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In this issue:

The Spread of International Banking: A Regional View

by John E. Leimone

The vigorous growth and diversification of international financial activities of large banks in the Northeast, Midwest, and California have been well documented. But little attention has been given to the recent expansion in international activities of an increasing number of small-and medium-size banks that normally operate in regional markets. Banks headquartered in that part of the South comprising the Sixth Federal Reserve District share a growing interest in international operations with other banks that operate in regional markets. What accounts for this interest in international finance on the part of banks outside the big traditional banking centers? How have their international activities changed? Information derived from a close scrutiny of the international operations of Sixth District banks should help to shed some light on these questions.

A Brief Panorama of Sixth District International Banks

Sixth District banks that are significantly engaged in international finance are concentrated primarily in Atlanta, New Orleans, Mobile, Nashville, and Miami. (Although banks engaged in some form of international activity are scattered throughout Florida, a few in the Miami area account for the bulk of international activity in that state.) The factors underlying international banking activity vary for each of these cities.

When compared with banks in other District cities, **Atlanta** banks (although located in an inland city) have shown the most rapid expansion in international banking in recent years, and, currently, these banks hold the lead in financing international activity. Apparently, the larger banks in Atlanta have developed a substantial amount of international business because of the demands of large customers throughout the Southeast. The fear that these customers might turn to banks outside the District for services seems to have spurred Atlanta banks to expand their international departments. The large size of

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Atlanta banks, relative to others in the District, has, undoubtedly, enabled them to devote the necessary resources to this specialized area. By diversifying their total array of banking services for international and domestic business, these banks have improved their ability to protect their customer relationships from competitors outside the District.

Miami banks have also experienced a rapid expansion in international activity. The ability of Miami banks to attract a substantial volume of foreign nonbank deposits, mostly from Latin America, seems to have been the major factor generating an expansion of international banking. This source of activity can be largely attributed to the large influx of Cubans into that area during the last decade. The Latin atmosphere created by the local Cuban population has attracted a great many tourists from Latin America. In addition, a growing stream of Latin businessmen travel to the Miami area. Many of these businessmen are attracted to Miami because numerous subsidiaries of large U. S. multinational corporations with substantial trading and investment interests in Latin America have located there (mostly in the adjacent city of Coral Gables). (The availability of a pool of skilled, Spanish-speaking labor, combined with the geographical proximity of Miami to Latin America, has played an important role in the location of these corporate subsidiaries.) Whereas these Latin visitors generate much foreign exchange activity connected with travel and business expenses, they also serve as a very important conduit for funds belonging to Latins who wish to transfer intangible wealth to the United States. Such transfers are often motivated by fear of political or economic instability in Latin America or a desire to avoid exchange controls widely prevalent in the region. In addition to acquiring foreign deposits, Miami banks have begun to finance an increasing proportion of exports and imports passing through their area.

Recently, several large internationally oriented banks headquartered outside the District have obtained approval or are seeking permission to establish Edge Act international subsidiaries in Miami. Undoubtedly, this interest in Miami by these banks stems from the desire to obtain a share of the foreign deposits gravitating toward Miami. The location and availability of skilled, Spanish-speaking personnel have further enhanced Miami's advantages for developing banking business with Latin America. (In many Latin American countries, the activities of branches or subsidiaries of foreign banks are restricted in varying degrees.) The presence of trade or investment subsidiaries of U. S. multinational corporations in the Miami area may also be an important motivation for this recent interest. The parent corporations of these corporate subsidiaries tend to be important customers of the banks seeking to establish Edge Act subsidiaries.

In **Nashville**, the development of international banking activity has only taken place very recently. Apparently, the growing demand by large industrial customers in the Nashville area for international banking services has significantly influenced this development. New technological developments in ocean and inland shipping—which will increasingly enable businesses in the Nashville area to avail themselves of water transport connections with the Port of New Orleans—enhance the possibilities for international trade. These developments, in turn, may further spur the growth of international banking activity in this area.

New Orleans and **Mobile** have the longest tradition of international banking; several banks in these cities have international departments that date back prior to World War II. The importance of foreign trade through these two port cities explains the involvement of their local banks in international financing. Nevertheless, despite traditional involvement, international banking operations in these two cities have grown little.

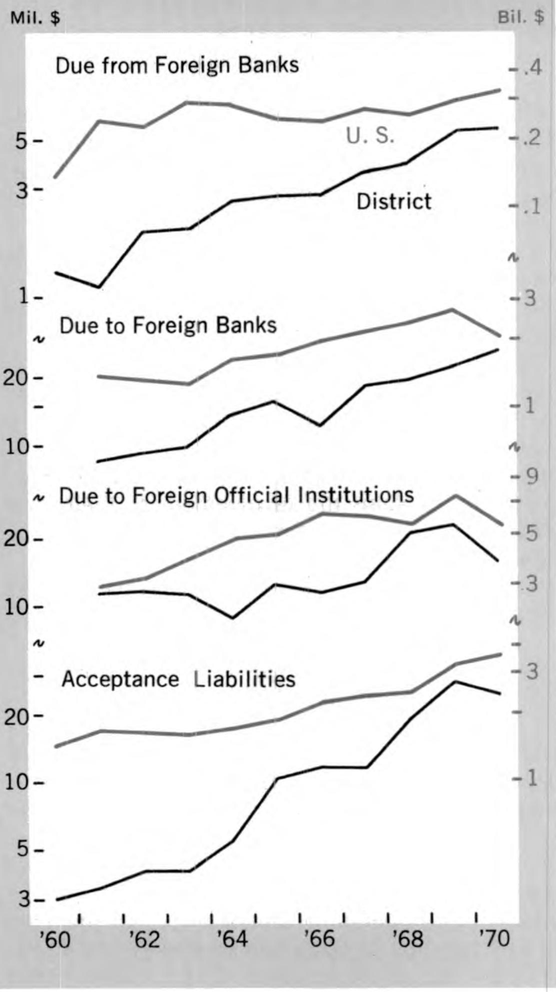
Growth and Change in Sixth District International Banking Activity

That about thirty District banks have international departments, double the number ten years ago, suggests the extent to which international banking activity in the Sixth District has mushroomed during the last decade. Moreover, in the last five years, five District banks have extended their international operations through foreign branches or international banking subsidiaries in the form of Edge Act or Agreement Corporations. Other District banks may also be considering the establishment of foreign branches. In addition, several large banks headquartered outside the District have recently begun to establish Edge Act subsidiaries in Miami.

According to information derived from regular reports of condition, a rapid expansion in the volume of international activities has naturally accompanied the increase in the number of banks participating. In fact, District foreign correspondent banking activity (as measured by deposits due to and due from foreign banks) and foreign trade financing (as measured by acceptances executed and outstanding) have considerably outpaced the national rate of growth in these activities. Deposits due to foreign official institutions were an exception, however.

Meanwhile, the pattern of District banks' international operations has changed substantially. Further expansion of their role in receiving foreign funds for safekeeping, the development

S. E. outpaced nation in growth of international banking activities



of an investment function for foreigners that was virtually nonexistent a decade ago, and a shift from service to financing activities underlie these changes.

The large and increasing share of private foreign nonbank deposits in total short-term liabilities (nearly 75 percent) reveals the prominence of the safekeeping function in District banks' international activities, especially when compared with the stable and much smaller share (under 10 percent) for the nation as a whole (Table 1a). The development of an investment function may be inferred from the notable advance in the share of liabilities other than deposits, including commercial paper, U. S. Government securities, certificates of deposit, collections, and other items held for the account of foreigners. The upsurge of these activities—augmented by the expansion

Types of Activities

By either lending their name or specialized resources, banks provide a number of services for facilitating the transfer of funds internationally. Trading in foreign exchange involves the purchase and sale of foreign paper currency, checks, bank drafts, and telegraphic transfers for making remittances to and from foreigners. Although banks trade in foreign exchange mostly for their customers, they also purchase or sell foreign exchange, either spot or forward, to balance their own positions, thereby avoiding possible losses arising from changes in exchange rates. Banks also collect payments for their customers' drafts or other claims on foreigners and for foreigners' drafts or other claims on U. S. residents.

The service provided by opening letters of credit plays an extremely important role in facilitating foreign trade. A letter of credit is an instrument guaranteeing that a bank will honor drafts drawn upon it, up to a certain limit and within a certain time period, provided stipulations set forth in the letter of credit are met. For example, at the request of a domestic importer, a bank will open a letter of credit benefiting a foreign exporter from whom the domestic importer is about to purchase goods. Upon receiving the letter of credit, the foreigner ships the goods and, at the same time, draws a draft on the U. S. bank for payment under the letter of credit. The draft may be either a sight draft, in which case the bank will credit funds on receipt, or a time draft, in which case the bank will pay the foreigner at its maturity (e.g., 90 or 180 days). In both instances, before making payment, the bank will have received the funds from the domestic importer. A security agreement, which is an integral part of the letter of credit, assures that the importer will reimburse the bank.

In addition to letters of credit opened for the purpose of facilitating payment of financing of international trade, banks also issue standby letters of credit. Although a standby letter of credit creates a contingent liability on the part of a bank, as does an import or export letter of credit, the issuing bank does not ordinarily anticipate making a payment. A standby letter of credit may be issued when, for example, a bank has a very credit-worthy customer to whom it cannot grant a loan at a given moment, perhaps because of insufficient funds. Notwithstanding, the bank might still issue a standby letter of credit to a foreign bank or a nonbank foreigner that has funds to lend but who is not able to judge the credit-worthiness of the domestic bank's customer.

