

Monthly Review

October

Federal Reserve Bank of Atlanta - 1971

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The Treasury Debt: Someone Else's Assets

by William N. Cox, III

When Mark Twain was asked how he felt about being 70, he said that although he recognized it, he didn't realize it. Perhaps we are prone to recognize, but not realize, the mirror image of debt. For every borrower, there has to be a corresponding lender. For every one of us who pays interest on debt, there has to be someone else who adds that interest to his income. For everyone who owes a financial liability, there has to be someone else who holds an asset.

United States Treasury debt is no exception to the rule: What is debt to the Treasury has to be counted as someone else's asset. What is a financial liability to the Treasury is—to someone else who holds the Treasury's debt obligation—a financial asset, much like a share of stock or a bank account or a corporate bond. The so-called national debt has as its necessary counterpart a stock of assets owned by someone else.

Who Owns The Treasury Debt?

Whose assets? Who is this "someone else" who owns the Treasury debt? In answer, we might borrow a line from the current ecological debate and say, "We have met the 'someone else' and he is us." We—the American public—own most of the national debt. To see this, let's take a look at the figures:

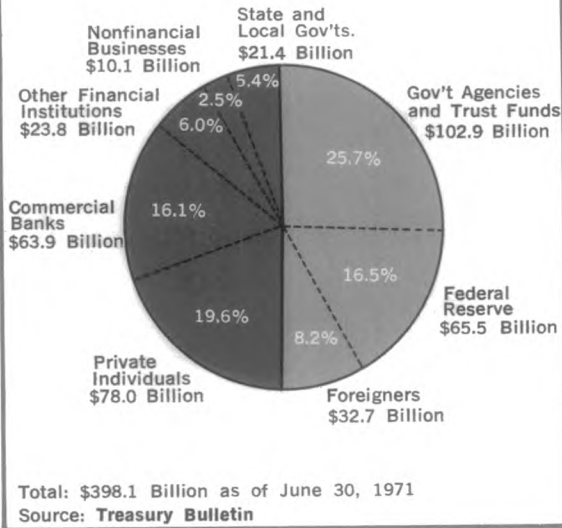
On the last day of June 1971, the Treasury's gross public debt amounted to \$398.1 billion.¹ Of this total, 49 percent or \$197.0 billion was held as financial assets by private investors in the American economy. Another 43 percent was held within the Government itself: 26 percent or \$102.9 billion by Government agencies and trust funds and another 16 percent or \$65.5 billion by the Federal Reserve System. The remainder rested in the hands of foreign investors.

The lion's share of the total public debt, then, is held by private investors. Private individuals held \$78.1 billion of this—including \$24.9 billion in the form of the familiar U. S. savings bond. A few hundred

¹Primary source for public debt data is the Treasury Bulletin. The data cited in this article are conveniently summarized in the Federal Reserve Bulletin, page A-42.

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The American public owns almost half of the Treasury debt



dollars stashed away in Treasury securities may not seem like much to each of us individually. But when these holdings are cumulated over millions of households, we find that we as individuals hold directly a surprising proportion of the national debt—more, in fact, than either the commercial banks or the Federal Reserve System. Thus, the “someone else” to whom the Treasury owes the national debt is us.

We as individuals have an additional indirect stake in the Treasury debt because of our direct interests in businesses and financial institutions. An individual who has invested in a mutual fund or pension fund, for instance, may not realize that a substantial portion of this investment has been reinvested in Treasury debt obligations. Nevertheless, this is usually the case. Likewise, commercial banks, savings and loan associations, and insurance companies reinvest the deposits and shares belonging to us—their customers—in Treasury securities. On the last day of June 1971, commercial banks and mutual savings banks held \$63.9 billion of Treasury debt, while insurance companies and other nonbank financial institutions, together, held another \$23.8 billion. Although these assets are held by the financial institutions themselves, we have an indirect claim on them through our direct claims on these institutions.

Nonfinancial businesses and state and local governments also own a sizable share of the Treasury debt—\$10.1 billion and \$21.4 billion, respectively—even though neither is in business

for the sake of investing in financial securities. Businesses often find that they have funds on hand for such things as the subsequent payment of income taxes; they often invest these funds temporarily in Treasury securities, rather than let them lie idle.

When a business sells corporate bonds to finance its additions to plant and equipment, for instance, it usually finds there is a lag between the time it borrows the funds and the time it pays them out. In the interim, corporate money managers often place the money in Treasury-debt assets. State and local governments follow a similar practice for about the same reasons. These governments' tax receipts and bond sales are rarely timed to coincide with their expenditures; so when excess funds are temporarily available, they find their way into Treasury obligations.

The Treasury debt, therefore, forms a large liquid pool of financial assets that serve the different objectives of various investors. Recognizing this, the Treasury has tailored its issues to the investment needs of the public by offering denominations ranging from the well-known \$18.75 to millions of dollars, by offering maturities from three months to thirty years, and even by offering special issues that can be used for payment of corporate income taxes or for credit on Federal estate taxes. Without the availability of this pool of Treasury debt, private investors would be much more limited in their choice of financial assets.

If private investors own 49 percent of the financial assets represented by Treasury debt, who owns the rest? Almost all the rest is owned within the Government sector. Government agencies and trust funds hold about one-fourth of the total Treasury debt—\$102.9 billion by mid-1971—and the Federal Reserve System owns another one-sixth—\$65.5 billion. The fact that these assets are owned within the Governmental sector itself means, in effect, that the Government has borrowed this money from itself. As we shall see in a moment, this is because the Treasury's interest payments on this portion of the debt are virtually nil.

