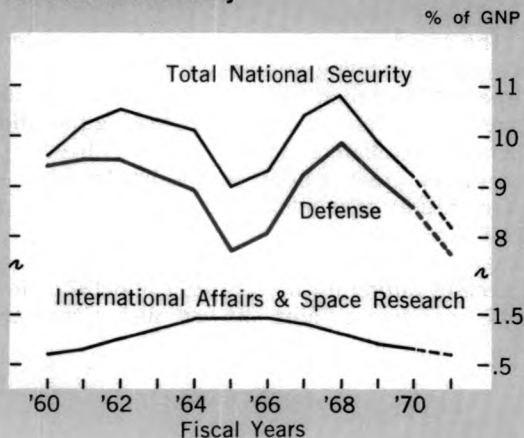
Expenditures by Function

The trends in Federal expenditures may also be observed by reviewing their composition by purpose or function. For example, consider what has happened to total welfare-related expenditures, whether they be made by transfer payment, grants-in-aid, or direct purchase. Total Federal expenditures on welfare and health increased

from about 5 percent to 7 percent of GNP during the last five years of the Sixties. They are projected to continue to rise in fiscal 1971 because of large expected increases in Social Security and public assistance payments. The rise is partly accounted for by an increase in income security expenditures (primarily Social Security) from 3½ percent to 4½ percent of GNP. A large part is also accounted for by rising health expenditures. With the advent of Medicare, the proportion of GNP devoted to Federal health expenditures tripled between 1966 and 1970. Expenditures for veterans benefits and services showed no significant change during the 1960's, remaining at about one percent of GNP. Thus, in the last half of the Sixties, Federal expenditures have strongly reflected the nation's increasing commitment to income security and health.

The two principal components of national security expenditures — national defense and international affairs and space — have moved in opposite directions. In the first half of the decade, the growth in space expenditures somewhat mitigated the relative decline in defense

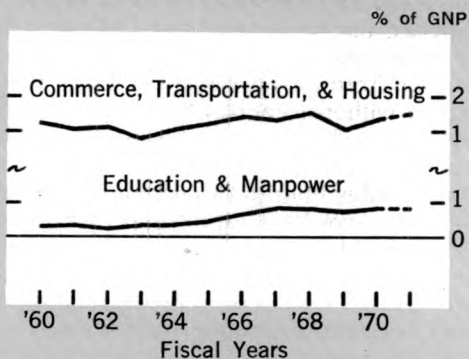
Defense and space share the reduced priority for national security



expenditures, thus holding up total national security expenditures. Since 1966, however, the opposite has occurred. Space expenditures have declined and have, therefore, heightened the decline in the portion of GNP devoted to total national security expenditures.

Federal expenditures on commerce, transportation, and housing have remained a fairly steady portion of GNP. These expenditures now constitute a shade more than one percent of GNP. Federal expenditures on manpower and education

Transportation, education, and other expenditures show little gain



rose somewhat in the second half of the decade but still account for less than one percent of GNP in 1970. The remaining functional categories of the Federal budget — agriculture, natural resources, general government, and interest—all remained at fairly constant percentages of GNP. Agriculture and rural development expenditures constituted less than 1 percent; and natural resource expenditures and general government expenditures were less than ½ percent of GNP during the decade.

The trends in functional expenditures underscore the declining importance of defense expenditures noted earlier. In addition, they indicate the nondefense areas of increasing priorities. Generally, welfare and health activities have received the greatest boost in priority. Health expenditures rose significantly between 1966 and 1968, and income security programs have increased rapidly since 1968, with additional increases during fiscal years 1971 and 1972. No other nondefense area showed such significantly changed priorities over the decade.

Implications

Clearly, the 1960's have been years of changing priorities in Federal expenditures. Had the war in Southeast Asia not occurred, these changes, doubtlessly, would have been more pronounced. It is also important to ask if these trends will continue and, if so, what some of the effects would be and what the implications for future economic policies would be.

Barring a substantial deterioration in world relations or increased U. S. military commitments, it is likely that the proportion of GNP absorbed by defense expenditures will decline somewhat more. As the economy and GNP grow, defense expenditures will probably not need to grow as rapidly in order to provide

an adequate defense. The **1971 Economic Report of the President** projects that by 1975 and 1976 Federal purchases of goods and services on the basis of existing programs could fall to about 7 percent of GNP.¹

The upward trend in Federal transfers and grants is also likely to continue. Current debate and discussion indicate strongly that the needs of the future will probably lie in areas such as income security, welfare reform, education, urban problems, housing, and medical services and facilities. In that event, these areas will probably be assigned high priority in future Federal budgets and could easily absorb even more of the nation's output than at the present.

The form of Federal expenditures would almost certainly be increased transfer payments and grants, rather than purchases of goods and services. The growing fiscal crises among state and local governments may also lead to new grants from the Federal Government, such as some form of revenue sharing, or Federal assumption of some of their transfer activities. In addition, Federal assistance for urban and rural development problems will probably be in the form of grants-in-aid and other transfers involving fewer restrictions than in the past. Thus, as defense purchases fall relatively, transfers and less restricted grants are likely to continue to rise in importance. In that case, the Federal Government would tend to exercise less direct control over the allocation of the nation's economic resources.

It is not clear, however, that Federal expenditures as a percentage of GNP will fall. The future size of the Federal Government in the economy will be determined primarily by the needs and demands for public services. The flexibility of the Government to respond to future requirements, however, has almost surely been constrained by the shift from defense to nondefense and from purchases to transfers. The increased social programs and transfer payments often tend to involve uncontrollable expenditures. Under existing statutes, the Government is committed to these expenditures. There are at least two aspects to this lock-in effect. First, to the increasing extent that these expenditures rise as the economy slows down (or vice versa), such expenditures provide an automatic or built-in stabilizing effect on the economy. This could relieve, but not eliminate, the need for aggregate fiscal and monetary stimulation. The second effect is that they could reduce the flexibility of fiscal policy for stabilizing the economy. Suppose, for example, an overheated economy required restrictive fiscal measures. As defense expenditures approach a minimum

¹*Economic Report of the President 1971* (Washington, D. C.: Government Printing Office, 1971), pp. 94-104.

safe level and as nondefense, uncontrollable expenditures become a larger part of the budget, the Federal Government's latitude to make substantial expenditure cuts or slowdowns will be reduced. The Government could still control fiscal policy but primarily through taxation changes.

Constraints on the Future

The shift in priorities has reduced the flexibility of fiscal policy in another important respect — in particular, the ability to undertake new or expanded programs. Ordinarily, as the economy grows, Federal revenues grow at least as rapidly under the existing tax system. Thus, in the past, the Government has been automatically provided with a fiscal dividend to finance new programs. With the shift in priorities and the lock-in effect of transfer payments, however, the decisions made in the past have already committed many of the resources that otherwise would have been available for future use.

Although estimates have varied, most indicate that the fiscal dividend will be quite small for the next several years, even after allowing for continued de-emphasis on defense expenditures. One prominent projection estimates that the costs of existing programs and of new programs proposed in the fiscal 1972 budget, alone, will absorb all the revenue that the existing tax structure will generate until fiscal year 1976.² The **1971 Economic Report of the President** was somewhat more optimistic but still estimated that only about \$3 billion per year would be available until 1976. This would amount to little more than a one-percent increase in Federal expenditures.

If these estimates turn out to be reasonably accurate, then the commitments of the past will have severely constrained the future. There is little doubt that new programs will be needed in the future. In addition, many experts believe that it will be necessary for the Federal budget to include a full employment surplus in the future if we are to achieve a noninflationary, fully employed economy and, at the same time, achieve our national housing objectives. An adequate Federal budget surplus may be required to augment an insufficient supply of private savings if many of the nation's capital requirements are to be met in the future.