In addition to the service functions just described, banks may loan their funds for financing foreign trade or make other types of foreign investments. For example, banks may discount drafts drawn under letters of credit (known as bankers' acceptances), discount or purchase other types of drafts underlying a trade transaction, or make direct loans to exporters or importers.

A bank may create an acceptance, for example, when an importer needs financing to pay for imported goods until sold domestically, but the terms of the letter of credit call for the foreign exporter to draw a draft for payment at sight. In this instance, the importer may draw a draft on the bank that opened the letter of credit, committing the bank to pay the face amount of the draft at a future date. The bank, by stamping "Accepted" on the face of the draft, officially recognizes a commitment to pay the face amount at maturity. The bank may then discount the draft, adding a fee for creating the acceptance, and then credit the importer's account with the proceeds. After selling the goods, but before maturity of the acceptance, the importer will reimburse the bank for the face value of the acceptance. The bank may either hold the acceptance until maturity, thereby earning interest on its funds committed, or may rediscount the acceptance in the bankers' acceptance market.

In cases when the letter of credit stipulates that payment for imports be made through a time draft, the foreign exporter may, nevertheless, desire to obtain funds immediately. In such instances, the bank may discount the time draft and credit the exporter with immediate funds. Again, the bank may hold the instrument until maturity or rediscount the draft in the market for bankers' acceptances.

For domestic export customers, banks may also discount or make advances against time drafts drawn on foreign banks or trade drafts drawn directly against a foreign importer. Normally, this latter type of draft, involving no letter of credit or bank obligation, is used when the foreign importer is a trustworthy and regular customer of the domestic exporter. In discounting trade drafts, a bank ordinarily retains the right of recourse against the U. S. exporter if the foreign importer defaults on his payment.

Besides providing an additional source of earnings, international services and financing also generate deposits for banks. For instance, foreign central banks, which utilize dollars as a form of international reserves, often hold dollar reserves in the form of deposits with U. S. commercial banks. In return for such deposits, U. S. banks often provide services and financing to residents or governmental agencies of the country in which the central bank is located. Foreign banks also hold correspondent balances with U. S. banks in order to facilitate international transfers of funds. The level of such balances may be partly a function of the services rendered by the U. S. bank to the correspondent. Of course, U. S. banks also maintain balances with their foreign correspondents for similar reasons. (Normally, these balances are denominated in the domestic currency of the foreign bank, but, occasionally, they may also be denominated in U. S. dollars.) Foreign businesses and individuals also maintain deposits with U. S. banks for working balances (i.e., for effecting payments to or receiving payments from U. S. residents or other foreigners), for compensating balances against advances or loans, or for avoiding risks of loss from political or economic instability in their own countries.

TABLE 1a

Liabilities to Foreigners Reported by Banks in the Sixth District and the U. S.

(Percent of Total)

	Sixth District		United States	
Short-Term Liabilities	**1961**	**1970**	**1961**	**1970**
Deposits of foreign banks	35.5	16.0	38.4	33.2
Deposits of official institutions				10.7
Deposits of other foreigners	60.4	73.4	8.8	8.7
Liabilities other than deposits	4.0	10.5	52.9	47.5
Total	100.0	100.0	100.0	100.0

Note: Figures are for end of year and may not add to 100 percent because of rounding.

Sources: **Federal Reserve Bulletin** and monthly reports to U. S. Treasury

TABLE 1b

Claims on Foreigners Reported by Banks in the Sixth District and the U. S.

(Percent of Total)

	Sixth District		United States	
Short-Term Claims	**1961**	**1970**	**1961**	**1970**
Collections outstanding	86.9	45.3	14.8	22.5
Loans to foreign banks	4.6	13.6	21.6	15.9
Loans to official institutions		7.9		1.1
Loans to all other foreigners	6.5	13.6	13.1	11.3
Other claims	.9	13.9	38.1	43.2
Claims payable in foreign currencies	1.0	5.6	12.5	6.0
Total	100.0	100.0	100.0	100.0

Note: Figures are for end of year and may not add to 100 percent because of rounding.

Sources: **Federal Reserve Bulletin** and monthly reports to U. S. Treasury

of foreign bank correspondent balances—brought short-term liabilities to foreigners to a level three times as large as claims on foreigners by 1970, whereas in 1961, short-term liabilities exceeded total claims by only 40 percent.[1]

The shift from service to financing activities, evidencing a more venturesome attitude toward international banking, is inferred from changes

[1] *These figures understate the District total. Only banks for which the average of either short-term liabilities to foreigners, short-term claims on foreigners, long-term liabilities to foreigners, or long-term claims on foreigners for the previous six months equals or exceeds $500,000 report the items in that respective category.*

in the structure of claims on foreigners. For example, whereas District banks reported only short-term claims on foreigners in 1961, they now hold a third of their claims on foreigners in the form of long-term assets (Table 1b). In addition, by expanding all categories of loans to foreigners, District banks have shown an increasing willingness to commit their own funds for foreign financing. In contrast, collections outstanding, which primarily reflect a service for customers not directly involving a commitment of bank funds, have declined considerably as a proportion of claims on foreigners. The relative expansion of claims payable in foreign currencies also indicates that District banks have been more willing to deal with foreign exchange risks.

Notwithstanding the marked changes in the structure of claims on foreigners, District banks still tend to be less venturesome than banks in the nation as a whole. This is evidenced by the much larger proportion of collections outstanding to total short-term claims reported in 1970 by District banks (45.3 percent) compared to the nation (22.5 percent).

In order to fill some of the gaps in the information regularly gathered from District commercial banks, this Bank recently conducted a detailed survey of District international banking. The survey covered a wider range of international activities than those shown on either reports of condition or monthly Treasury reports on liabilities to and claims on foreigners and included banks not making the latter reports. The survey obtained information on thirty-two banks—including six that had no international department—but excluded the activities of foreign branches or Edge Act and Agreement Corporations. The results of the survey, especially when compared with the results of a similar survey conducted in 1961, reveal several significant trends not directly observable from the regularly reported sources of information (Table 2).

Perhaps the most notable finding was the marked shift in the **orientation of trade financing from exports to imports between 1961 and 1970, indicated by the rise of the share of import financing from 39 percent to 63 percent of total trade financing.** The rapid growth of import financing through the refinancing of sight drafts drawn under letters of credit vis-a-vis other directly identifiable types of trade financing (loans, advances, discounting of time drafts under letters of credit, and discounting of trade drafts) primarily accounts for this shift. The shift from export to import financing would be reduced but not eliminated if guaranteed or insured loans to foreigners were also considered as a form of export financing. This orientation toward import financing is surprising because, in both 1961 and 1970, less than 35 percent of total trade passing through District ports consisted of imports.

Two developments may have played a role in this shift. First, the rapid increase in the number of newly created international banking departments may have added more to the growth of import financing, which normally results in a claim on domestic customers, than to export financing, which normally results in a claim on foreigners. This preference for import financing is inherent in the greater risks in exercising claims on foreigners and the greater familiarity with domestic customers by banks newly entering the field. A larger percentage increase in the number of banks issuing import letters of credit between 1961 and 1970 than in the number issuing export letters of credit provides some support for this view. Secondly, the mid-decade introduction of the Voluntary Credit Restraint Program, which provides guideline ceilings for bank claims on foreigners, may have caused banks to channel their efforts more toward financing imports, since the resulting claims normally would not be subject to guideline ceilings.

The survey findings also suggest that District banks have become more familiar with techniques characteristic of international financing. Thus, acceptance financing of both exports and imports under letters of credit transactions has grown much more rapidly than financing through direct loans, advances, and discounts. The use of the standby letter of credit has also achieved considerable importance, but this technique—which originated in international finance—is now used more by District banks for domestic than for international transactions.

In addition to the more traditional acceptance financing of exports and imports under letters of credit, several District banks with larger international departments have also moved into other financing activities. For example, they now make a substantial volume of loans to foreigners under officially-sponsored insurance or guarantee programs. Most of these loans are insured under the Foreign Credit Insurance Association (FCIA) or are guaranteed by the Export-Import Bank, an agency of the U. S. Government. Loans guaranteed under Department of Defense and Agency for International Development (AID) programs, however, are virtually nonexistent in the District. A few District banks have also purchased participations in loans made to foreigners by other institutions. Some of these loans are made by the Export-Import Bank or international lending institutions such as the World Bank or the Inter-American Development Bank, but the major proportion consists of participations in syndicated credits made by commercial banks.