Government agencies and trust funds own Treasury securities for the same reasons that businesses and state and local governments do: They find they have funds on hand between receipt and payout and want to invest them in interest-bearing securities. The Social Security Trust Fund, for instance, receives Social Security deductions from our paychecks as revenue and then pays out benefits to elderly and disabled members of our population. Since this Fund normally takes in more than it pays out, it reinvests the balance in Treasury securities. Furthermore, this example applies generally to

the host of Government trust funds and agencies—which together, as we have said, own about one-fourth of the financial assets issued by the Treasury.

The Federal Reserve System, holder of another one-sixth of the Treasury debt, is perhaps the only holder that does not buy Treasury securities for investment purposes. Instead, the Fed buys securities as a means of providing bank reserves to the economy. Payments for Federal Reserve purchases of Treasury securities are made with checks drawn on the Federal Reserve itself, which eventually are deposited as additions to commercial banks' reserve accounts with the Fed. As the American economy has grown over the years, its need for money (deposits) has grown apace. Since additional money (deposits) can only be provided with a commensurate expansion in bank reserves, the Federal Reserve System has systematically provided the needed reserves to the banking system and to the economy by buying Treasury securities. Fed purchases of Treasury securities, unlike those of any other holder, are contingent on the economy's need for money and bank reserves, rather than on the prospects for interest and price appreciation that attract other investors.

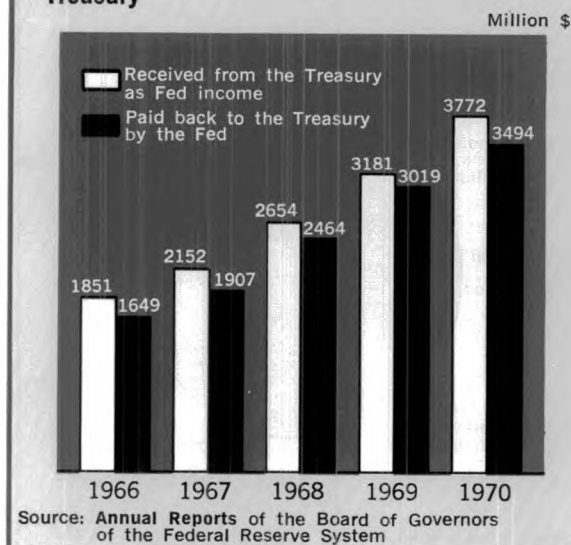
The reader who has kept his pencil handy will find that all but \$32.7 billion of the Treasury debt at the end of June 1971 has by now been accounted for—\$365.4 billion of the \$398.1 billion outstanding. The remainder is held by foreign investors—some private, some public. In either case, they have invested in Treasury securities for basically the same reasons as private domestic investors: to realize income from their dollar balances.²

The Treasury's Interest Payments Are Someone Else's Income

We have seen that the Treasury's debt obligations constitute the investment assets of somebody else, and we have seen who that somebody else turned out to be. Now, let us turn to a related aspect of the two-sided nature of Treasury debt, namely that Treasury interest payments constitute a source of income to those who receive them.

²One reason why the Treasury's foreign creditors are usually discussed separately is that, for the most part, foreigners are not subject to the U. S. Government's taxing power, which is what ultimately backs up the Treasury's debt obligations. Complete redemption of the domestically held Treasury debt would involve a redistribution from domestic taxpayers to domestic debt holders—most of whom are the same people.

Year in and year out, the Fed returns almost all the interest income it receives from the Treasury



The interest payments recorded on the Treasury's books are large. During 1970, the Treasury accrued interest payments of \$19,304 million. At the end of that year, it was paying interest at an annual rate of \$21,210 million, representing an effective interest rate of about 5½ percent on the then-outstanding debt of \$389.2 billion. This rate and these amounts are much overstated, however, because they do not reflect the fact that the Treasury taxes the income represented by its own interest payments.

Private investors almost invariably realize this. When you tell the owner of a Treasury bond that the interest he receives on it is part of his income, he will quickly point out that the income is taxable and that his after-tax income is significantly lower than the interest income. The exact numbers would depend on the tax rates levied against the particular individual or business or financial institution, of course, but his point would still be accurate: A substantial portion of the Treasury's interest payments to private investors in the American economy are returned to the Treasury in the form of taxes on the income it constitutes. (Under recently enacted legislation, some foreign investors in Treasury securities also return part of their interest income to the Treasury.)

Let us now look at the remaining interest income—that which the Treasury pays to investors within the Federal Government. Government agencies and trust funds held \$102.9 billion in Treasury securities by mid-1971, as we have seen, and the Federal Reserve System held

another \$65.5 billion. The Treasury pays interest on these securities; yet, their holders obviously are not subject to Federal income taxes. What happens to the income? Unlike the private-investor situation where part of the interest income is returned to the Treasury, in the Government-investor case virtually all the interest income is returned.

It is widely known that the Federal Reserve System receives interest from the Treasury on its portfolio of securities. The interest in 1970 amounted to \$3,772 million. What is not so widely recognized, however, is that the Federal Reserve paid 93 percent of this income—\$3,494 million—right back to the Treasury.³ The difference—\$278 million—was used to defray operating expenses of the Federal Reserve System.⁴ The Federal Reserve is not subject to Federal income tax, but it is subject to a special tax (on Federal Reserve notes), which serves as a legal vehicle for returning this income back to the Treasury. In this respect, 1970 was a typical year. Out of the interest payments it receives, the Federal Reserve usually returns well over nine-tenths to the Treasury in the form of the special tax on Federal Reserve notes.

Finally, in the case of interest payments made to Government agencies and trust funds, we are left with the realization that here the Government is borrowing from itself. Of course, the Treasury pays interest to these within-Government institutions, but the receipt of this simply means that a like amount of budgetary funds does not have to be raised and appropriated.

Treasury interest payments to the trust funds and agencies, therefore, represent a transfer similar to an interdepartmental transfer on the books of a corporation or among the members of the same household.