Certain implications of these commitments for economic stabilization policies during the next several years are fairly clear. It now appears that any significant expansion of existing Federal programs or introduction of new programs

can, under these conditions, be achieved in only three ways. First, and most obvious, taxes could be increased. Second, some existing programs could be cut back to make room for new ones. Since the estimates already include substantial cutbacks in defense, this course is not promising. Third, expenditures could simply be increased without raising taxes. The third course, however, especially if accompanied by a relatively easy monetary policy and low interest rates, would probably tend to be inflationary. If monetary policy were kept tight in order to counter inflation, higher interest rates would divert to the Federal Government some resources that otherwise would go into state and local housing and private investment sectors of the economy.

None of these three alternatives for expanding or adding Federal programs are particularly desirable. The reorientation of priorities has, therefore, created problems that require difficult monetary and fiscal policy decisions for the future. It has also created more immediate problems.

Structural Problems

The shift away from Federal defense purchases to nondefense purchases and transfers has resulted in fairly persistent and high unemployment in areas that were heavy suppliers of defense and related goods, such as aerospace. This has already appeared in numerous West Coast areas — for example, Seattle. This resulting unemployment is primarily structural in nature, rather than cyclical. It may not respond quickly to even the most stimulative, general monetary and fiscal policies. Skilled and highly trained unemployed persons may not only need another job, they may need additional training to meet the requirements of the job. Plants and equipment will have to be converted to other usages. These transitions may require both time and measures other than normal, countercyclical policies.

Cyclical unemployment has also developed and persisted as a result of lagging aggregate demand and has been superimposed upon the structural unemployment. Stimulative monetary and fiscal policies are attempting to spur aggregate demand and, thereby, to reduce unemployment. Although these policies will hopefully succeed in eliminating cyclical unemployment, they may be ineffective or even undesirable cures for structural unemployment. If continued after cyclical unemployment is eliminated, stimulation might eventually relieve structural unemployment in the defense and aerospace sectors of the economy. But it would probably do so by creating or heightening inflationary pressures on prices in the nondefense sector. This phenomenon might be termed "structural inflationary pressure" in the nondefense sector. Obviously, the relative rise in prices of the nondefense sector would provide a signal and

²Charles L. Schultze et al, *Setting National Priorities: The 1972 Budget* (Washington, D. C.: Brookings Institution, 1971), pp. 319-333.

incentive for unemployed defense resources to shift to nondefense production. As just noted, however, the shift is likely to be slow and perhaps incomplete. On the other hand, restrictive aggregate monetary and fiscal policies might counter price pressures in the nondefense sector, but they would do little to relieve the structural unemployment. In short, there is little that countercyclical policy measures can do to offset structural disorders in the economy.

Therefore, it appears that one result of the shift in Federal expenditure priorities will be a growing search for additional policy actions. Temporary measures may be required to shorten the transition period necessary to shift resources formerly

employed in defense and defense-related activities to other productive uses. For example, additional Federal programs may be called for to retrain workers. Tax breaks or subsidies could speed the conversion of plant and equipment. In other words, more structural policy measures may be required in addition to countercyclical measures.

Thus, substantial changes have, indeed, taken place in the pattern of Federal expenditures. The altered priorities that these changes reflect will not go unnoticed in the private sector of the economy. But before the transition is complete, some new—but probably temporary—measures will be required to achieve a more orderly and rapid shift in the nation's priorities. ■

Bank Announcements

JUNE 1, 1971

FIRST NATIONAL BANK OF HALLANDALE
Hallandale, Florida

Opened for business. Officers: Maynard A. Abrams, chairman; William A. Hofman, president; and

Harold C. Satchell, executive vice president and cashier. Capital, \$750,000; surplus and other capital funds, \$750,000.

JUNE 18, 1971

**EXCHANGE BANK OF NORTH
WINTER HAVEN**

Winter Haven, Florida

Opened for business as a nonmember. Officers: Albert Griffin, chairman; Jack Straughn, vice chairman; Charles K. Hetzer, president; F. V. Culver, Jr., executive vice president; and David I. Peterson, cashier and security officer. Capital, \$300,000; surplus and other capital funds, \$300,000.

Mobile Home Manufacturing

Infant Industry Grows Up

by William D. Toal

What exactly constitutes the first mobile home is a matter of considerable conjecture. Whether it be the covered wagon of frontier days or the "tin box" of the 1930's and 1940's, one fact is clear—since the early 1950's and especially during the last decade, mobile home manufacturing has been one of the most rapidly expanding industries in the nation. And much of this growth has occurred in that part of the South included in the Sixth Federal Reserve District.¹

Lying behind the industry's rapid growth has been a gradual relaxation of legislation restricting the size of mobile home units that can be transported over the nation's highways. The initial signs of what was to be today's mobile home industry occurred in 1954 when the first 10-foot wide units were allowed. Since then, vehicle width has expanded to 12-foot wide units, which are allowable in all states, and 14-foot and 16-foot wide units, which have been approved by some states and remain hot issues of debate in other states. Besides providing a more attractive and livable unit, the present day 12 x 66 foot mobile home has gradually dispelled the old "trailer image" that has haunted the industry for many years. Remnants of these bygone days, however, still exist, blighting the nation's countryside.

During the 1960's, the mobile home industry's growth accelerated to a more rapid pace than that of the 1950's. Skyrocketing costs in residential construction, the industry's chief competitor, has been the most important factor in this growth. Between 1964 and 1968, the median sale price of homes was increasing at annual rates, ranging between 5 percent and 8.8 percent. The consequent price advantage gained by the mobile home industry allowed it to capture 33 percent of all new single family housing units in 1970 and 96 percent of single housing units under \$15,000.

Rapid Growth in Southeast

The Southeast (as defined by the six states making up the Sixth Federal Reserve District) has not only participated in the industry's growth but has actually become the leading section of the country, both in terms of production and in terms of providing a consumer market for mobile homes. More

¹This includes Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee.

than 25 percent of the nation's mobile homes are produced in the Southeast and nearly that many are shipped within the region. In fact, as Table 1 points out, the Southeast's mobile home industry has grown to be a net exporter of units.

TABLE 1

Production and Shipments of Mobile Homes in 1970

	Production	Percent of U. S.	Shipments	Percent of U. S.
Alabama	23,440	5.7	12,463	3.1
Florida	26,700	6.5	37,854	9.4
Georgia	48,160	11.8	22,976	5.7
Louisiana	5,330	1.3	6,371	1.6
Mississippi	5,430	1.3	6,823	1.7
Tennessee	4,830	1.2	8,822	2.2
Dist. States	113,890	27.9	95,309	23.8
U. S.	408,350	100.0	401,190	100.0

Source: Mobile Home Manufacturers Association

Although the mobile home industry has shown tremendous growth, in fact, outstripping the growth of most of the major industries in the Southeast, it still must take a back seat to these industries in absolute importance. As Table 2 indicates, however, the industry does generate a considerable amount of income in the more than 200 plants that dot the Southeast and that employ some 17,000 workers. Also, besides the direct economic benefits, the industry provides a substantial amount of shelter (see Table 3) for the Southeast. In 1970, the number of mobile

TABLE 2

Employment and Payrolls in Southeastern Mobile Home Plants

(First Quarter of 1970)

	Number of Plants	Employment	Payrolls \$
Alabama	33	3,938	4,744,258
Florida	82	4,259	7,129,769
Georgia	79	6,400	9,241,388
Louisiana	13	850	1,085,000
Mississippi	9	981	1,369,798
Tennessee	19	993	1,247,846
Dist. States	235	17,421	24,818,059

Source: Individual State Departments of Labor

TABLE 3

Mobile Home and Housing Units—1970

	Existing Mobile Home Units	All Residential Housing Units	Percent of All Residential Housing Units
Alabama	46,604	1,118,948	4.2
Florida	150,064	2,522,080	6.0
Georgia	66,842	1,468,858	4.6
Louisiana	34,072	1,149,033	3.0
Mississippi	26,909	699,150	3.8
Tennessee	42,797	1,298,788	3.3
Dist. States	367,288	8,256,857	4.4
U. S.	1,847,326	68,627,366	2.7