Some District banks have committed other funds to foreigners, either by providing credits not directly related to trade or by purchasing

TABLE 2

Annual Volume of Selected Foreign Services and Financing by Sixth District Banks 1961 and 1970

	1961		1970	
	Reporting Banks	Volume ($1,000)	Reporting Banks	Volume ($1,000)
FOREIGN EXCHANGE				
Foreign currency and travelers checks, purchases, and sales	11	9,004 [a]	20	3,466
Sales of drafts on foreign banks and other remittances abroad				
Drawn on own foreign correspondent	13	57,139 [b]	16	14,612
Under protection of domestic correspondent	13	10,654 [b]	25	19,869
Sales of dollar drafts on foreign banks [c]				
Drawn on own foreign correspondent	n.a.	n.a.	15	14,968
Under protection of domestic correspondent	n.a.	n.a.	23	34,373
Payments to domestic accounts on foreign order	10	38,623	23	620,021
Forward contracts	5 (Forward contracts and Other combined)	606 (Forward contracts and Other combined)	9	53,845
Other			10	88,541
COLLECTIONS				
Outgoing	12	67,521	27	153,125
Incoming	10	19,253	23	66,774
LETTERS OF CREDIT				
Travelers	11	882	25	2,731
Export and import letters of credit opened	14	74,344	29	301,864
Import	11	44,896	29	254,561
Export	10	8,313	19	42,588
Own	10	3,003	8	9,032
Foreign banks' letters of credit confirmed	10	5,310	17	27,604
Drafts paid or accepted for domestic importers	10	23,552	24	204,444
Sight	9	14,853	20	140,831
Refinanced	6	5,908	10	59,604
Time	8	8,933	18	51,815
Discounted	10	5,069	14	11,691
Drafts paid or accepted for domestic exporters	9	5,568	19	36,370
Sight	9	5,023	17	29,660
Own letters of credit	7	1,053	8	3,649
Foreign banks' letters of credit confirmed	8	3,715	12	20,414
Time	6	545	14	6,738
Discounted	8	509	9	4,875
Standby letters of credit				
In favor of foreign banks and private foreigners	n.a.	n.a.	11	19,933
In favor of domestic residents	n.a.	n.a.	20	37,699
OTHER ACCEPTANCES CREATED				
Bills of exchange accepted for foreign banks and drafts accepted to finance goods stored in or shipped between foreign countries	n.a.	n.a.	7	6,362
LOANS AND DISCOUNTS				
Loans to importers	8	8,020	13	18,328
Loans and advances to exporters	8	4,798	14	32,527 [d]
Exporters' drafts discounted (not arising out of letters of credit)	11	24,248	8	13,003
Insured or guaranteed loans to foreigners	n.a.	n.a.	8	4,512
Purchase of loan participations	n.a.	n.a.	5	3,133
OTHER CREDITS TO FOREIGNERS AND PURCHASE OF FOREIGN SECURITIES				
Debt of foreign affiliates of U. S. corporations, foreign corporations, foreign banks (excluding correspondent balances), and foreign official institutions	n.a.	n.a.	10	22,813

n.a. Not available

a Includes checks other than travelers checks

b No distinction made between foreign currency and dollar drafts

c In the case of a foreign currency draft, the foreign bank paying the draft reimburses itself by debiting the correspondent balance of the U. S. bank drawing the draft. In the case of a dollar draft, the foreign bank accepts the draft while simultaneously making payment in the local currency. It then receives reimbursement through a dollar credit to its correspondent balance with the U. S. bank drawing the draft.

d Includes advances under collections

Source: Special Surveys by Research Department, Federal Reserve Bank of Atlanta

<table>
<tr><th colspan="9">TABLE 3
Foreign Correspondent and Agency Relationships
of Sixth District Banks, 1970</th></tr>
<tr><th></th><th colspan="3">Balances Due to Correspondents</th><th colspan="3">Balances Due From Correspondents</th><th colspan="2">Agency Relationship Only</th></tr>
<tr><th></th><th>Reporting District Banks</th><th>Foreign Correspondents</th><th>Dollar Value ($1,000)</th><th>Reporting District Banks</th><th>Foreign Correspondents</th><th>Dollar Value ($1,000)</th><th>Reporting District Banks</th><th>Foreign Correspondents</th></tr>
<tr><td>Europe</td><td>23</td><td>261</td><td>9,892</td><td>18</td><td>107</td><td>1,105</td><td>24</td><td>1,234</td></tr>
<tr><td>Canada</td><td>14</td><td>33</td><td>4,106</td><td>18</td><td>37</td><td>2,459</td><td>22</td><td>63</td></tr>
<tr><td>Latin America</td><td>18</td><td>375</td><td>16,396</td><td>8</td><td>17</td><td>645</td><td>23</td><td>1,307</td></tr>
<tr><td>Asia</td><td>13</td><td>41</td><td>2,255</td><td rowspan="2">3</td><td rowspan="2">9</td><td rowspan="2">29</td><td>23</td><td>553</td></tr>
<tr><td>Africa</td><td rowspan="2">8</td><td rowspan="2">32</td><td rowspan="2">1,443</td><td>10</td><td>133</td></tr>
<tr><td>Other</td><td>6</td><td>13</td><td>394</td><td>19</td><td>357</td></tr>
<tr><td>Total</td><td>23</td><td>742</td><td>34,092</td><td>21</td><td>183</td><td>4,632</td><td>25</td><td>3,647</td></tr>
</table>

Source: Special survey by Research Department, Federal Reserve Bank of Atlanta

foreign securities. Whereas some credits are made to foreign affiliates of U. S. corporations and foreign corporations, they mostly represent claims on foreign banks and foreign official institutions.

Geographic Orientation of International Banking Activities

As might be expected, because of geographical proximity, District banks have close financial ties with Latin America. According to the monthly reports on liabilities to and claims on foreigners made by District banks, Latin America accounts for over 70 percent of total claims on foreigners and for nearly 90 percent of total liabilities to foreigners. Much less important are Europe, with 9 percent of total claims and 7 percent of total liabilities, and Asia, with 11 percent of claims and 3 percent of liabilities.

The survey results on foreign correspondent relationships, letters of credit issued, and export and import financing also confirm the importance of Latin America in District activity. Other geographic areas, however, also assume importance for certain types of activities. Thus, Latin America accounts for about half the number of foreign banks holding correspondent balances with District banks and for about half of the dollar value of foreign correspondent balances held with District banks (Table 3). But European and Canadian banks also hold a substantial volume of balances with District banks. On the other hand, District banks place the largest share of their correspondent balances abroad with Canadian banks. A somewhat lesser volume of balances is spread among a larger number of European banks. The limited balances with Latin American banks probably reflect a tendency for payments to that region to be made in dollars because of the instability of various Latin currencies.

TABLE 4
Foreign Trade Financing of Sixth District Banks in 1970

	Letters of Credit		Funds Committed	
	Reporting Banks	Average % Per Bank	Reporting Banks	Average % Per Bank
Imports				
Europe	24	23	16	23
Latin America	15	26	9	29
Asia	23	58	16	67
Other	6	5	2	5
Total	24	100	16	100
Exports				
Europe	16	20	11	32
Latin America	18	66	14	72
Asia	11	30	8	12
Other	10	6	8	6
Total	19	100	15	100

Source: Special survey by Research Department, Federal Reserve Bank of Atlanta

Latin America again leads in the number of banks with which District banks maintain only an agency relationship. (An agency relationship involves a formal arrangement to provide certain correspondent services with transfers of funds made through an intermediary bank.) European banks hold a close second place.

Surprisingly, District banks issue a large volume of letters of credit and finance a substantial amount of trade with Asia, despite the relatively small role of Asian banks in correspondent relationships (Table 4). In fact, Asia apparently leads in the volume of letters of credit and in financing underlying District imports. Europe and Latin America have an approximately equal share in most of the remainder of these transactions. On the other hand, Latin America heavily dominates export transactions. The concentration of trade financing with these three areas conforms reasonably well to the geographic pattern of exports and imports through Southeastern ports.

The importance of Asia and Europe in import financing revealed by the survey does not really conflict with the overwhelmingly dominant position of Latin America revealed by the reports on bank claims on foreigners. Because import financing normally results in claims on domestic residents, it does not show up on these monthly reports. Export financing, on the other hand, generally results in claims on foreigners. Therefore, the survey findings confirm the role of Latin America in export financing, as indicated by the monthly reports.

The limited amount of District trade financing vis-a-vis Canada (reflecting the limited importance of District trade with that country) suggests that the size of Canadian bank correspondent relationships with District banks must rest upon a substantial amount of nontrade activity. Since Canada imports large amounts of capital from the U. S., these correspondent balances may reflect transfers of District funds to Canada for investment and transfers of returns on such investments back to District residents.

Factors Underlying the Development of International Banking

Undoubtedly, the Southeast's above-average rate of economic growth, reflected in rapid expansion of its foreign trade, has been a major force in spurring the growth and diversification of the region's international banking activities. Yet, District banks are nowhere near having developed their full potential in international operations. In 1970, they accounted for only about one-half of one percent of bankers' acceptances outstanding in the U. S. and, for other activities for which comparisons are possible, they rarely accounted for more than one percent of the national total. In contrast, District ports in 1970 accounted for 10 percent of total foreign trade.

A number of District banks have either initiated or expanded international services and financing to maintain their competitive position vis-a-vis large internationally oriented banks headquartered outside the District. The latter banks have used their international experience to attract purely domestic business from nonbanking and correspondent banking customers of larger District banks. Ironically, the very rapid increase in the volume of international activity of these large outside banks and their severe personnel problems have put District banks in a better position to compete for international business by offering more efficient services to local customers.

In recent periods of credit stringency, competition for funds, which has led banks to seek access to the Eurodollar market, has added significantly to the importance of international banking activities. The search for Eurodollars to meet this competition by some District banks has also amplified the importance of their international departments and, in some cases, has led to the establishment of foreign branches.

Several District banks, during the last few years, have received private funds from Latin America for safekeeping purposes. This inflow of deposits has been greatly facilitated by the geographical proximity of the District to Latin America. Moreover, in return for helping to channel these deposits to District banks, foreign correspondent banks in Latin America have gradually increased their demands for international services from District banks.