Summing Up

This article has described some basic facts about the Treasury debt. It has stressed the two-sided nature of the Treasury's debt, pointing out that for every dollar the Treasury has borrowed, somebody else has received a financial asset in the form of a Treasury security. Moreover, for every dollar of interest the Treasury has paid out, we have seen that somebody else has received that interest as an addition to his income.

In asking who that "somebody else" is who owns the Treasury debt, we have found that the American public itself owns most of it, either directly through individuals, investments or indirectly through claims on businesses, financial institutions, and state and local governments. We also found that agencies and trust funds within the Government itself own about a quarter of the debt, that the Federal Reserve System owns another sixth, and that foreigners hold a small remainder.

We were then able to go a step further and describe what happens to the interest income the owners receive from the Treasury, and to realize that much of the payments made by the Treasury in interest are returned to the Treasury in taxes. Of course, individuals, businesses, and financial institutions account for some of the returned interest, because they pay income taxes on their interest income. The Government's own agencies and trust funds use their interest receipts from the Treasury in lieu of appropriated funds, which means, in effect, that **all** of their receipts from the Treasury are returned. The Federal Reserve System, finally, returns almost all of the interest it receives from the Treasury—normally more than 90 cents out of each dollar received—in the form of a special tax on Federal Reserve notes. ■

³Annual Report of the Board of Governors of the Federal Reserve System, 1970, Tables 7 and 8. Additional Federal Reserve income—about \$106 million—largely resulted from loans made to commercial banks and from foreign currency operations.

⁴Of this, \$41 million was paid to member banks as a statutory 6-percent dividend on Federal Reserve Bank stock.

MIAMI OFFICE OPENS

The Miami office of the Federal Reserve Bank of Atlanta opened in Coral Gables, Florida, on October 1. This new facility will provide the 13 counties of southern Florida with certain check collection and coin services; however, the Fed's Jacksonville branch will still be responsible for the area of the State not served by the Miami office.

Consumer Credit Cranks Up

by Emerson Atkinson

Recently, consumers have been relying more extensively on instalment debt to stretch their buying power—much more so than in late 1970 and early 1971. This has been true in the Sixth Federal Reserve District and, generally speaking, in the rest of the nation as well.

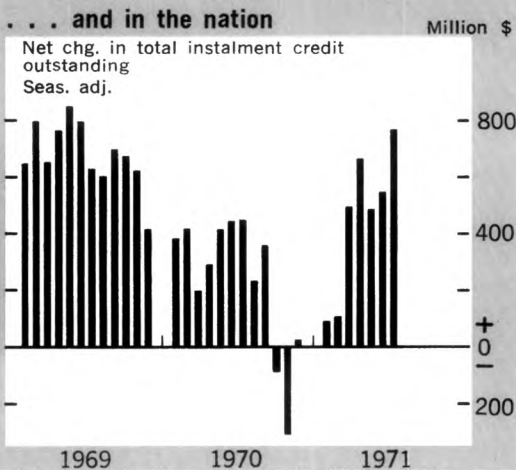
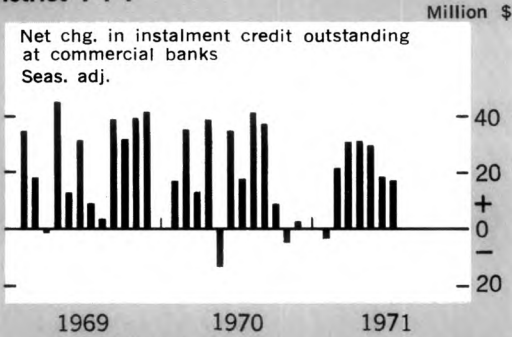
By February 1971, it was evident that the expansion of consumer instalment credit outstanding at commercial banks in the Sixth District was under way—in contrast to little or no expansion during the previous three months. In fact, in November 1970, total instalment credit outstanding, after seasonal adjustment, had actually declined (-\$4.2 million). In December, the net change was positive (\$2.6 million), but in January 1971 consumer instalment credit outstanding again declined (-\$3.1 million). Since then, however, the increase in consumer credit activity has been sizable: On average, consumer instalment credit for the two 3-month periods following January expanded \$27 million and \$23 million, respectively—compared with no expansion (actually a contraction) during the previous three months from November through January.

Nationally, consumer instalment debt outstanding has also expanded, after a sluggish performance at the end of 1970 and the beginning of 1971. In October 1970, the amount outstanding declined (-\$82 million); in November, credit faltered considerably (-\$302 million); but in December, the movement was reversed and credit grew slightly (\$21 million). By January and February of 1971, it was evident that consumers were stepping up their use of instalment credit; since then, large monthly expansions of credit have continued.

Unlike District instalment credit outstanding, which includes only credit outstanding at commercial banks, total instalment credit outstanding nationally includes consumer instalment credit outstanding at commercial banks, finance companies, retail outlets, and other financial lenders. Nationally, and presumably within the District, commercial banks hold about 40 percent of consumer instalment paper, having acquired it by making loans directly to consumer buyers or by purchasing it from retailers.¹

¹Instalment credit at commercial banks, nationally, has closely resembled the behavior of total consumer credit.

Consumers stretch their buying power in the District . . .



Recent Consumer Credit Movements in Perspective

The recent pickup in consumer credit activity is what one might have expected. Nationally, the effects of changes in consumer credit activity appear practically instantly; that is, consumer credit outstanding begins to expand as soon as the economy moves out of a recession and quickly shows signs of either increasing less or of declining when economic activity starts to turn down. In the District, on the other hand, consumer debt is much slower in its response to changes in economic activity. This can be partly explained by the difference in the makeup of consumer debt statistics at the District and national levels, in addition to the fact that the ups and downs in economic activity nationally are not simultaneously visible regionally.