Source: Census of Housing (1970), U. S. Department of Commerce, Bureau of Census

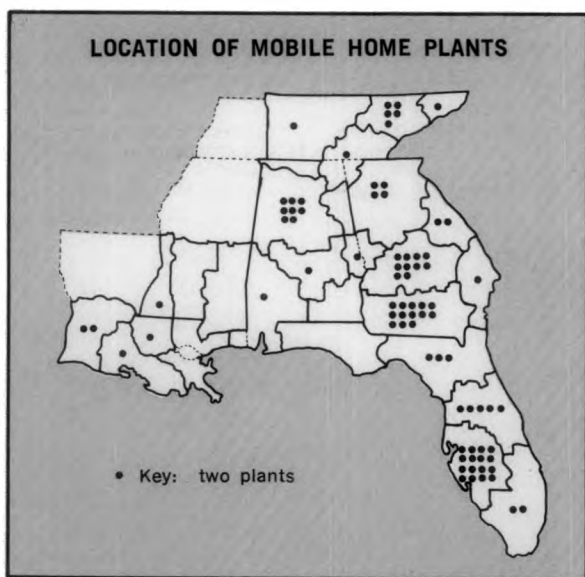
homes in the region was equivalent to 4.4 percent of all existing housing units. This compares with a national figure of 2.7 percent. The region's lower per capita personal income partially explains this greater concentration. Also, the region is still not as heavily urbanized as the entire nation; rural areas traditionally have less stringent zoning codes than metropolitan areas. As noted later, however, these are by no means the only factors that influence type of shelter.

The economic importance of the mobile home industry, as with all industries, does not end with the producers themselves. The industry's suppliers of raw material, who account for 65 percent to 70 percent of the wholesale value of a mobile home, are of equal importance. Wood, steel, and aluminum are the raw materials that mobile home producers use in the greatest quantities. Although a large percentage of these resources do not come from the Southeast (e.g., Georgia pine is not used heavily; most wood comes from the Northwest or Canada), a large number of suppliers of direct requirements (e.g., aluminum doors) have located in the Southeast. These suppliers have added further employment and income to the region's economy; for example, one study classifies some 57 companies in Georgia as major manufacturers and suppliers for the mobile home industry.²

Geography of the Industry

Because of the high transportation cost of shipping mobile homes (around 65 cents per mile),

²1970 *Georgia Mobile Home Manufacturing* (Atlanta: Research Division, Department of Industry and Trade, February 1970), pp. 15-16.



Source: 1970 manufacturing directories for each District state

the market area is usually restricted to within a 250 to 300 mile radius of the manufacturing plant. Consequently, the geography of the mobile home industry consists of a large number of plants scattered throughout the Southeast, usually in rural areas. Three clusters of mobile homes manufacturers, however, have emerged in south Georgia, north central Florida, and northwest Alabama, and these clusters tend to draw suppliers to service the needs of the manufacturers. The south Georgia cluster, in particular, is situated so that it can serve a five-state area. The influence of the Florida market is particularly important, since a large portion of production from southern Georgia is shipped to Florida, as borne out by the two states' production and shipments figures. Florida's rapidly expanding market for vacation homes and retirement homes has, in fact, acted as a special feature in the industry's growth in the Southeast, particularly in Florida and Georgia.

Besides the potential sales market, the availability of large pools of unskilled and semiskilled labor and the rural atmosphere that helps ward off union activity are other features that have attracted manufacturers to their present locations. Today, the mobile home industry in the Southeast remains essentially nonunion.

Industry Characteristics

An industry that has expanded as rapidly as mobile home manufacturing is difficult to characterize in terms of market structure. Basically, the industry has, in the past, been considered extremely competitive. This notion stems from the large number of independent producers and the ease

of entry (a basic requirement for a competitive industry) that has existed. The day is gone, however, when a small businessman with about \$10,000 and a garage could set up a mobile home plant. Today, the smaller local plants that do exist in the region usually produce high-priced custom-made units. Most of the new plants are approximately 75,000 square feet, cost about \$1 million, and when operating at capacity, employ approximately 100 workers. Most producers tend to agree that this is the most efficient-plant size.

As it has grown, the mobile home industry has acquired certain economies of scale that give it an advantage over conventional construction. These economies are of both a real nature—that is, technical efficiencies that occur as plant size operations increase—and of a pecuniary nature—that is, lower prices of materials brought about by mass purchases. In 1969, an average mobile home cost \$8.75 per square foot to build, compared with anywhere from \$14 to \$20 per square foot for on-site construction.

The real economies of scale that the industry now enjoys are gained through the use of assembly line production. In this sense, the industry resembles the automobile industry; however, the assembly line jobs are not nearly as well defined as in the automobile industry. At the initial staging area, the floor and chassis are built and assembled; further down the line, walls are built and then transported by rigs to the floor sections and assembled. In between these staging areas are other areas where plumbing (usually plastic) and electrical wiring are installed. As the structure progresses along the assembly line, the roof—which has been built at another staging area—is assembled, the interior walls and trim are added to suit the particular models specifications, and finally the drapery and furniture are installed. Presto! Within a few hours (and at some plants less than an hour) a mobile home emerges, complete with furnishings!

Though the general assembly line techniques are essentially the same among most manufacturers, some differences do exist. For example, most of the older plants are so constructed that units move down the assembly line end-to-end. The newer plants, however, are designed so that units move sideways; this saves space with a consequent increase in plant efficiency.

Concerning the extent of fabrication, two theories seem to prevail among manufacturers. Some plants are merely assemblers of parts; others fabricate a great deal of their own material. For example, one major manufacturer, besides making his own chassis, fabricates his metal siding and also builds his furniture.

Plant output varies, of course, depending upon plant size and employment. A usual day's output

ranges between two units in the smaller plants to slightly over 25 units in the largest plants. A common figure used to measure operating efficiency is the employee-output ratio that measures the number of workers it would take to produce one mobile home in a week. For most manufacturers, this ratio is somewhere between 4:1 and 5:1. One manufacturer, known to be the most efficient in the industry, has an impressive 2:1 ratio.

Most manufacturers point to a good work crew as the most important factor in achieving a low employee-output ratio. Though the average industry wage is, at most, equal to the average wage in manufacturing in the Southeast, the use of an incentive scale by many plants (whereby workers receive additional hourly pay for meeting daily quotas) enables them to maintain a more efficient employee-output ratio. This incentive pay can range from a few cents per hour to as much as \$2 per hour and can make it possible for the production worker to earn an average wage ranging up to \$4.50 per hour.

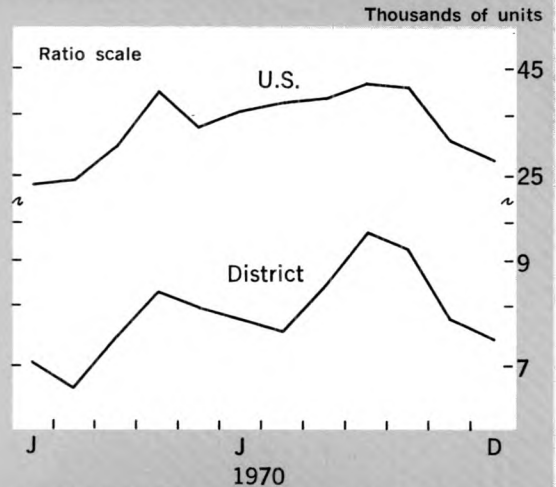
As a result of the assembly line techniques, mobile home manufacturing is much less labor-intensive than conventional construction. Direct labor costs range between 8 percent and 12 percent of the wholesale value of a mobile home, compared with about 40 percent for conventional construction costs. The remainder of the wholesale value of a mobile home is composed of material costs—65-70 percent; indirect costs—about 10 percent; and pretax profits—10 percent. (To reach retail price, there is the usual additional cost of the 20-percent dealer markup.)