Future Prospects

Although the District has witnessed a rapid rate of growth in international banking activity during the last decade, this growth has come from a very small base. Yet, considering the character of recent growth, international activity of District banks appears to be entering a new phase that may help the District to expand its share of the national total.

Current growth in District international banking stems from three sources: (1) the diversification of activities by several banks that have typically had at least five years of international experience, (2) the formation of Edge Act subsidiaries by large banks headquartered outside the District, and (3) the rapid expansion in the number of newly created international departments.

By expanding and diversifying their financing activities, banks with veteran international departments have tended to shift their emphasis away from service functions. Several of these banks are now extending their operations through the establishment of foreign branches and Edge Act or Agreement subsidiaries. (Foreign branches permit banks to obtain foreign funds for financing exports, purchasing foreign securities, or making other credits available to foreigners without exceeding their Voluntary Foreign Credit Restraint program (VFCR) guidelines. Claims on U. S. residents arising out of import financing are not constrained by the VFCR guidelines. Edge Act and Agreement subsidiaries provide flexibility in location and in making overseas investments that may not be available to the parent bank.) As these new branches and subsidiaries begin to operate at full swing, they should add considerably to the volume of international activity carried out by District banks.

The Edge Act subsidiaries of banks headquartered outside the District should add significantly to this volume for at least two reasons: First, the experience and worldwide connections of their head offices should generate business not readily available to District banks. Secondly, competition from such Edge Act subsidiaries should stimulate District banks to take a larger role in international activity than they would have otherwise.

Those District banks recently entering the international field have typically confined themselves mostly to such service functions as issuing letters of credit and providing collection facilities, although some may also accept substantial amounts of deposits from nonbank private foreigners. As these newer international departments become more familiar with international finance and as they overcome any reservations their top management may have, they will probably expand and diversify their financing activities, thereby contributing further to an acceleration of the volume of international activity in the District. ■

APPENDIX

Selected Characteristics of International Departments of Sixth District Banks

The survey questionnaire also attempted to obtain information that might provide some insight into the general character of international departments of District banks. For instance, the survey revealed that international departments are relatively new in the District. Thus, eleven banks have had an international department for five years or less, while another six have only had a full-fledged international department for six to ten years. Three banks, however, have had international departments for more than forty years.

Consistent with their fledgling status, most international departments tend to be relatively small, as measured by their officers and employees. The results indicate that the number of international officers in District banks ranged between one and twelve, with a mean of three. International officers ranged from less than 1 percent to about 12 percent of total bank officers, with a mean of about 4 percent. Nonofficer employees in international departments ranged from one to forty, with a mean of nine; they ranged from .2 percent to 10 percent of total bank employees, with a mean of 2 percent.

Only 14 banks have a formal sales program for promoting foreign trade financing; however, most banks provide some type of information related to international transactions. Types of information most commonly furnished are concerned with foreign exchange rates, credit information on foreigners, Government insurance programs for exports, and export opportunities. A number of banks also provide information on U. S. Government regulations and foreign exchange outlook, but very few give information on shipping and prices and quality of foreign commodities.

Survey information indicates that District banks conduct most of their letters of credit and trade financing activities with large firms.[1] Thus, for import letters of credit opened, eighteen banks reported that more than half their business was done with large firms, but only eight banks reported that more than half their business was done with smaller firms. Most banks also reported that the majority of funds committed for financing imports were to larger firms.

Twelve banks indicated that over 50 percent of their letters of credit opened or confirmed were for larger exporters; in fact, seven of these indicated that from 75 to 100 percent of their letters of credit were in this category. On the other hand, only eight banks reported that more than 50 percent of their letters of credit issued or confirmed for exports were for small exporters. Regarding funds committed for financing exports, the results were more nearly even. Six banks reported that they committed over 75 percent of their funds for financing exports to small firms, and six banks reported that they committed over half of their funds for financing exports to large firms.

In opening and confirming export letters of credit, District banks tended to carry out their business with wholesalers and manufacturers, although very few banks issued more than 50 percent of their export letters of credit to either of these two types of customers. In most cases, banks reported that less than 10 percent of export letters of credit opened or confirmed were for retailers. A few banks specialized in letters of credit for nonspecified types of customers who did not fall into these three categories. Funds committed for financing exports followed much the same pattern as export letters of credit.

Whereas the opening of export letters of credit served a variety of customers, most import letters of credit were opened for wholesalers. Thus, nine banks reported that they opened from 50 percent to 75 percent of their import letters of credit for wholesalers, and eleven banks reported that they opened 76 percent to 100 percent for wholesalers. About twelve banks reported that up to 20 percent of their import letters of credit were opened for retailers, and nine reported that up to 25 percent of their import letters of credit were opened for manufacturers. Funds committed for financing imports also favored wholesalers overwhelmingly. Nevertheless, a number of banks granted a substantial amount of funds to manufacturers for financing imports.

Import items most frequently financed were foodstuffs, textiles, clothing, shoes and leather goods, lumber, steel, electrical equipment, wigs, chinaware, furniture, novelties and gift items, farm equipment, and machinery. Major export items financed were lumber, grain, cotton, textiles, foodstuffs, automobiles, aircraft, tractor parts, electrical equipment, machinery, and boats.

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[1]A large concern is defined as: (1) a retailer with annual sales of $100,000 or more; (2) a wholesaler with annual sales of $400,000 or more; (3) a manufacturer with 500 or more employees.

Southern Banks Take Cue From Economic Growth

by Joseph E. Rossman, Jr.

The structure of commercial banking—the number of banks and banking offices, their relative size, and their location—is constantly undergoing change; moreover, the markets in which banks sell their products also keep changing. The successful bank must adapt to meet the needs of these markets. Since banks are closely regulated, however, a particular bank's adjustment to its economic environment takes place within the constraints of the legal framework in which it operates.

During the Sixties, the Southeastern portion of the U. S. (including the Sixth Federal Reserve District) underwent considerable change. Continuing the pattern of the Fifties, the Southeast experienced a faster rate of growth in population and income than the rest of the nation. Population in the Sixties expanded 16 percent in the District, compared with 13 percent in the nation as a whole. The District also outpaced the nation in income growth by advancing 126 percent, contrasting with the national increase of 100 percent. Just as one would expect, the percent of banking offices has increased more rapidly in the District than in the remainder of the United States. Whereas the number of banking offices in the U. S. increased by 50 percent, the banking offices in Sixth District states increased by 56 percent. (The number of branches as well as the number of banks operating branches increased in District states and in other parts of the nation.) During the Sixties, a net total of 1,338 banking offices were added to those currently in operation in the Sixth District states and a net total of 11,672 were added for the country as a whole. The additional banking offices established during the Sixties in both District states and the country were mainly branches. Figures for District states show a net gain of 272 banks and an increase in branches of 1,066, while U. S. figures show a net gain of 417 banks and 11,255 branches.[1] Thus, a very large portion of bank growth in the country has taken place in District states.

[1] *Figures for District states have been adjusted for banks lost by mergers, banks that ceased operation, and new (de novo) banks. Figures for banks in the U. S. have been similarly adjusted. Both District and U.S. figures are based on insured commercial banks.*

Along with increases in population and income during the Sixties came growth in the deposit size of District banks. In 1970, the average deposit size of an insured commercial bank in the District was two and one-half times larger than it was during 1960. In fact, this growth has been of a continuing nature, since bank deposits grew at a much faster rate during the Sixties than they did during the Fifties.

Yet, Sixth District banks, with deposits averaging $20 million, still continue to fall below the national average. Moreover, throughout the Sixties, the percent increase in deposits of the average District bank was slightly less substantial than the percent increase for the nation as a whole.

When we look at the classes of District banks that showed deposit gains, we find that nonmember banks grew 131 percent; state member banks, 78 percent; and national banks, 55 percent. Although this pattern was also present in states outside the Sixth District, the growth rates among these three classes were more or less equal.

A breakdown by states showed a few straying from the Districtwide pattern. In Georgia and Louisiana, state member banks had the fastest growth rate, whereas in Mississippi, national banks grew most rapidly. In general, national banks grew at the slowest rate and small nonmembers grew fastest. Consequently, the average size of different classes of District banks became more equal.