What's to Come?

It is evident, then, that recently consumers have been using credit more extensively than in earlier months. In view of the pickup in economic activity, though slow, and the expected added stimulus of executive and legislative economic actions, it is reasonable to expect that consumer credit will continue to expand during the coming months. ■

Why the Increase in Consumer Borrowing?

Most of the expansion in consumer credit at District banks has been centered in auto loans, the result of improved auto sales. Other consumer goods credit—which includes credit extended for the purchase of home appliances, furniture, jewelry, mobile homes, and boats—has also shown a marked increase.

Such information, while indicative of how consumers are using available credit, also is helpful in assessing the current behavior of retail spending at the District level, since regularly published retail sales figures are not available. To provide us with a more detailed picture of the relationship between movements in District consumer credit and retail sales, changes in the two series nationally were investigated. As might be expected, changes in consumer credit extensions for automobiles were closely related to auto sales. Lumber sales and home repair loans were also closely related, but not as closely as auto sales and auto loans. The relationship between changes in other types of retail sales and consumer loans was not as clear, possibly because of basic differences in data classifications for the two series.

APPENDIX

The measure most often used in describing the expansion or contraction of consumer instalment credit is net change in credit outstanding—or extensions minus repayments. The relationship among outstanding credit, extensions and repayments is somewhat unique because it involves one stock and two flows. A flow is a movement of economic units over a period of time. The income statement of a firm is a good example of this concept. On the other hand, a stock is an accumulation of economic units at some particular moment in time. Using the example of the firm again, the balance sheet best exemplifies this concept.

The total amount of outstanding instalment credit at some point in time is the accumulation of net changes between extensions and repayments. A clearer picture may result by an example using actual consumer credit data of commercial banks in the Sixth District. In June, total consumer credit outstanding (the stock concept) at commercial banks was \$4,347.1 million. In July, \$396.8 million of credit was extended (the flow concept) and \$360.4 million was repaid (the flow concept). The difference between June extensions and repayments was \$36.4 million, (a positive number, since extensions were greater than repayments) and was added to the previous outstanding amount of \$4,347.1 million in June. As a result, total consumer credit outstanding at commercial banks in July was \$4,383.5 million.

Pelican State

Buffeted by Adverse Economic Headwinds

by Joseph E. Rossman, Jr.

Since our last review of the Louisiana economy,¹ the economic flight path of the Pelican State has been buffeted by adverse economic headwinds. In the late Sixties, Louisiana's economy lagged behind that of the nation, and in 1970 Louisiana shared many of the same economic disappointments as the nation. In the past, Louisiana has generally felt downswings in economic activity more intensely than the remainder of the country. This pattern has continued, as indicated by a review of Louisiana's 1970 economic performance and by her performance thus far in 1971.

Two factors that contributed to the nationwide recession—cutbacks in defense spending and winding down of the space program—hit Louisiana especially hard in 1970. Cutbacks in the Michoud Assembly facility reduced employment to 1,858 in 1970 from a level of 3,506 in 1969. During the first half of 1971, employment at the assembly facility stabilized somewhat below the 1970 level.

As a result of Defense Department cutbacks, Louisiana's military prime contracts for 1970—\$300 million—were 25 percent below those of 1969—\$390 million. Louisiana's peak year was 1967, when over \$650 million in military prime contracts were awarded. Ordnance manufacturers were among those hardest hit, since prime contractors in this classification dropped from a high of \$158 million in 1968 to \$68 million in 1970. Because of the cutbacks during 1970 and the early portion of 1971, about 2,000 ordnance workers were added to the unemployment rolls in New Orleans. While it is difficult to estimate the total number of workers affected by the drop in defense contract figures, cutbacks of Department of Defense (DOD) employees are known. Defense cutbacks directly reduced DOD employees—both military and civilian—15.3 percent (equal to a loss of 7,000 military personnel and 800 civilian workers during 1970).

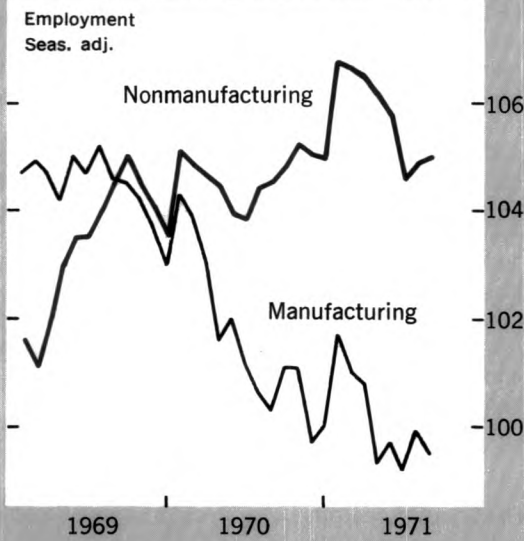
Nonfarm Employment Up Slightly

Nonfarm employment growth in the Pelican State during 1970 was slightly better than that of the nation. Louisiana's nonfarm employment increased by half a percent, while the nation did not register any growth. Manufacturing employment declined 3 percent; the durable goods sector declined 6 percent, and the nondurable goods sector showed a very small gain.

¹John E. Leimone, "Area Diversity in Louisiana's Growth," this Review, March 1970, pp. 42-45.

Manufacturing sector is hit hardest

1967=100



In comparison, the nation's nondurable goods sectors declined one percent, and the durable goods sector declined 5.5 percent.