The Market

The mobile home industry, in the Southeast and nationally, shares a common problem with residential construction. An examination of shipment figures indicates, surprisingly, that the industry suffers from seasonal influences. Shipments usually drop off in November and remain at a below-normal level until February when they start to pick up. Cold weather—which keeps shoppers away, along with shipment and installation problems that occur in the winter months—accounts for most of this seasonal variation. Normally, during these months, manufacturers, because they are inventory-conscious, will slow down production or, in rare cases, close down for a month rather than build up large inventories.

The mobile home manufacturer usually sells his product to dealers who, in turn, sell in a market that contains a high degree of competition. This is especially true within the specific price ranges of the market. Although the average retail cost of a mobile home is slightly more than

Seasonal influences affect mobile home shipments



Source: Mobile Home Manufacturers Association, Chicago, Illinois

\$6,000, the lowest priced units cost approximately \$3,000; the retail price of the most expensive double-wide units can range up to \$15,000, with a few going even higher. Because less insulation and thinner walls can be installed in mobile homes in the Southeast, the average mobile home price is about \$300 to \$600 less than a comparable model in the North. Many of the larger manufacturers produce and sell in all price ranges. In fact, in order to allow certain dealers in an area to have exclusive rights to one brand-name unit, some manufacturers produce several models in the same price range.

Although it is not true in all cases, many manufacturers have already contracted units to dealers before the units even come off the assembly line. Since most producers are inventory-conscious, they usually will not allow more than two weeks production to build up before slowing down production. The type of unit actually produced is determined by demand forces in the market. As one manufacturer noted, "At present, in the Southeast the hottest number appears to be the unit that sells at the high end of the low price range—i.e., slightly over \$5,000."

Most of the larger manufacturers sell only on a cash basis. The dealers usually finance their purchase by *floor plan* loans arranged through commercial banks, finance companies, and, more recently, by savings and loan institutions. These loans are usually made for 100 percent of the manufacturer's invoice. Table 4 indicates the extent to which Southeastern commercial banks have participated in this type of financing.

TABLE 4
Commercial Bank Floor Plan Loans

June 30, 1970

	Amounts Outstanding (\$ millions)	Banks with Loans Outstanding
Alabama	2.6	43
Florida	17.3	142
Georgia	3.5	60
Louisiana	3.2	39
Mississippi	2.0	21
Tennessee	7.2	62
Dist. States	35.8	367

Source: Data are from supplemental questionnaire to June 30, 1970 Call Reports for all banks. "Bank Financing of Mobile Homes," *Federal Reserve Bulletin*, March 1971.

Although no recent data are available, finance companies are an even more important source of credit for dealers. (This is also true of retail paper where finance companies, in 1969, accounted for 77 percent of the outstandings, according to a Mobile Home Manufacturers Association survey.) Interest rates on floor plan loans are not particularly attractive to lenders. In order to capture the more profitable retail paper, however, lenders are willing to make these dealer loans. Usually a bank or finance company will not take floor planning unless they also obtain the retail or conditional sales contracts of the dealer.

Usually there is a *curtailment* on floor plan loans. That is, a dealer must repay 10 percent after 90 days and another 10 percent after another 90 days. Usually the entire loan is expected to be paid off at the end of seven months. Also, many floor plan loans provide for the manufacturer's repurchase in the case of dealer default. This *repurchase agreement* may be for all or only a portion of the loan. Some repurchase agreements are designed to cover only a portion of manufacturer's invoice (e.g., 90 percent). Consequently, dealers with some stake in any incurred loss have a greater incentive to sell this particular manufacturer's unit.

Industry Trends

As the industry has grown, there has been a trend in the Southeast and in the nation toward a greater concentration of production and sales in the hands of the large national corporations. In 1970, the 20 top manufacturers produced 80 percent of all mobile home units.

Along with increased concentration, there has also been a higher degree of integration—both horizontal and vertical—by the large manufacturers. In fact, this integration is exactly what has made them large.

In deciding on an expansion route, most of the larger manufacturers have chosen to integrate horizontally first—that is, to add manufacturing plants in various areas of the country. The means to this end lie in either building new plants or acquiring smaller manufacturers.

On the other hand, a few manufacturers have chosen to integrate vertically first—that is, to either produce many of the plant's own inputs such as furniture, side panelling, steel frames, etc., or to purchase other plants that produce them. Vertical integration has also occurred in another manner. Some manufacturers have acquired or are in the process of acquiring their own dealerships, developing their own mobile home parks, and handling their own retail financing. In fact, a few manufacturers have emerged as subsidiaries of some of these types of enterprises.

Manufacturers' Sources of Finance

In a growing industry, available financing is all important for continued expansion. In the mobile home industry, besides the dealer-manufacturer financial ties already mentioned, manufacturers' financing for plant start-up and operations is accomplished in a variety of ways. In the last ten years, both public and private stock offerings have become more commonplace among the medium-and large-sized manufacturers. Meanwhile, many of the smaller manufacturers have started as a group of businessmen who had outside sources of funds readily available for their use. In other cases, county development agencies, at times in conjunction with local banks, have supplied the necessary funds to start plant operations. Direct commercial bank loans, however, have financed the initial plant investment in several cases. For the larger corporations, internal funds are often sufficient to handle expansion, although some rely on commercial bank financing.

To finance day-to-day operations, mobile home manufacturers take advantage of several sources of finance. The suppliers of parts to manufacturers who usually grant credit for 30-to-90 day periods make up one of the largest sources. Suppliers, in turn, usually obtain accounts receivable financing from commercial banks in the local areas. But, because of the high cost of supplier credit, some manufacturers have turned to their own accounts receivable financing with large city commercial banks. Since many manufacturers operate on a cash-sale basis, however, (that is, they themselves grant very little credit to dealers) the extent of accounts receivable

financing is rather limited. Some commercial banks have also extended direct lines of credit, usually used for inventory financing, to manufacturers. This type of financing is particularly adaptable to the manufacturer's seasonal needs.

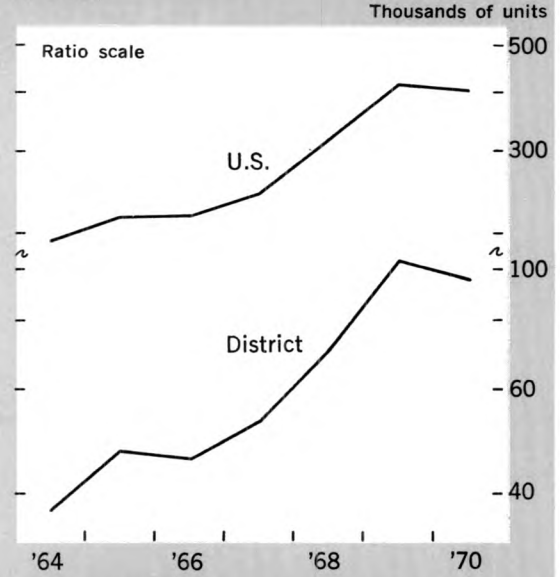
The 1970 Slowdown

Optimism reigned supreme in the Southeast's mobile home industry in late 1969. Buoyed by forecasts of between 460,000 and 470,000 unit shipments nationally for 1970 (up from 412,690 units shipped in 1969), the industry expanded capacity. In the Southeast, from January 1969 to September 1970, at least 51 announcements of plant construction were recorded. These new plants, upon completion, are expected to offer employment to approximately 6,000 workers. Nationally, rapid plant expansion was taking place, with some 5 million square feet of manufacturing space being added in 1969; this represented a 50-percent increase in capacity in one year. The cause for this optimism was the 32-percent gain in shipments (national) in 1968 and the 30-percent gain in 1969. When the actual results were in for 1970, however, shipments for the Southeast and the nation had actually decreased from 1969 levels. Though mobile home shipments were up considerably in the first quarter of 1971 (14 percent over the previous quarter), these 1970 results have tended to cast doubt on some industry forecasts of 15-percent to 20-percent annual shipment gains in the Seventies.