Population and Income

Can the growth in banking offices be attributed to just two factors—population growth and income growth? If this were true, additional banking offices would be placed in areas where population and income increase most rapidly. This is not exactly the case within the Sixth District, however. For individual District states—as indicated by regression analysis—a significant proportion of the variation in the growth in the number of banking offices within individual counties was associated with population and income growth.[2]

[2] *Of the two variables, population appeared to be more important. See Regression Appendix.*

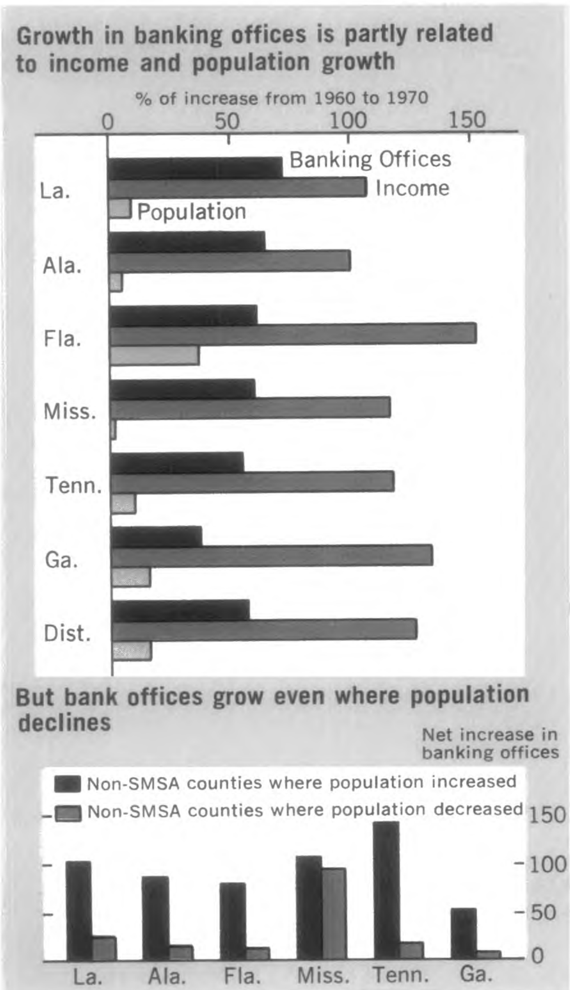
TOTAL NUMBER OF BANKS, BY CLASS

All Insured Commercial Banks

	Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	District States	U. S.
Total Member								
1960	93	129	65	53	35	83	458	6,174
1970	109	224	72	59	44	90	598	5,768
% change	17.2	73.6	10.8	11.3	25.7	8.4	30.0	−6.6
National								
1960	69	119	53	42	27	75	385	4,530
1970	89	215	62	49	38	77	530	4,621
% change	29.0	80.7	17.0	16.7	40.7	2.7	37.7	2.0
State Member								
1960	24	10	12	11	8	8	73	1,644
1970	20	9	10	10	6	13	68	1,147
% change	−16.7	−10.0	−16.7	−9.1	−25.0	62.5	−6.8	−30.2
Nonmember								
1960	145	180	354	137	158	215	1,189	6,948
1970	163	271	369	172	138	208	1,321	7,771
% change	12.4	50.6	4.2	25.5	−12.7	−3.3	11.1	11.3
Nonmember Par								
1960	62	138	73	29	19	137	458	5,468
1970	102	271	369	78	138	167	1,125	7,331
% change	64.5	96.4	405.5	168.9	626.3	21.9	145.6	34.1
Nonmember Nonpar								
1960	83	42	281	108	139	78	731	1,480
1970	61	0	0	94	0	41	196	440
% change	−26.5	−100.0	−100.0	−13.0	−100.0	−47.4	−73.2	−70.3

Note: Figures are for end of year. State legislation eliminated nonpar banking, effective January 1 of year indicated: Florida, 1967; Georgia, 1970; Mississippi, 1970; and Tennessee, 1971.

In Florida, for example, 72 percent of the variance in the increase in the number of banks in individual counties was explained in this manner. But these changes in population and income did not have the same influence in each District state; in fact, in Alabama, there was no systematic association of changes in the number of banking offices with population and income growth.



Apparently, there are other factors that influence the number and location of new banking offices. If we compare the decade of the Fifties with the decade of the Sixties, this thought is reinforced. During the Fifties, population increased by 21 percent and income expanded 95 percent. At the same time, banking offices increased by 33 percent. The Sixties experienced a slower rate of expansion in population and a faster growth rate in income. Banking offices, however, increased at a rate nearly double that of the Fifties—56 percent.

Legal Factors

A strong influence on the number, location, and type of banking office is the legal framework within which the banking system operates. State and Federal laws strongly influence how the need for additional banking facilities within a particular geographic banking market can be met—the two basic choices being either: establish a new branch or establish a new bank. Two other alternatives are available: merging with an existing bank and forming a holding company, or acquiring a bank by a holding company.[3] The establishment of branch offices is subject mainly to state law; Federal banking legislation has largely accommodated itself to state regulation. In Florida, where branch banking is prohibited by state law, the development of new banking facilities can be met only by establishing a new bank. This explains why all of Florida's expansion has taken place through new banks instead of branches. In the other five District states, limited branching is allowed. A general liberalization in laws that permit branching took place in District states during the Sixties. Banks were given the opportunity to establish branches in counties where branching had previously been prohibited. This liberalization made an important contribution to the growth in the number of banking offices—particularly branches—because banks took advantage of the opportunity to expand their areas of service.

While not directly affecting the number of banking offices, bank holding companies have been a popular means of expanding the size of the market served by individual banking organizations in a few of the District states. In the U. S., the number of banks operating as subsidiaries of bank holding companies rose from 426 in 1960 to 900 in 1970. Out of this increase of 474 banks operating as subsidiaries, 148 were accounted for by additions in the Sixth District states. State laws regarding the formation of bank holding companies have been an important factor in their formation and development. In the Sixties, bank holding companies in the Sixth District were largely confined to three states: Florida, Tennessee, and Georgia. Florida, which has no laws prohibiting holding companies, had the most banking holding company activity—with 22 holding companies controlling 157 banks

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[3] *For a discussion of merger activity in the Sixties, see Emerson Atkinson, "A Decade of Sixth District Bank Merger Activity," this* Review, *April 1971, pp. 62-70. Holding company organization and expansion was reviewed in Charles D. Salley, "A Decade of Holding Company Regulation in Florida," this* Review, *July 1970, pp. 90-99.*

as of December 31, 1970. Mississippi and Louisiana both prohibited bank holding companies of all kinds throughout most of the Sixties. Mississippi still prohibits bank holding company formation, while Louisiana has allowed the formation of one-bank holding companies since 1968. Georgia law prevented the formation of new holding companies during the 1960's and allowed only those in existence prior to 1960 to continue to operate.

Growth in Urban Areas

Urbanization also has played an important part in influencing the growth and location of banking offices. Of all the District states, Mississippi, alone, has the greatest percentage of its population in rural areas. During the Sixties, most of the larger metropolitan areas of the District registered stronger growth rates in population and more banking offices than did the states in which they were located. The three largest metropolitan areas—Atlanta, Miami, and New Orleans—registered population growth rates of 35 percent, 36 percent, and 20 percent, respectively. Increases in the number of banking offices for these cities were as follows: Atlanta, 117 percent; Miami, 81 percent; and New Orleans, 75 percent. The central or inner cities of these metropolitan areas, however, did not all share in the population growth. For example, the city of New Orleans lost 5 percent of its 1960 population, whereas Atlanta gained 5 percent and Miami gained 15 percent. The explanation for this apparent contradiction rests with the growth of suburban areas. More and more of the South's citizens are establishing residences in the suburbs of the larger cities and commuting to work.

New Bank Offices: Predominantly Branches

One might ask why expansion is taking place through *de novo* (new) branches instead of through *de novo* (new) banks. In general, it is usually easier and more profitable for any existing bank to expand its facilities than to raise the necessary capital to establish a new bank and to apply and receive a charter. In some instances, banks have opened new branches in anticipation of future growth and corresponding needs for increased financial activity. In areas of declining population, new banks may not be warranted; however, existing banks may desire to establish new branches—such as drive-in branches—as a convenience to their customers. The establishment of drive-in facilities by one bank often encourages other banks in the community to establish their own drive-in branch. Thus, even where population has declined, competitive forces have encouraged the establishment of new branches.

A portion of the new banks established in the Sixties resulted from an inability of banks to branch beyond some geographic boundary—such as a county line or city limit.[4] For example, banks in Georgia were essentially restricted during the Sixties to branching only within their respective city limits. Large city banks that were unable to establish branches in the growing suburbs outside city limits began to sponsor and to

[4] *The Georgia banking law on branching was amended January 1, 1971, allowing countywide branching in the larger metropolitan areas of the state.*

NUMBER OF BANKING OFFICES
All Insured Commercial Banks

	Total Banks			Branches and Offices			No. of Banking Offices Per 100,000 Population	
	1960	1970	% change	1960	1970	% change	1960	1970
Alabama	238	272	14.3	90	267	196.7	10.0	15.9
Florida	309	495	60.2	14	33[1]	135.8	6.5	7.9
Georgia	419	441	5.3	106	281	165.1	13.4	13.6
Louisiana	190	231	21.6	176	392	122.7	11.2	17.5
Mississippi	193	182	−5.7	136	345	153.7	15.1	24.4
Tennessee	298	298	0.0	216	486	125.0	14.4	20.7
District States	1,647	1,919	16.5	738	1,804	144.4	11.3	13.4
U. S.	13,122	13,539	3.2	10,169	21,424	110.7	13.2	17.3

[1] Primarily banking facilities maintained on military installations
NOTE: All figures are for end of year indicated.

help establish banks in the county in which the suburb was located. In the Georgia example, even though a bank is restricted to owning no more than 5 percent of another bank's stock directly (from which the term "five-percenter" developed), the ties between the city bank and the "five-percenter" were much closer. In fact, for all practical purposes, the county bank acted as if it were a branch of the city bank. Initially, it has been customary for the city bank to help staff the smaller bank, for there to be common shareholders for both banks, and for the city bank to provide banking services for the smaller bank. As the result of legislation that allows countywide branching as of January 1, 1971, city banks can now establish branches outside their city limits. This new law has also encouraged increased merger activity in Georgia because city banks want to merge with suburban banks and operate them as branches.

Summing Up

Commercial banks expanded their offices during the 1960's to meet the needs of their changing markets. The majority of the growth took place in counties and Standard Metropolitan Statistical Areas with expanding populations; however, some growth took place in areas of declining population, which was mainly because of new offices in suburban areas. With the exception of Florida, the District states, like the rest of the country, used branching to meet much of the need for new offices. Increased population, along with gains in personal income—both total personal and per capita income—helped District banks to grow in deposit size. The relative sizes of different classes of District banks became more equal as the smaller nonmember state banks generally grew at faster rates.