Contract construction employment was also affected by adverse economic winds—declining more than 6 percent in 1970. High interest rates during the beginning months of 1970, labor-management conflicts resulting in strikes, and hesitation on the part of corporations, brought on by the recession, all contributed to a slowdown in construction activity. Construction employment, already reduced by the 1969 12-percent decline, fell to 1964 levels in mid-1970. Construction employment continued to be depressed during the first half of 1971, despite strong increases in contracts for residential building construction. Nonbuilding construction contracts, down by one-third, accounted for the weakness.

As a result of offshore oil well fires and oil spills in early spring, mining employment during 1970 dropped an average of 1,000 men from 1969 levels. Oil lease sales were canceled immediately after the adversities and were reopened December 15, 1970. Much of the drop in employment consisted of crews involved in the exploration and drilling of new wells. Despite the misfortune, coastal Louisiana's crude petroleum production showed gains of nearly 12 percent, matching production gains of 11 percent in 1969.

Ranks of Unemployed Swell

Louisiana's unemployment continued to be more severe than that of the nation, with the

unemployment rate averaging over 6.5 percent during the first six months of 1971, compared with 6 percent in the nation. Nonfarm employment gained strength during the latter part of 1970 and, feeling the results of the GM strike settlement, increased during the first quarter of 1971. The surge was not sustained, however, after inventories and orders unfilled during the strike were filled, and nonfarm employment declined in spring and summer. Manufacturing employment continued to exhibit the greatest weakness among the major nonfarm employment categories—with 1,000 less employees in July 1971 than in July 1970.

Louisiana's growth in total personal income matched that of the nation—7.5 percent. This 7.5-percent gain was greater than the 1969 increase of 6.2 percent. Increases in wages brought on by inflation more than offset wages and salaries lost by the increased numbers of unemployed. Transfer payments—Social Security and unemployment compensation—provided additional support. Transfer payments increased nearly 18 percent in 1970, and with this growth passed the \$1-billion mark, which accounted for 10.5 percent of total personal income. Preliminary data for the first quarter of 1971 indicate a fractional percentage gain of only \$1 million in total personal income.

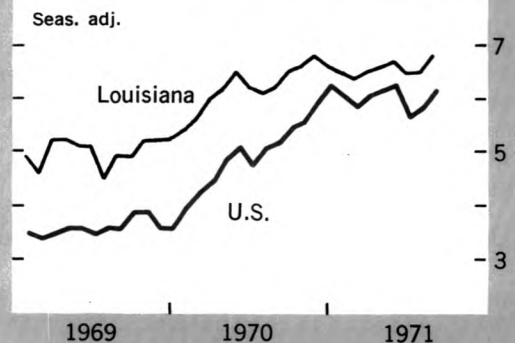
Consumers Become Cautious

In 1970, the Louisiana consumer reacted to rising prices and increased unemployment rates by watching his expenditures closely—a pattern typical of consumers across the country. Louisianians limited their use of new instalment debt at commercial banks. Sales of new automobiles showed fractional gains, while retail building material sales declined 12 percent. Households placed a large portion of their savings in banks and savings and loan associations.

The consumer continued to follow his conserva-

Unemployment picture is worse than in the nation

Percent



tive spending path during the first quarter of 1971. But by late spring, the consumer had adopted a less-cautious attitude and increased his purchases of both durable and nondurable goods. Automobile and retail building material sales for the first six months of 1971 were higher than during the same period a year ago by 12 percent and 19 percent, respectively. At the same time, consumers expanded their borrowing, with virtually every category of commercial bank instalment loans showing an increase.

Construction Activity Still Weak

Awards for construction activity, receiving strong support from nonbuilding construction, advanced 7 percent in 1970. However, increased material costs and higher wages must have wiped out all of this gain. Weakness was apparent in building construction contracts; its total value declined 2 percent. Nonresidential construction contracts, with a 13-percent statewide decline in dollar value, offset the residential construction gain of 7 percent in dollar value. In general, metropolitan areas showed declines in at least one construction area; Lafayette and Lake Charles showed declines in both residential and nonresidential construction awards. New Orleans, however, stood apart from other Louisiana metropolitan areas; it experienced strong gains in both residential and nonresidential construction—gains of 26 percent and 51 percent, respectively.

Data from the first half of 1971 indicate a strengthening in the building construction sector and a sharp reduction in the nonbuilding construction sector. Contract values for nonbuilding construction were down one-third from those of the same period in 1970, while both residential construction (registering nearly a two-thirds gain in dollar value) and nonresidential construction (registering a one-third gain in dollar value) showed strong gains. New Orleans continued to experience strong construction growth, with the dollar value of residential construction up 87 percent and nonresidential construction up 30 percent. Other metropolitan areas in Louisiana shared in the growth of residential construction during 1971; the greatest growth occurred in the Baton Rouge area, which registered an 88-percent gain. Not all the metropolitan areas, however, showed growth in nonresidential construction. Lafayette and Lake Charles each experienced declines of 18 percent and one percent, respectively.

Inflation Hurts Real Value of Capital Investment

Capital investment for new plant and equipment in 1970, according to the Louisiana Department of Commerce and Industry, was well below the

previous high of \$714 million attained in 1967. At \$604.5 million, up 5 percent over 1969 figures, the 1970 total was the third highest in the State's history. Increases in material costs and construction wages greatly weakened the real strength of this gain. Petroleum refining and chemicals accounted for \$465.9 million of the actual \$604.5-million total.

Recent unofficial figures—based on newspaper reports and press releases—for the first half of 1971 indicate that announcements of capital investment activity were below those of the same period in 1970. Two major new facilities to be built in Baton Rouge will eventually provide an important boost, however. The proposed new plants include an Enjay Chemical facility (\$75 million) at Baton Rouge and the start of a major chemical complex by Olin (\$200 million) at Lake Charles.