Naturally, when the slowdown hit in 1970, most manufacturers were left with excess plant capacity. Consequently, many of the larger companies saw their stock prices drop in 1970 as earnings tailed off. And, many producers cut back on their work force and are now operating at about two-thirds of their peak efficiency levels. Some manufacturers, however, have found that an industry that allows "ease of entry" also implies "ease of exit" as dynamic adjustments are made to reductions in demand. A number of plant closings that occurred in the Southeast during 1970 bear witness to this fact.

Why was demand so sluggish in 1970? When credit began to tighten up in 1969, some mobile home experts were convinced that their industry would not feel the pinch, since the high yield on mobile home consumer paper, they pointed out, would attract funds into this loan market. Nevertheless, commercial banks and, to a more limited degree, finance companies did restrict mobile home loans considerably in 1970. In several cases, this tightening up came in the form of upgrading the quality of loans. More important in explaining the sales drop off, however, is that the durable goods industries,

Growth in mobile home shipments slackens in 1970



Source: Mobile Home Manufacturers Association, Chicago, Illinois

including the mobile home industry, usually are hit hardest when consumers postpone purchases during periods of economic slowdown. Regardless of the cause of the downturn, the 1970 experience indicates that the industry does not perform countercyclically, as some experts had previously indicated.

What Lies Ahead

While 1970 wilted the mobile home industry's rosy expectations, there is little doubt that the industry continues to have tremendous growth potential. The question is, "By how much and in what direction will it grow?" The industry continues to be plagued by a number of problems which, if not resolved, will become an even greater disadvantage in the future.

The shortage of mobile home parks has severely restricted demand. This problem continues today as the annual increase in mobile home lots falls far behind the output and sales of mobile home units. Some manufacturers, however, are attempting to resolve the lot shortage problem by producing, developing, and merchandising a packaged unit—the mobile home already set up in a mobile home park.

Building codes, which have been a constant sore spot for the industry over the years, have compounded the problem of lot shortage. The multiplicity of these codes makes it almost impossible for a manufacturer to build a standard

unit that will satisfy different local codes within one state, let alone between states. Recently, the U.S.A. Standards Committee on Mobile Homes and Travel Trailers—a committee sponsored by the Mobile Home Manufacturers Association, the Trailer Coach Association, and the National Fire Protection Association—developed a standard code for mobile home production. This code (A 119.1) has been adopted by most of the Southeastern states. It provides for the state fire marshal to inspect units at the factory to certify that they abide by the code. In most states, however, local building codes can still successfully restrict mobile homes. Nevertheless, it appears that states are taking steps that will aid the mobile home industry.

Local safety laws and zoning codes, however, still effectively limit mobile homes to only certain, usually rural, areas. The development of modular housing—that is, manufactured housing without a chassis or wheels—has been able to overcome some zoning codes. If the mobile home industry is to successfully make inroads into zoned areas, it appears that a switch to a greater concentration on modular construction might be necessary.

The relatively high cost of financing a mobile home purchase is another problem area where breakthroughs are being made. Both the Federal Housing Administration and the Veterans Administration have adopted programs to insure mobile home loans. So far these programs have not been used to any large degree because Congressional legislation has set interest rate ceilings on these insured loans considerably below current rates. Should interest rates ease, however, VA insured financing, which has an interest rate ceiling considerably above FHA limits, may play an important part in stimulating mobile home demand.

Moreover, savings and loan associations are now becoming increasingly interested in mobile home financing, after being freed to make such loans. They appear to be especially interested in loans where the mobile home and lot site are bought in a packaged deal.

The trend toward double-wide mobile home units has led the Federal Housing Administration

to grant some of these units financing under Section 235 of the National Housing Act. This subsidy program allows not only smaller interest payments but a longer maturity on the loan. A number of manufacturers have recently been submitting their units to FHA to be certified for this type of mortgage financing.

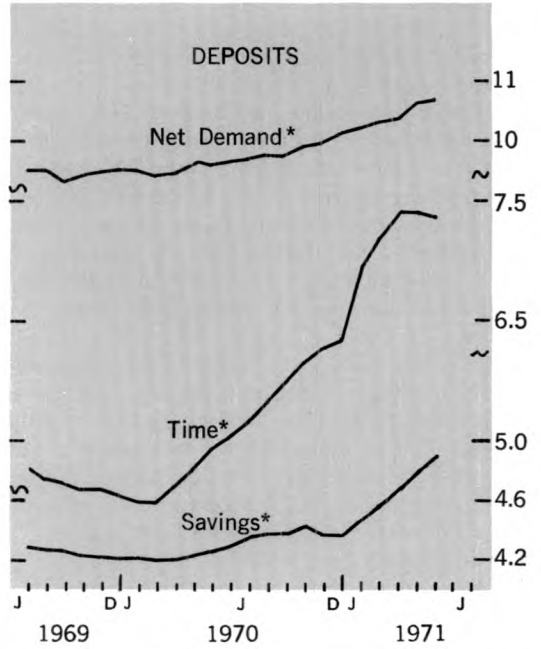
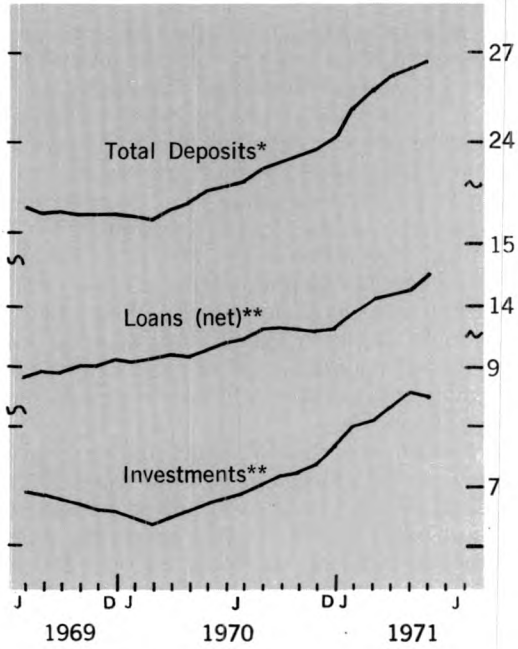
As a move away from mobile housing into modular housing develops, there will probably be more financing of the mortgage variety. According to the industry's Blue Book, mobile homes depreciate rapidly, losing approximately 25 percent of their value in the first year and about 10 percent annually thereafter. Consequently, most lenders will not finance these units through long-term loans. Modular units, however, that maintain a value more in line with regular construction will have access to mortgage financing.

Though new developments in financing will probably give the industry a lift in the 1970's, developments in the construction industry may offset much of this lift. The residential construction industry has finally become aware that it has given away the low-cost housing market to the mobile home industry and will, no doubt, become more competitive in this market in the future.

In summary, although 1970 was probably only a pause in the mobile home industry's growth, it appears that the rosy expectations of future growth, painted by some analysts, are far too optimistic. Although the industry has come a long way in the last decade, it still has a number of problems that might be more readily overcome if it were to move more into modular production. A shift along these lines is likely to occur as the industry attempts to deal with zoning codes, lower its product's depreciation, and, thus, qualify for mortgage financing. In addition, as modular production takes over a greater share of the industry's output, there will be a need for better marketing, probably implying manufacturers' expansion into land development. Finally, with this expansion and the consequent increased need for funds, the trend toward concentration in the mobile home industry can be expected to continue. ■