As the Southeast grows in population and economic activity, the number and size of banking offices can also be expected to increase. The form this growth takes will be shaped by the needs of the economy and by existing state and Federal regulation. ■

REGRESSION APPENDIX

Multiple regression analysis of the form $Y = a + b_1X_1 + b_2X_2$ was performed to measure the statistical relationship between Y (number of banking offices per county for each state) and X_1 (a population variable for the county—1960-1968) and X_2 (an income variable—total personal income for the respective county—1960-1968). By running the regression, we are able to test our hypothesis that banking offices are affected by population and income changes. For our purposes, this relationship was assumed to be linear. The resulting estimates of the two b's, which may be positive or negative, respectively, tell us how much Y will change if we increase X_1 or X_2. The estimate of a is a constant which tells us the value of Y if both X's are 0. The following regression was run:

Change in

Y = new offices added between 1968 and 1960/county

X_1 = increase in population between 1968 and 1960/county

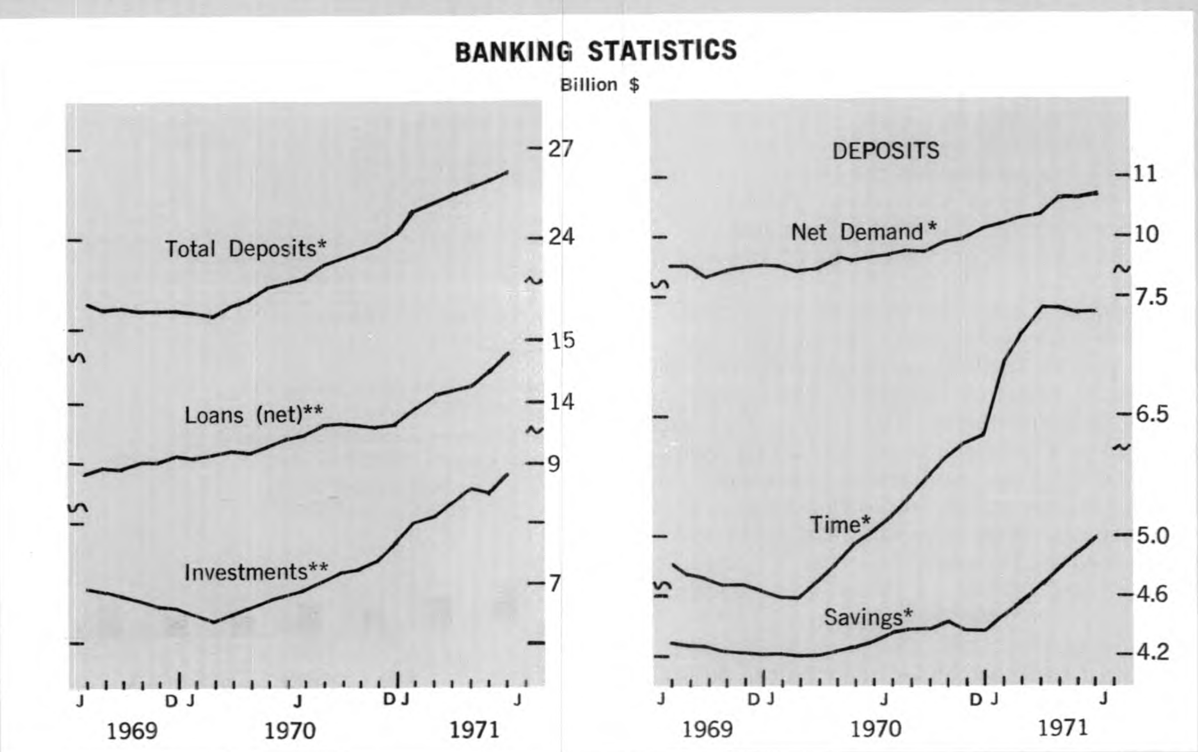
X_2 = increase in personal income between 1968 and 1960/county

	a	b_1	b_2	Observations	R^2 (adjusted)
Alabama	1.3	.00008 (.5)	−.0009 +(.99)	53	.02
Florida	.08	.00004 (.35)	.009 (.15)	56	.72
Georgia	−.22	.00003 (.50)	.0265 (.001)	129	.36
Louisiana*	−.73	.0006 (.001)	.0087 (.30)	28	.67
Mississippi*	.28	−.00008 (.40)	.079 (.001)	40	.49
Tennessee*	.51	.00027 (.0001)	.012 (.20)	65	.52
SMSA's (all combined)	6.26	.00015 (.001)	.0004 (.99)	29	.44

*Includes only District portion of state

The coefficient of determination (R^2)—which measures the percentage of variation in Y explained by the corresponding variation in the X's—indicates, for example, that 72 percent of the variation in banking offices in Florida was explained by the corresponding variation in total personal income changes and changes in county population.

The level of significance for each estimate of a b value is listed in parentheses. This value gives us an idea of how much confidence we should place in our estimate of a particular b. A value of (.10) tells us that there is only a 10 percent chance that the b is actually zero or, in other words, that the nonzero value we estimated resulted merely from random fluctuations in X and Y. The lower the value in the parentheses, the more confidence we may place in it. Thus, looking at the estimates for b_1, we are more confident of the estimate of Louisiana's b_1, than of the estimate of Mississippi's b_1.

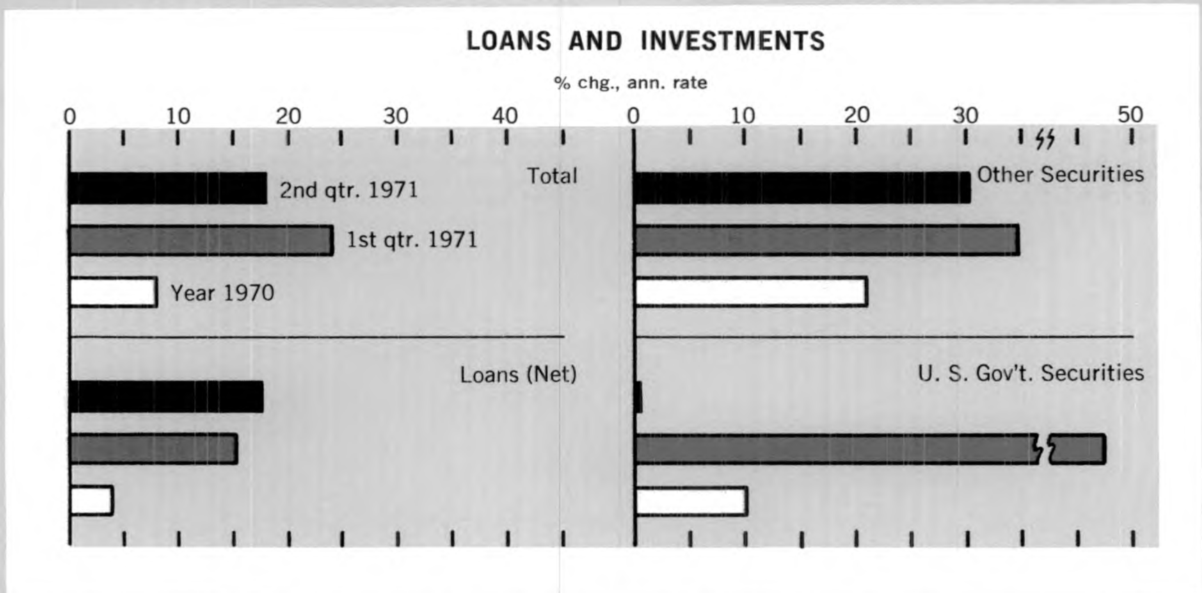


LATEST MONTH PLOTTED: JUNE

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



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

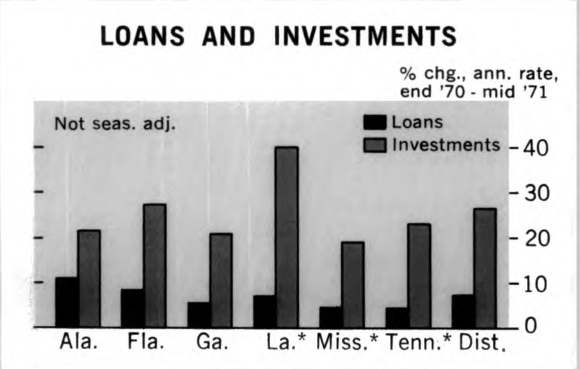
DISTRICT BANKS: LOANS AND INVESTMENTS CLIMB SHARPLY

One of the strongest periods of credit expansion to take place in ten years occurred during the first half of 1971. Total credit (loans and investments combined) extended by District member banks grew at a vigorous annual rate of more than 21 percent, nearly twice as high as the national rate. In fact, the growth rate of bank credit during this six-month period was almost three times higher than it was for the entire year of 1970.

Although local conditions strongly influence a bank's opportunities for loans and investments, several fundamental factors present during the first half of 1971 provided an environment that was conducive to expanding bank credit. One such factor was the Federal Reserve System's accommodating monetary policy, which provided the banking system with considerable reserves.

The economic recovery from the nationwide 1970 recession also stimulated bank credit. As the recovery in the region broadened, business firms needed additional financing. While a large proportion of firms obtained necessary funds from long-term sources, many firms turned to banks for new or additional loans. Moreover, Southern consumers, partially encouraged by the recovery, borrowed more heavily from banks.