Farm Output Improves

For Louisiana farmers, 1970 was a bumper crop year, helping to offset the losses from the drought of 1969. The total volume of principal crops—soybeans, sugarcane, rice, and cotton—was 10 percent more than in 1969 and was the second-largest total crop production on record. Production was higher only in 1968. Cash receipts for all farm commodities produced reached \$648 million—a gain of 6.9 percent over 1969 cash receipts. But, increases in farm operating expenses, particularly wages, interest payments, and taxes matched the gains in gross farm income. In fact, total production expenses increased just slightly faster than total receipts: 7.5 percent against 7 percent. On balance, despite higher costs, the individual farmer's income position improved in 1970. One gauge of this improvement was net income per farm—which was just slightly under the 1968 record. Louisiana farms also did better than the average U. S. farm in 1970.

Early estimates of the 1971 crop production indicate that 1971 should be another good year of production for Louisiana. Rice, cotton, and soybean crops give every indication of high yields. Sugarcane growth, while behind 1970 growth, still appears very good.

The Port of New Orleans was another bright spot, with foreign commerce tonnage increasing 21 percent over the 1969 level. Total import-export tonnage for 1970 was nearly 23 million, about four million tons above the Port's 1969 total. The average annual growth during the Sixties was 5 percent.

First quarter 1971 foreign commerce at the Port of New Orleans set new records in tonnage and value—a total of 6,200,000 tons valued at \$921 million. Tonnage figures showed a 25-percent increase over the same period in 1970, and the value of the commerce increased 26 percent.

As 1970 progressed, member banks in the southern two-thirds portion of Louisiana experienced an acceleration in deposit inflows—particularly time deposits. Declining money market rates, combined with an increase in the maximum interest rate that member banks are allowed to pay on time and savings deposits, helped make bank time deposits more attractive. These deposit inflows contrasted sharply with the 1969 experience when many Louisiana banks suffered deposit losses or, at best, very weak inflows. The banks, however, found that while they had available funds, loan demand was generally weak because of the sluggishness of the economy and the reluctance of consumers to borrow. Accordingly, the banks used these funds to rebuild their investments, which they had reduced by more than 7 percent in 1969 to meet loan demands. In particular, they increased their holdings of U.S. Government securities.

Time deposit inflows continued to strengthen during the first half of 1971, while loan demand remained sluggish. Close to \$225 million in new time deposits were received by member banks in the southern two-thirds portion of Louisiana. These same banks added \$270 million worth of U. S. Government securities to their portfolios.

The future performance of the Louisiana economy will depend upon the success of current economic policies aimed at controlling inflation and stimulating the national economy. Local events within Louisiana, however, will also play a part in shaping future economic performance. The domed stadium currently under construction in New Orleans will have a positive impact. Increased acreage allotments for the 1972 sugarcane crop currently planted should help improve the agricultural sector. Renewed activity at the Michoud Assembly center is a possibility, since this site is being considered for the Space Shuttle Project. Should Michoud be selected, the impact on the New Orleans area would be substantial. Two new contracts for LASH (Lighter Abroad Ship) ships, each in excess of \$80 million, awarded to the Avondale shipyards in New Orleans will give additional strength to the shipbuilding industry. As the overall recovery of the nation's economy that is currently under way gains momentum and as local events (just mentioned) make their presence known, Louisiana's unemployment problem is likely to decline. ■

Bank Announcements

SEPTEMBER 1, 1971

BANKERS BANK OF FLORIDA

Fort Lauderdale, Florida

Opened for business as a nonmember. Officers: James S. Hunt, chairman; J. B. Patterson, president; William B. Lennan, executive vice president and cashier; and Robert K. Thompson, assistant vice president and cashier. Capital, \$600,000; surplus and other capital funds, \$150,000.

SEPTEMBER 1, 1971

BANK OF TALLASSEE

Tallassee, Alabama

Opened for business as a par-remitting nonmember. Officers: A. B. Dopson, president; Mildred W. Blount, vice president; R. P. Bentley, vice president; and Virginia D. Warren, cashier. Capital, \$250,000; surplus and other capital funds, \$746,000.

SEPTEMBER 8, 1971

BANK OF FLAGLER BEACH

Flagler Beach, Florida

Opened for business as a nonmember. Officers: Charles E. Creal, president; Howell V. Peavy, vice president; and Joseph J. Seale, executive vice president and cashier. Capital, \$200,000; surplus and other capital funds, \$65,000.

SEPTEMBER 10, 1971

TRI-CITY BANK

Palm Beach Gardens, Florida

Opened for business as a nonmember. Officers: William D. Kendrick, president; and H. Richard McCord, vice president and cashier. Capital, \$500,000; surplus and other capital funds, \$250,000.

SEPTEMBER 15, 1971

WORTH AVENUE NATIONAL BANK

Palm Beach, Florida

Opened for business. Officers: C. Farris Bryant, chairman; George C. Slaton, president; H. M. Pausch, II, executive vice president; H. Loy Anderson, Jr., administrative vice president; Jesse Newman, vice president; Nellie M. Lynch, assistant vice president; and Joan M. Rhoden, assistant cashier. Capital, \$500,000; surplus and other capital funds, \$500,000.

SEPTEMBER 16, 1971

GWINNETT COMMERCIAL BANK

Lawrenceville, Georgia

Opened for business as a nonmember.