BANKING STATISTICS

Billion \$



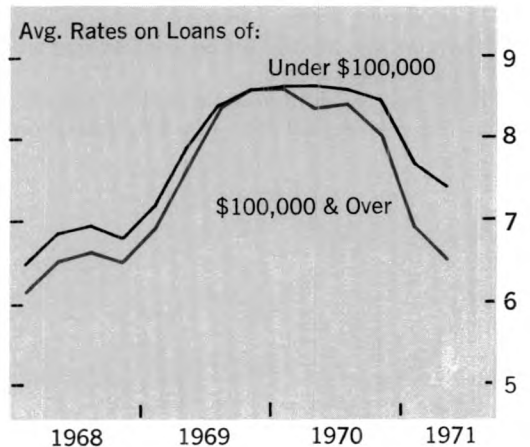
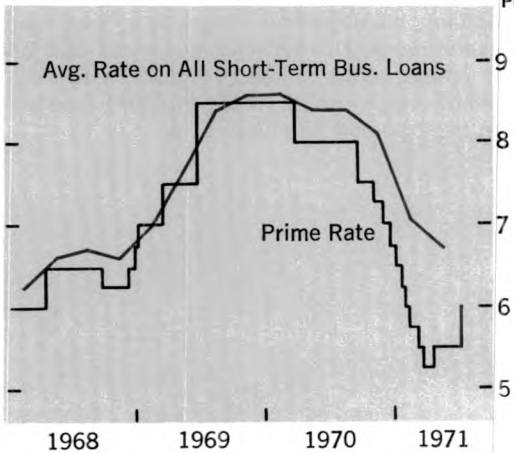
LATEST MONTH PLOTTED: MAY

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

BANK RATES ON BUSINESS LOANS

Percent



CHANGES IN BANK LENDING RATES TO BUSINESSES

Money market rates have moved upward in recent months and by early July were up about 2 percentage points from their February and March lows. In addition, the prime lending rate at banks advanced from $5\frac{1}{4}$ percent in March to $5\frac{1}{2}$ percent in mid-April. By the first week in July, most banks had posted a 6 percent prime rate. Yet, even at this level the prime rate is $2\frac{1}{2}$ percentage points lower than it was two years ago. These relatively low rates show that there have been *fundamental* changes in credit availability and loan demand during this two-year period.

During the last 18 months, deposit inflows were strong. Because most of these deposits were interest-bearing, banks were under strong pressure to increase their earning assets in order to avoid a decline in net income. At first, banks turned to rebuilding their liquidity by buying U. S. Government securities and tax-exempt municipal obligations. Then, since lending is relatively more profitable than holding investments, banks attempted to increase their loans. But this was not easy because during the last year, banks were faced with a weak demand for loans.

Eleven reductions in the prime lending rate during 1970 and the first quarter of 1971 were visible signs that banks were attempting to stimulate borrowing in the face of a weak loan demand and reductions in other short-term money rates. District banks, following the lead of large banks in other parts of the country in announcing cuts in the prime lending rate, cut their prime rate $3\frac{1}{4}$ percentage points—from $8\frac{1}{2}$ percent to $5\frac{1}{4}$ percent—before they again raised this bellweather interest charge.

The last time banks had an announced prime rate lower than $5\frac{1}{4}$ percent was during late 1965 and early 1966, and, at that time, interest rates were on the way up. Prime business customers have not paid less than 6 percent since the "mini-recession" in 1967—a period when monetary policy was expansive and loan demand was slack.

The prime rate, in turn, is a good guide to changes in the average interest rate actually paid on short-term business loans by commercial and industrial business firms at some of the District's larger commercial banks.¹ From early fall of 1968 through mid-1969, the prime rate advanced from

$6\frac{1}{4}$ percent to $8\frac{1}{2}$ percent. The average interest rate on business loans also rose but tended to lag behind the prime rate increases. Likewise, as banks announced cuts in their prime rate, the average rate also declined but trailed the prime rate changes.

The average interest rate charged by the larger District banks on their larger business loans (in excess of \$100,000) generally moved in line with the national prime rate. This is understandable, since District banks must maintain competitive rates for the borrowers of large amounts. These businesses tend to include a large portion of prime and near-prime credit risks. They have other banking alternatives and can, generally, turn to other credit sources for short-term financing. The average bank rate in the District on the larger loans rose from 6.5 percent in the fall of 1968 (when the prime rate was 6.25 percent) to a peak of 8.6 percent in the early part of 1970 (when the prime rate was 8.5 percent). By May 1971, the average loan rate was down to 6.4 percent, although the prime rate was $5\frac{1}{2}$ percent.

In general, the borrowers of small amounts—presumably the less-than-prime business credit risks—have not received the full effects of the prime rate cuts. Interest costs on the small loans are down, but by less than the decline for larger bank borrowers. The rates on the small loans rose less rapidly, however, when rates on all loans were rising. Quite noticeably, the interest differential between the large and small loans closed to virtually zero in late 1969 and early 1970. Therefore, some sluggishness in interest rate declines on small loans could have been expected.

In order to further restrict business borrowing in mid-1969 and in early 1970, banks in this District, as elsewhere, introduced firmer terms and higher credit standards in lending. As a result, the dollar volume of new business loans declined. The smaller business borrowers seemed to be "crowded out" at the large banks. (But, perhaps, the smaller businesses obtained more funds at the smaller banks.) The proportion of new business loans made for less than \$100,000 fell from 30 percent in 1968 to 25 percent and, by early 1971, accounted for less than 20 percent of the dollar volume of new business loans. Notably, because of their limited alternative sources of credit, the borrowers of small amounts are the ones most dependent upon bank loans for their short-term financing needs.

JOHN M. GODFREY

¹Interest rate data are from this Bank's "Quarterly Interest Rate Survey" of bank interest rates on short-term business loans and are collected from 23 of the larger District banks.