Record time deposit inflows experienced at both large and small District banks were still another element behind the rapid rise in bank credit. District banks in the first half of 1971 gained $1.3 billion in time deposits, and, although all categories shared in the gain, a large portion came from increases to personal savings accounts. For example, personal savings account gains at large commercial banks made up nearly half of the $500-million gain in time and savings deposits. The remainder of the increase was divided between large negotiable CD's and other time deposits. In early 1971, declining yields on short-term U. S. Government securties (which dropped below Regulation Q ceiling rates) and declining yields on corporate issues made banks more competitive than before in attracting funds.



*Sixth District portion only

A look at the components of bank credit shows that the $2.3-billion addition to bank credit during the first half of 1971 was evenly distributed between loans and investments. The growth was also fairly evenly divided between quarters, increasing $1.3 billion in the first quarter and $1.0 billion in the second quarter. When the components are viewed on a quarterly basis, however, it can be seen that they did not grow at a uniform rate throughout the six-month period. During the first quarter, the majority of growth took place in investments—with both U. S. Government securities and state and municipal securities sharing evenly in this growth. But during the second quarter, the emphasis shifted to loan growth, since loans accounted for 60 percent of the growth in bank credit. This changing emphasis can be largely traced to a strengthening of loan demand. As the economy strengthens further in future months, a continued emphasis on loans should be expected.

JOSEPH E. ROSSMAN, JR.

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

	Latest Month 1971		One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Manufacturing Payrolls	June	138	136	134	130
Farm Cash Receipts	May	139	119	125	140
Crops	May	198	117	138	121
Livestock	May	134	123	127	157
Instalment Credit at Banks* (Mil. $)					
New Loans	June	379	368	380r	336
Repayments	June	361	338	349r	302
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment†	June	112	112	112	111
Manufacturing	June	106	106	106	107
Nondurable Goods	June	107	107	107	107
Food	June	103	103	103	105
Textiles	June	104	103	102	106
Apparel	June	103	103	103	102
Paper	June	109	109	109	110
Printing and Publishing	June	115	114	114	113
Chemicals	June	105	105	104	102
Durable Goods	June	104	104	104	107
Lbr., Wood prods., Furn. & Fix.	June	99	99	98	100
Stone, Clay, and Glass	June	103	104	104	105
Primary Metals	June	105	106	105	106
Fabricated Metals	June	112	112	112	113
Machinery, Elec. & Nonelec.	June	160	159	159	167
Transportation Equipment	June	103	104	104	110
Nonmanufacturing	June	114	114	114	112
Construction	June	109	112	112	107
Transp., Comm., & Pub. Utilities	June	111	112	112	111
Trade	June	113	114	113	112
Fin., ins., and real est.	June	119	120	119	116
Services	June	116	116	116	114
Federal Government	June	100	102	102	102
State and Local Government	June	121	121	120	121
Farm Employment	June	86	90	92	92
Unemployment Rate (Percent of Work Force)†	June	4.8	4.9	5.1	4.3
Insured Unemployment (Percent of Cov. Emp.)	June	2.8	2.8	2.9	2.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	41.0	40.8	40.9	40.4
Construction Contracts*	June	189	153	176	139
Residential	June	199	176	154	138
All Other	June	179	131	197	139
Electric Power Production**	May	166	168	165	167
Cotton Consumption**	Apr.	90	93	94	88
Petrol. Prod. in Coastal La. and Miss.**	June	296	309	301	286
Manufacturing Production	May	254	252	252	241
Nondurable Goods	May	219	217	216	203
Food	May	177	176	176	164
Textiles	May	244	239	239	226
Apparel	May	278	276	279	256
Paper	May	199	201	198	197
Printing and Publishing	May	166	166	167	167
Chemicals	May	261	260r	258	253
Durable Goods	May	296	293r	294	287
Lumber and Wood	May	174	173r	171	169
Furniture and Fixtures	May	177	176r	176	182
Stone, Clay and Glass	May	169	167r	171	167
Primary Metals	May	211	207	208	198
Fabricated Metals	May	242	240	243	242
Nonelectrical Machinery	May	386	380	384	354
Electrical Machinery	May	617	619	607	600
Transportation Equipment	May	389	384	388	379
FINANCE AND BANKING					
Loans*					
All Member Banks	June	154	154	151	138
Large Banks	June	143	143	138	128
Deposits*					
All Member Banks	June	149	144	142	123
Large Banks	June	136	132	129	110
Bank Debits*/**	June	337	331	332	285
ALABAMA					
INCOME					
Manufacturing Payrolls	June	138	136	135	128
Farm Cash Receipts	May	166	136	144	131
EMPLOYMENT					
Nonfarm Employment†	June	106	106	106	106
Manufacturing	June	106	106	107	108
Nonmanufacturing	June	106	106	106	105
Construction	June	105	108	106	100
Farm Employment	June	81	84	87	86

	Latest Month 1971		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)†	June	5.1	5.3	5.4	4.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	40.7	40.9	40.6	39.5
FINANCE AND BANKING					
Member Bank Loans	June	150	148	146	134
Member Bank Deposits	June	141	140	137	118
Bank Debits**	June	271	280	285	239
FLORIDA					
INCOME					
Manufacturing Payrolls	June	146	142	138	140
Farm Cash Receipts	May	192	101	110	120
EMPLOYMENT					
Nonfarm Employment†	June	121	121	120	119
Manufacturing	Jue	110	108	108	112
Nonmanufacturing	June	123	123	123	121
Construction	June	132	134	135	135
Farm Employment	June	101	100	99	101
Unemployment Rate (Percent of Work Force)†	June	4.1	4.3	4.9	3.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	41.3	41.1	40.5	41.4
FINANCE AND BANKING					
Member Bank Loans	June	169	170	164	150
Member Bank Deposits	June	169	162	158	135
Bank Debits**	June	366	353r	356	298
GEORGIA					
INCOME					
Manufacturing Payrolls	June	137	136	134	132
Farm Cash Receipts	May	84	129	134	155
EMPLOYMENT					
Nonfarm Employment†	June	111	112	112	111
Manufacturing	June	103	103	103	105
Nonmanufacturing	June	115	116	115	113
Construction	June	108	108	106	102
Farm Employment	June	82	90	89	91
Unemployment Rate (Percent of Work Force)†	June	4.0	4.1	4.1	3.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	40.7	40.5	41.0	40.4
FINANCE AND BANKING					
Member Bank Loans	June	148	146	143	134
Member Bank Deposits	June	133	128	127	112
Bank Debits**	June	405	384	379	339
LOUISIANA					
INCOME					
Manufacturing Payrolls	June	131	128	128	119
Farm Cash Receipts	May	94	128	120	100
EMPLOYMENT					
Nonfarm Employment†	June	104	104	105	103
Manufacturing	June	99	100	99	101
Nonmanufacturing	June	105	106	106	104
Construction	June	79	85	89	82
Farm Employment	June	75	76	82	83
Unemployment Rate (Percent of Work Force)†	June	6.6	6.7	6.6	6.2
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	43.6	42.4	42.9	41.7
FINANCE AND BANKING					
Member Bank Loans*	June	138	137	137	126
Member Bank Deposits*	June	142	136	135	116
Bank Debits*/**	June	244	243	245	211
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	June	144	142	139	131
Farm Cash Receipts	May	139	140	152	195
EMPLOYMENT					
Nonfarm Employment†	June	109	110	110	108
Manufacturing	June	110	111	111	108
Nonmanufacturing	June	108	110	110	108
Construction	June	104	106	108	106
Farm Employment	June	90	97	89	97

	Latest Month 1971		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)†	June	5.1	5.3	5.4	4.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	40.4	40.3	40.2	40.0
FINANCE AND BANKING					
Member Bank Loans*	June	157	160	157	140
Member Bank Deposits*	June	149	149	144	128
Bank Debits*/**	June	325	340	343	285
TENNESSEE					
INCOME					
Manufacturing Payrolls	June	136	134	133	125
Farm Cash Receipts	May	214	128	142	180
EMPLOYMENT					
Nonfarm Employment†	June	111	111	111	108
Manufacturing	June	106	106	106	106
Nonmanufacturing	June	114	114	114	110
Construction	June	112	113	113	99
Farm Employment	June	91	86	98	92
Unemployment Rate (Percent of Work Force)†	June	4.9	4.9	4.9	4.3
Avg. Weekly Hours in Mfg (Hrs.)	June	40.4	40.4	40.8	40.0
FINANCE AND BANKING					
Member Bank Loans*	June	150	151	151	137
Member Bank Deposits*	June	143	138	136	122
Bank Debits*/**	June	329	330	338	293

*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.