SEPTEMBER 29, 1971

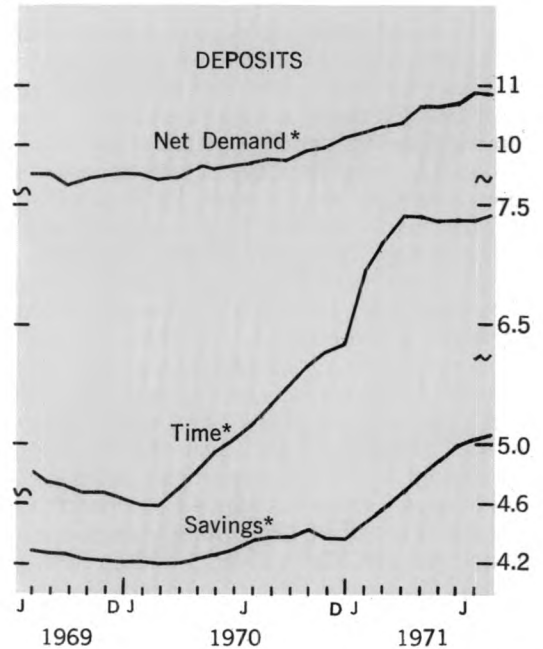
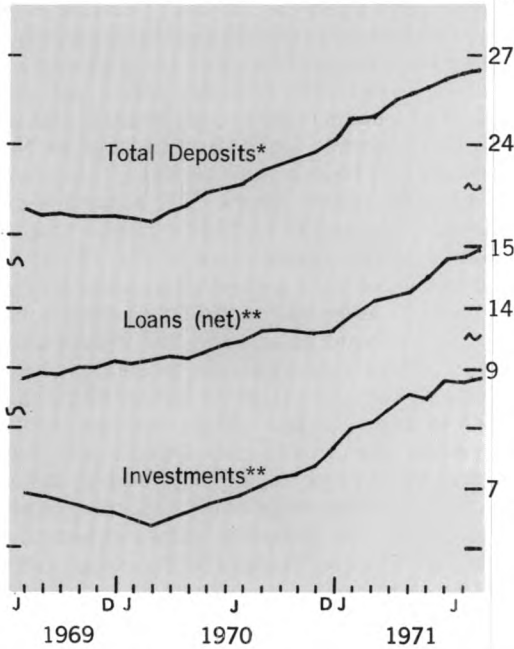
VILLAGE PLAZA PALMER NATIONAL BANK

Sarasota, Florida

Opened for business. Officers: W. C. Coleman, president; C. D. Rollings, executive vice president; James K. Rowland, vice president and cashier; and K. D. Suggs, vice president. Capital, \$800,000; surplus and other capital funds, \$300,000.

BANKING STATISTICS

Billion \$



LATEST MONTH PLOTTED: AUGUST

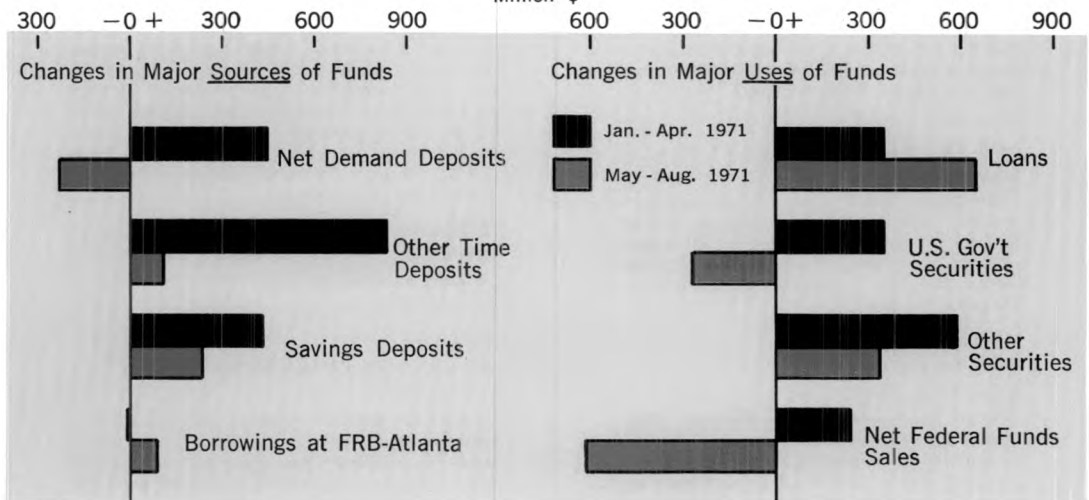
Note: All figures are seasonally adjusted and cover all Sixth District member banks.
 *Daily average figures **Figures are for the last Wednesday of each month.

SIXTH DISTRICT

BANKING NOTES

FLOW OF FUNDS AT DISTRICT MEMBER BANKS

Million \$



Note: Data are not seasonally adjusted.

THE CHANGING FLOW OF FUNDS AT DISTRICT MEMBER BANKS

The first four months and the second four months of 1971 were two periods when District member banks experienced marked changes in both the source and volume of their funds. These banks, in turn, made significant shifts in the uses of such funds. When the inflow of deposits was strong, they sharply expanded total bank credit and increased their sales of overnight reserves in the Federal funds market. But when deposit inflows slowed, banks cut back the rate at which they extended credit and reduced their sales (or increased their purchases) of Federal funds.

Through the first four months of this year, deposit inflows were strong and, thus, provided District banks with a large amount of additional reserves. Gains in all types of deposits totaled more than \$1,700 million, an advance of 7 percent. And time deposits (other than savings deposits) accounted for nearly one-half of this increase, spurring 13 percent. Consumers added nearly \$700 million to their time deposit accounts and an additional \$435 million to their savings accounts. The large deposit gains enabled banks to increase their securities \$936 million and to expand their loans \$350 million.

In the four-month period from May through August, however, deposit inflows tapered off to just \$109 million because District banks experienced a net loss of \$232 million in demand deposits. "Other" time deposits, which include consumer CD's and large-denomination CD's, rose \$108 million during these four months. Consumer-type time deposits were unchanged. Instead, some of the larger District banks accounted for the increase by aggressively bidding for large-denomination CD's. States and their political subdivisions accounted for most of the net rise in these money market instruments. Some banks, however, issued a large number of new CD's to their corporate customers and to individuals, offsetting the losses experienced by banks in other parts of the District. Savings deposits accounted for more than two-thirds of the gross deposit inflows from May through August, although the gains were only half as large as the previous four-month advance.