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
SIXTH DISTRICT									
INCOME AND SPENDING									
Manufacturing Payrolls	May 136	134	134	129	Unemployment Rate (Percent of Work Force)†	May 5.3	5.4	5.2	4.8
Farm Cash Receipts	Apr. 119	125	130	117	Avg. Weekly Hrs. in Mfg. (Hrs.)	May 40.9	40.6	40.2	40.3
Crops	Apr. 117	138	143	119	FINANCE AND BANKING				
Livestock	Apr. 123	127	130	206	Member Bank Loans	May 148	146	144	133
Instalment Credit at Banks* (Mil. \$)					Member Bank Deposits	May 140	137	136	118
New Loans	May 368	380	377	324	Bank Debits**	May 280	285	265	247
Repayments	May 338	349	347	337	FLORIDA				
EMPLOYMENT AND PRODUCTION					INCOME				
Nonfarm Employment†	May 112	112	112	111	Manufacturing Payrolls	May 142	138	138	139
Manufacturing	May 106	106	106	107	Farm Cash Receipts	Apr. 101	110	116	112
Nondurable Goods	May 107	107	107	107	EMPLOYMENT				
Food	May 103	103	105	104	Nonfarm Employment†	May 121	120	119	119
Textiles	May 103	103	103	105	Manufacturing	May 108	108	108	111
Apparel	May 102	103	103	102	Nonmanufacturing	May 123	123	121	120
Paper	May 109	109	109	111	Construction	May 134	135	136	136
Printing and Publishing	May 114	114	113	113	Farm Employment	May 100	99	90	99
Chemicals	May 105	104	105	103	Unemployment Rate (Percent of Work Force)†	May 4.3	4.9	4.6	3.2
Durable Goods	May 104	104	104	108	Avg. Weekly Hrs. in Mfg. (Hrs.)	May 41.2	40.5	40.7	41.7
Lbr., Wood prods., Furn. & Fix.	May 99	98	99	100	FINANCE AND BANKING				
Stone, Clay, and Glass	May 104	104	106	105	Member Bank Loans	May 170	164	165	151
Primary Metals	May 106	105	104	105	Member Bank Deposits	May 162	158	160	134
Fabricated Metals	May 112	112	109	114	Bank Debits**	May 356	356	332	306
Machinery, Elec. & Nonelec.	May 159	159	159	169	GEORGIA				
Transportation Equipment	May 104	104	106	111	INCOME				
Nonmanufacturing	May 114	114	114	112	Manufacturing Payrolls	May 136	134	133	128
Construction	May 112	112	112	108	Farm Cash Receipts	Apr. 129	134	133	116
Transp., Comm., & Pub. Utilities	May 112	112	112	110	EMPLOYMENT				
Trade	May 113	113	113	112	Nonfarm Employment†	May 112	112	111	111
Fin., ins., and real est.	May 119	119	119	116	Manufacturing	May 103	103	103	106
Services	May 116	116	116	115	Nonmanufacturing	May 115	115	115	113
Federal Government	May 102	102	102	105	Construction	May 108	106	105	104
State and Local Government	May 121	120	120	116	Farm Employment	May 90	89	91	89
Farm Employment	May 90	92	92	90	Unemployment Rate (Percent of Work Force)†	May 4.1	4.1	4.0	3.6
Unemployment Rate (Percent of Work Force)†	May 4.9	5.1	5.0	4.3	Avg. Weekly Hrs. in Mfg. (Hrs.)	May 40.7	41.0	40.4	39.6
Insured Unemployment (Percent of Gov. Emp.)	May 2.8	2.9	2.9	2.8	FINANCE AND BANKING				
Avg. Weekly Hrs. in Mfg. (Hrs.)	May 40.9	40.9	40.4	40.4	Member Bank Loans	May 146	143	141	131
Construction Contracts*	May 153	176	217	143	Member Bank Deposits	May 128	127	129	111
Residential	May 176	154	158	117	Bank Debits**	May 384	379	374	336
All Other	May 131	197	276	167	LOUISIANA				
Electric Power Production**	Apr. 168	165	167	165	INCOME				
Cotton Consumption**	Apr. 90	93	94	88	Manufacturing Payrolls	May 128	128	125	122
Petrol. Prod. in Coastal La. and Miss.**	Apr. 309	301	296	284	Farm Cash Receipts	Apr. 128	120	124	115
Manufacturing Production	Apr. 252	252	249	238	EMPLOYMENT				
Nondurable Goods	Apr. 217	216	214	205	Nonfarm Employment†	May 105	105	106	104
Food	Apr. 176	176	174	162	Manufacturing	May 100	99	101	102
Textiles	Apr. 239	239	236	231	Nonmanufacturing	May 106	106	106	104
Apparel	Apr. 276	279	271	254	Construction	May 85	89	90	81
Paper	Apr. 201	198	199	199	Farm Employment	May 76	82	82	78
Printing and Publishing	Apr. 166	167	167	167	Unemployment Rate (Percent of Work Force)†	May 6.6	6.6	6.5	6.5
Chemicals	Apr. 259	258	260	251	Avg. Weekly Hrs. in Mfg. (Hrs.)	May 42.4	42.9	41.5	41.9
Durable Goods	Apr. 294	294	290	278	FINANCE AND BANKING				
Lumber and Wood	Apr. 174	171	171	166	Member Bank Loans*	May 137	137	139	127
Furniture and Fixtures	Apr. 175	176	177	185	Member Bank Deposits*	May 136	135	135	117
Stone, Clay and Glass	Apr. 168	171	171	168	Bank Debits**	May 243	245	234	216
Primary Metals	Apr. 207	208	208	194	MISSISSIPPI				
Fabricated Metals	Apr. 240	243	246	244	INCOME				
Nonelectrical Machinery	Apr. 380	384	358	342	Manufacturing Payrolls	May 142	139	139	130
Electrical Machinery	Apr. 619	607	614	570	Farm Cash Receipts	Apr. 140	152	170	138
Transportation Equipment	Apr. 384	388	370	358	EMPLOYMENT				
FINANCE AND BANKING									
Loans*					Nonfarm Employment†	May 110	110	110	109
All Member Banks	May 154	151	151	138	Manufacturing	May 111	111	110	109
Large Banks	May 143	138	140	130	Nonmanufacturing	May 110	110	110	109
Deposits*					Construction	May 106	108	107	107
All Member Banks	May 144	142	143	123	Farm Employment	May 97	89	107	99
Large Banks	May 132	129	132	113					
Bank Debits**	May 331	332	317	287					
ALABAMA									
INCOME									
Manufacturing Payrolls	May 136	135	135	127					
Farm Cash Receipts	Apr. 136	144	155	146					
EMPLOYMENT									
Nonfarm Employment†	May 106	106	106	106					
Manufacturing	May 106	107	107	107					
Nonmanufacturing	May 107	106	106	106					
Construction	May 110	106	104	102					
Farm Employment	May 84	87	84	80					

	Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)	May 5.3	5.4	5.3	5.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	May 40.2	40.2	40.3	40.2
FINANCE AND BANKING				
Member Bank Loans*	May 160	157	159	138
Member Bank Deposits*	May 149	144	142	127
Bank Debits/**	May 340	343	338	289

TENNESSEE

	Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago
INCOME				
Manufacturing Payrolls	May 134	133	133	125
Farm Cash Receipts	Apr. 128	142	128	123

EMPLOYMENT

	Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago
Nonfarm Employment	May 111	111	111	109
Manufacturing	May 106	106	107	107
Nonmanufacturing	May 114	114	114	110
Construction	May 111	113	113	99
Farm Employment	May 86	98	90	91
Unemployment Rate (Percent of Work Force)	May 4.9	4.9	5.0	4.4
Avg. Weekly Hours in Mfg. (Hrs.)	May 40.6	40.8	40.1	39.9

FINANCE AND BANKING

Member Bank Loans*	May 151	151	152	140
Member Bank Deposits*	May 138	136	138	122
Bank Debits/**	May 330	338	331	285