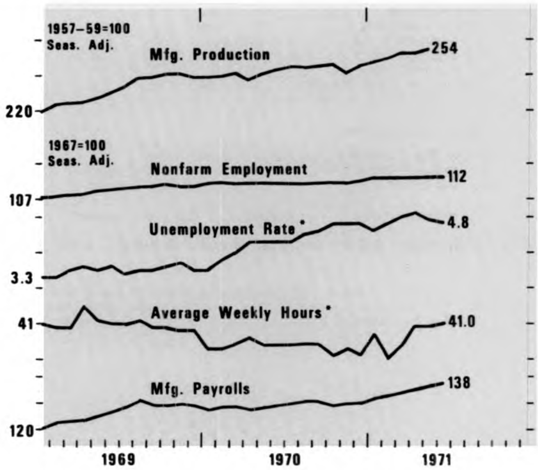
Debits to Demand Deposit Accounts

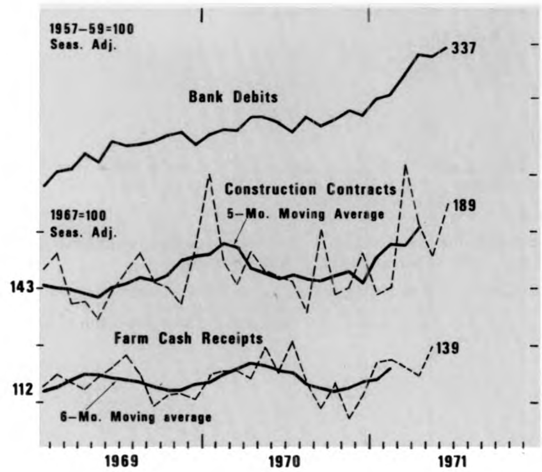
Insured Commercial Banks in the Sixth District
(In Thousands of Dollars)

	June 1971	May 1971	June 1970	Percent Change: June 1971 from May 1971	June 1971 from June 1970	Year to date 6 mos. 1971 from 1970
STANDARD METROPOLITAN STATISTICAL AREAS						
Birmingham	2,361,774	2,255,817	1,958,362	+ 5	+21	+13
Gadsden	83,011	78,021	71,769	+ 6	+16	+12
Huntsville	243,726	239,560	219,436	+ 2	+11	+ 7
Mobile	724,804	763,780	707,021	− 5	+ 3	− 0
Montgomery	447,263	486,641	404,444	− 8	+11	+15
Tuscaloosa	145,353	139,736	127,540	+ 4	+14	+14
Ft. Lauderdale—Hollywood	1,311,137	1,213,395	1,140,942	+ 8	+15	+13
Jacksonville	2,719,744	2,146,791	2,113,882	+27	+29	+11
Miami	4,943,711	4,484,125r	3,755,969r	+10	+32	+23
Orlando	979,647	904,510	834,660	+ 8	+17	+16
Pensacola	342,651	329,304	300,016	+ 4	+14	+25
Tallahassee	288,092	323,228	225,559	−11	+28	+37
Tampa—St. Pete.	2,583,220	2,354,348	2,230,375	+10	+16	+14
W. Palm Beach	771,203	716,234	657,775	+ 8	+17	+10
Albany	141,555	131,512	136,974	+ 8	+ 3	+ 8
Atlanta	9,630,391	8,575,888	7,864,694	+12	+22	+13
Augusta	392,941	350,262	316,017	+12	+24	+14
Columbus	337,232	346,847	298,865	− 4	+13	+14
Macon	380,674	362,624	340,296	+ 5	+12	+14
Savannah	410,018	356,385	328,448	+15	+25	+15
Baton Rouge	1,018,663	904,435	816,658r	+13	+25	+21
Lafayette	188,209	186,181	168,939	+ 1	+11	+ 8
Lake Charles	184,133	184,020	174,345	+ 0	+ 6	+ 9
New Orleans	3,250,624	3,099,188	2,786,119	+ 5	+17	+13
Biloxi—Gulfport	197,643	190,450	158,389	+ 4	+25	+10
Jackson	1,003,736	1,009,371	867,070	− 1	+16	+15
Chattanooga	988,298	933,972	885,047	+ 6	+12	+13
Knoxville	722,206	627,369	618,189	+15	+17	+13
Nashville	2,304,489	2,136,220	2,113,293	+ 8	+ 9	+ 8
OTHER CENTERS						
Anniston	89,754	86,346	85,623	+ 4	+ 5	+ 6
Dothan	111,592	107,620	90,589	+ 4	+23	+18
Selma	55,193	51,985	51,744	+ 6	+ 7	+ 3
Bartow	40,071	35,174	37,002	+14	+ 8	+ 1
Bradenton	123,894	110,728	97,509	+12	+27	+ 9
Brevard County	227,284	201,123	222,450	+13	+ 2	− 4
Daytona Beach	119,593	108,704	107,847	+10	+11	+ 8
Ft. Myers—N. Ft. Myers	170,718	178,946	140,760	− 5	+21	+23
Gainesville	163,856	134,861	125,010	+21	+31	+22
Lakeland	219,877	179,035	169,001	+23	+30	+17
Monroe County	51,539	48,754	44,766	+ 6	+15	+13
Ocala	119,838	114,407	100,191	+ 5	+20	+12
St. Augustine	29,906	24,066	27,087	+24	+10	+ 3
St. Petersburg	650,244	602,827	480,328	+ 8	+35	+30
Sarasota	194,876	184,153	161,868	+ 6	+20	+ 2
Tampa	1,303,323	1,199,719	1,226,679	+ 9	+ 6	+ 7
Winter Haven	110,738	101,814	90,020	+ 9	+12	+14
Athens	185,946	172,153	139,026	+ 8	+34	+48
Brunswick	72,554	61,101	56,622	+19	+28	+16
Dalton	134,235	117,097	115,745	+15	+16	+12
Elberton	17,130	15,709	19,154	+ 9	−11	−14
Gainesville	105,337	94,186	100,871	+12	+ 5	+ 5
Griffin	51,886	50,009	45,307	+ 4	+15	+15
LaGrange	27,177	51,637	24,111	−47	+13	+31
Newnan	38,117	34,876	31,552	+ 9	+21	+ 9
Rome	113,501	95,641	99,261	+19	+14	+ 7
Valdosta	76,926	72,007	67,875	+ 7	+13	+ 9
Abbeville	15,051	12,681	13,143	+19	+15	+ 5
Alexandria	160,036	169,388	161,546	− 6	− 1	+ 5
Bunkie	8,554	7,770	7,466	+11	+15	+ 9
Hammond	51,598	49,978	46,232	+ 3	+12	+12
New Iberia	44,899	45,178	39,313	− 1	+14	+12
Plaquemine	14,499	14,263	13,695	+ 2	+ 6	− 3
Thibodaux	27,910	32,162	27,240	−13	+ 2	+13
Hattiesburg	87,987	87,191	62,655	+ 1	+40	+49
Laurel	50,078	53,929	50,241	− 7	− 0	+ 8
Meridian	82,978	79,076	82,934	+ 5	+ 0	+ 3
Natchez	45,115	41,900r	42,922	+ 8	+ 5	+ 3
Pascagoula—Moss Point	95,931	102,107	89,168	− 6	+ 8	+12
Vicksburg	57,265	49,064	49,972	+17	+15	+11
Yazoo City	37,745	36,050	38,772	+ 5	− 3	+ 9
Bristol	118,169	116,191	102,399	+ 2	+15	+11
Johnson City	125,872	115,533	112,853	+ 9	+12	+10
Kingsport	202,172	186,380	190,682	+ 8	+ 6	+ 5
District Total	51,344,595	47,471,818r	43,421,048r	+ 8	+18	+13
Alabama‡	5,754,187	5,689,969	5,068,139	+ 1	+14	+ 9
Florida‡	17,404,480	15,699,523r	14,159,877r	+11	+23	+16
Georgia‡	14,069,625	12,683,960	11,791,813	+11	+19	+13
Louisiana†*	5,728,656	5,472,192	4,948,019r	+ 5	+16	+13
Mississippi†*	2,194,773	2,180,043	1,921,495	+ 1	+14	+14
Tennessee†*	6,192,874	5,746,131	5,531,705	+ 8	+12	+11

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

District Business Conditions





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

Rays of regional economic recovery continued to shine despite several economic clouds. Latest available data show a lengthening in the factory workweek but little change in labor market conditions. Consumer instalment credit growth slackened; auto sales showed reduced gains. Residential building contracts continued to advance, but total construction awards changed little. In July, bank credit slowed from its strong June showing. Economic conditions of the farm economy improved in June; however, July's rail strike imposed hardships.

The unemployment situation changed little in June. Nonfarm employment decreased, but the average manufacturing workweek lengthened. Manufacturing production continued to advance in May.

Outstanding consumer instalment credit at commercial banks in June increased slightly less than in past months. Most of the expansion was centered in the auto loan sector. Domestic auto sales surpassed the June 1970 level, although the gain was somewhat less than year-ago increases for recent months.

Residential construction contract awards in May rose to a new all-time high. Savings and loan associations continued to record large deposit inflows and to increase their commitments. Home loan interest rates, however, have turned upward. Nonresidential construction contract awards declined in May for the second consecutive month but remained well above late 1970 levels. Louisiana and Tennessee were particularly weak in this sector. On balance, little change has occurred in total construction since March.

In June, bank credit posted one of the largest advances of the year—rising nearly $600 million. But, through the first part of July, there was a pronounced slowdown in bank loans and investments, especially at the larger banks. This Bank raised the discount rate from $4^3/_4$ percent to 5 percent, effective July 19. Discount activity, however, increased further in the following weeks.

Economic conditions for farmers improved in June; the index of all prices edged upward. Prices received for hogs, broilers, cotton, wheat, soybeans, and oranges registered substantial gains from month-ago levels, but prices of milk, eggs, beef cattle and calves, and tobacco declined. At midsummer, the Georgia corn crop was reported to be the best in years. The rail strike severely curtailed shipments of grain in late July, and poultry producers faced imminent feed shortages.

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