*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		Year to date 5 mos. 1971			Year to date		Year to date 5 mos. 1971
	May 1971	Apr. 1971	May 1970	Apr. 1971		May 1970	Apr. 1971	May 1970		
STANDARD METROPOLITAN STATISTICAL AREAS										
Birmingham	2,255,817	2,365,380	1,882,139	5	+20	+11				
Gadsden	78,021	81,682	56,924	-4	+17	+11				
Huntsville	239,560	246,895	209,914	-3	+14	+6				
Mobile	753,780	750,523	820,821	+0	-7	-1				
Montgomery	486,641	445,782	397,672	+9	+22	+16				
Tuscaloosa	139,736	152,926	117,885	+9	+19	+14				
Ft. Lauderdale-										
Hollywood	1,213,395	1,479,838	1,085,562	-18	+12	+12				
Jacksonville	2,146,791	2,314,454	1,921,990	-7	+12	+7				
Miami	4,535,009	4,827,988r	3,565,806	-6	+27	+21				
Orlando	904,510	1,115,921	793,493	-19	+14	+15				
Pensacola	329,304	339,965	260,227	-3	+27	+28				
Tallahassee	323,228	282,331	189,415	+14	+71	+39				
Tampa-St. Pete	2,354,348	2,640,247	2,233,668	-11	+5	+13				
W. Palm Beach	716,234	835,974	666,541	-14	+7	+8				
Albany	131,512	140,751	123,262	-7	+7	+9				
Atlanta	8,575,888	8,955,452	7,489,337	-4	+15	+11				
Augusta	350,262	379,430	309,356	-8	+13	+12				
Columbus	346,847	335,738	279,671	+3	+24	+15				
Macon	362,624	373,368	318,904	-3	+14	+15				
Savannah	356,385	412,207	332,271	-14	+7	+14				
Baton Rouge	904,435	1,031,773	771,171r	-13	+17	+20				
Lafayette	186,181	193,621	160,737	-4	+16	+7				
Lake Charles	184,020	184,222	161,168	0	+14	+9				
New Orleans	3,099,188	3,181,415	2,773,247	-3	+12	+12				
Biloxi-Gulfport	190,450	179,868	152,238	+6	+25	+8				
Jackson	1,009,371	1,025,511	837,085	-2	+21	-14				
Chattanooga	933,972	976,422	786,057	-4	+19	+13				
Knoxville	627,369	700,285	582,943	10	+8	+12				
Nashville	2,136,220	2,259,196	1,904,189	5	+12	+8				
OTHER CENTERS										
Anniston	86,346	85,565	82,411	+1	+5	+6				
Dothan	107,620	111,952	89,151	-4	+21	+17				
Selma	51,985	53,078	48,015	-2	+8	+3				
Bartow	35,174	39,834	34,162	12	+3	1				
Bradenton	110,728	111,141	98,256	-0	+13	+6				
Brevard County	201,123	246,924	234,942	19	-14	5				
Daytona Beach	108,704	118,246r	96,944	-8	+12	+7				
Ft. Myers-										
N. Ft. Myers	178,946	179,079	126,475	-0	+41	+23				
Gainesville	134,861	150,462	114,768	-10	+18	+20				
Lakeland	179,035	203,405	157,731	-12	+14	+14				
Monroe County	48,754	52,185	41,496	-7	+17	+12				
Ocala	114,407	116,271	90,428	-2	+27	+11				
St. Augustine	24,066	27,435	22,482	-12	+7	+2				
St. Petersburg	602,827	682,180	494,335	-12	+22	+29				
Sarasota	184,153	224,139	174,055	-18	+6	-1				
Tampa	1,199,719	1,309,214	1,232,587	-8	-3	+7				
Winter Haven	101,814	108,671	86,281	-4	+18	+12				
Athens	172,153	174,060	121,665	-1	+41	+52				
Brunswick	61,101	70,952	50,875	-14	+20	+15				
Dalton	117,097	131,558	114,772	-11	+2	+11				
Elberton	15,709	16,148	19,123	-3	-18	-15				
Gainesville	94,186	98,692	85,127	-5	+11	+5				
Griffin	50,009	51,303	43,491	-3	+15	+15				
LaGrange	51,637	33,459	23,747	+54	+117	+34				
Newnan	34,876	35,697	28,849	-2	+21	+7				
Rome	95,641	104,785	90,941	-9	+5	+6				
Valdosta	72,007	73,814	62,254	-2	+16	+8				
Abbeville	12,681	13,652	11,939	+7	+6	+3				
Alexandria	169,388	167,052	163,923	+1	+3	+6				
Bunkie	7,770	8,176	6,525	-5	+19	+8				
Hammond	49,978	54,033	46,649	-8	+7	+12				
New Iberia	45,178	48,238	40,769	-6	+11	+11				
Plaquemine	14,263	13,055	14,853	+9	-4	-4				
Thibodaux	32,162	31,953	27,719	+1	+16	+15				
Hattiesburg	87,191	94,468	58,964	-8	+48	+51				
Laurel	53,929	50,747	6	+6	+9					
Meridian	79,076	84,673	75,671	-7	+4	+4				
Natchez	46,617	52,531	42,252	-11	+10	+2				
Pascagoula-										
Moss Point	102,107	98,750	84,138	+3	+21	+13				
Vicksburg	49,064	55,099	43,666	-11	+12	+11				
Yazoo City	36,050	40,445	42,642	-11	-15	+12				
Bristol	116,191	117,437	94,565	-1	+22	+10				
Johnson City	115,533	120,194	95,906	-4	+20	+10				
Kingsport	186,380	195,312	168,364	-5	+11	+5				
District Total	47,562,599	50,767,014r	41,378,475r	-6	+15	+12				
Alabama†	5,689,959	5,834,460	5,030,761	-2	+13	+8				
Florida†	15,790,304	17,473,364r	13,555,197	-10	+16	+15				
Georgia†	12,683,960	13,334,175	11,091,201	-5	+14	+11				
Louisiana†	5,472,192	5,732,796	4,864,506r	+5	+12	+13				
Mississippi†	2,180,043	2,241,875	1,850,387	-3	+18	+14				
Tennessee†	5,746,131	6,150,344	4,986,423	-7	+15	+11				

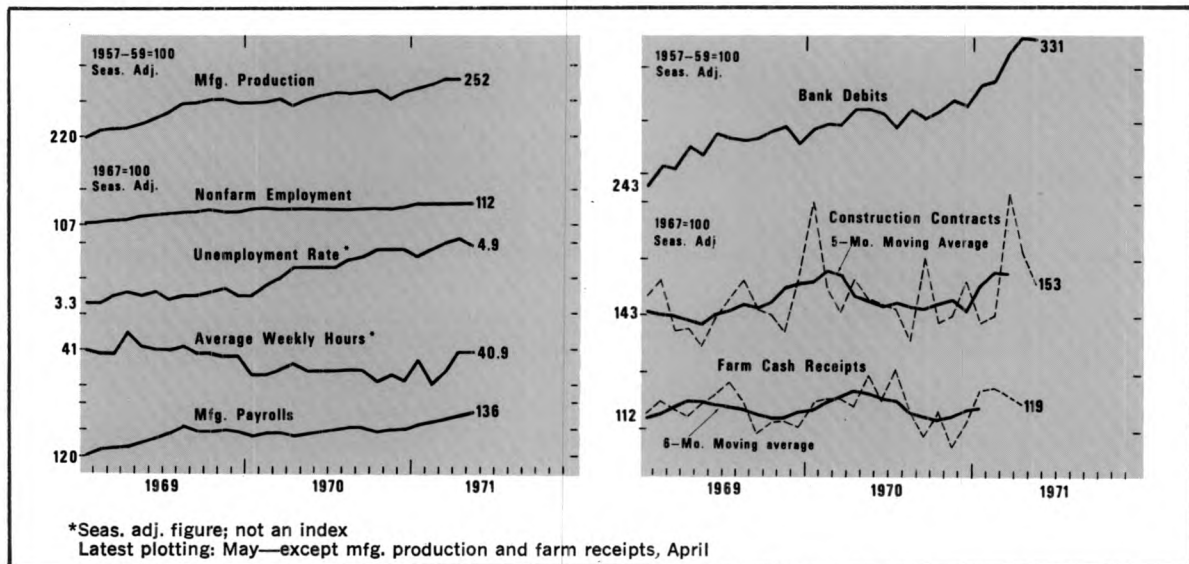
*Includes only banks in the Sixth District portion of the state

†Partially estimated

‡Estimated

r-Revised

District Business Conditions



Economic developments in the Southeast signal a broadly based—but by no means heady—recovery, according to latest available data. The improvement in bank lending, including increases in consumer credit, and the continued expansion in automobile sales signal a more encouraging rise in business and consumer spending. Construction maintained its substantial contribution to economic recovery. Although the unemployment rate declined somewhat, it is still a tempering factor in the economy's expansion. Rising farm prices and high levels of agricultural output contributed to some recovery in farm income.

Banks expanded loans in most categories while reducing their holdings of U. S. Government securities. Total deposit inflows advanced throughout June, despite declines in the levels of consumer time deposits and large-denomination CD's. Member banks increased their borrowings at the Federal Reserve Bank of Atlanta's discount window in late May and June to obtain temporary reserves. The June level of borrowing from the Atlanta Fed is the largest since last summer.

Consumer instalment credit outstanding at commercial banks increased moderately in May. For the fifth straight month, sales of domestic autos in May were much stronger than during the same period a year ago.

A record volume of residential construction contracts in May helped offset the weak performance in other construction categories. Cumulative total contract volume through May pulled ahead of the comparable 1970 period, although the January 1971 volume was 40 percent behind the year-ago level. As yet, the availability of mortgage funds does not seem to have been seriously threatened, despite some apprehension accompanying the rising yields

in the capital markets and some slowing in the exceptionally strong savings inflows to savings institutions.

The unemployment rate declined from 5.1 percent of the labor force in April to 4.9 percent in May, marking the first drop in the rate after three months of steady increases. The largest decline occurred in Florida where migratory workers, who were no longer receiving unemployment aid, moved on to other agricultural regions. In addition, nonfarm employment rose—with most of the gains occurring in nonmanufacturing sectors. Manufacturing hours, however, leveled off in May, following previous rises.

Prices received by farmers in May jumped to a level 5 percent above a year ago. Most of the gain occurred in the crop sector, where citrus and cotton prices moved abruptly higher. Preliminary June data indicate that prices of hogs, broilers, and eggs have also increased, in spite of abundant supplies. Except in localized areas where insufficient rain has arrested growth, the satisfactory condition of crops reflects favorable weather.

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