The strong surge of deposits in the first four months of the year provided many District banks with more funds than they chose to invest or lend. Consequently, they increased the sale of their excess reserves in the Federal funds market. During the next four months, reduced deposit flows caused many of the medium- and small-size banks to cut back on their Federal funds sales. At the same

	Changes	
	April 1971 from Jan. 1971	Aug. 1971 from May 1971
	(millions of \$)	
Reserve City Banks		
Total Deposits	+ 508	+ 47
Net Fed Funds Purchases	- 38	+ 176
Total Loans and Investments	+ 446	+ 140
Country Banks		
Total Deposits	+ 1209	+ 62
Net Fed Funds Sales	+ 202	- 438
Total Loans and Investments	+ 840	+ 577
Data not seasonally adjusted		

time, the larger banks stepped up their purchases of overnight reserves in the Federal funds market. Borrowing from the Federal Reserve Bank of Atlanta also increased, reaching a level not obtained since December 1969.

These changes in deposit growth and reserve management caused the country banks and the reserve city banks to make corresponding changes in both composition and volume of their credit expansion. From May through August, country banks slowed their pace of total credit expansion. Although bank lending accelerated from \$266 million to \$381 million, the net increase in new securities holdings was below that of the previous four months. Increases in "other" securities (mostly tax-exempt municipal obligations) during the May-August period were about three-fourths of the \$395-million gain during the January-April period. Slightly more than \$100 million in U. S. Government securities were liquidated. In addition, country banks reduced their Federal funds sales by more than \$400 million.

At the reserve city banks, the pattern of credit extension was similar. In tandem with slower deposit growth, these banks increased their net Federal funds purchases \$176 million. Borrowings from the Federal Reserve Bank of Atlanta also increased, totaling \$63 million in August. As a group, reserve city banks reduced their investment holdings \$127 million, with most of the decline concentrated in U. S. Government securities, particularly Treasury bills. Holdings of municipal obligations rose, but most of this change reflected the addition of short-maturity state and local government securities. Nevertheless, bank credit increased because lending advanced \$267 million after a gain of only \$84 million in the previous period.

JOHN M. GODFREY

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					FLORIDA				
INCOME AND SPENDING					INCOME				
Manufacturing Payrolls	Aug. 138	137	138	131	Manufacturing Payrolls	Aug. 146	143r	145	137
Farm Cash Receipts	July 110	135	139	143	Farm Cash Receipts	July 105	147	192	151
Crops	July 56	167	198	179	EMPLOYMENT				
Livestock	July 131	130	134	134	Nonfarm Employment†	Aug. 122	122	121	119
Installment Credit at Banks* (Mil. \$)					Manufacturing	Aug. 109	109	109	110
New Loans	Aug. 411	381	379	348	Nonmanufacturing	Aug. 124	124	124	121
Repayments	Aug. 370	364	361	307	Construction	Aug. 130	132	132	130
EMPLOYMENT AND PRODUCTION					Farm Employment	Aug. 103	110	101	104
Nonfarm Employment†	Aug. 112	112	112	110	Unemployment Rate				
Manufacturing	Aug. 105	106	106	107	(Percent of Work Force)†	Aug. 3.9	3.8	4.1	3.5
Nondurable Goods	Aug. 106	107	107	107	Avg. Weekly Hrs. in Mfg. (Hrs.)	Aug. 41.3	40.9	41.1	40.5
Food	Aug. 102	102	103	104	FINANCE AND BANKING				
Textiles	Aug. 104	104	104	105	Member Bank Loans	Aug. 168	167	169	151
Apparel	Aug. 104	104	103	102	Member Bank Deposits	Aug. 167	163	169	139
Paper	Aug. 104	105	109	108	Bank Debits**	Aug. 367	371r	366	305
Printing and Publishing	Aug. 115	115r	115	114	GEORGIA				
Chemicals	Aug. 106	105	105	106	INCOME				
Durable Goods	Aug. 104	104	104	106	Manufacturing Payrolls	Aug. 137	133	137	131
Lbr., Wood prods., Furn. & Fix.	Aug. 100	100	99	99	Farm Cash Receipts	July 88	130	84	141
Stone, Clay, and Glass	Aug. 104	103	103	107	EMPLOYMENT				
Primary Metals	Aug. 102	105	105	103	Nonfarm Employment†	Aug. 111	111	111	110
Fabricated Metals	Aug. 112	113	112	113	Manufacturing	Aug. 103	102	103	105
Machinery, Elec. & Nonelec.	Aug. 160	159r	160	165	Nonmanufacturing	Aug. 115	115	115	113
Transportation Equipment	Aug. 104	101	103	109	Construction	Aug. 105	108r	108	93
Nonmanufacturing	Aug. 114	114	114	112	Farm Employment	Aug. 93	82	82	84
Construction	Aug. 108	109	109	107	Unemployment Rate				
Transp., Comm., & Pub. Utilities	Aug. 113	112	112	112	(Percent of Work Force)†	Aug. 3.9	4.3	4.0	3.6
Trade	Aug. 114	114	113	112	Avg. Weekly Hrs. in Mfg. (Hrs.)	Aug. 39.5	40.4	40.6	40.1
Fin., ins., and real est.	Aug. 119	119r	119	117	FINANCE AND BANKING				
Services	Aug. 116	116	116	115	Member Bank Loans	Aug. 152	149	148	135
Federal Government	Aug. 101	101r	101	100	Member Bank Deposits	Aug. 134	133	133	115
State and Local Government	Aug. 120	120	121	115	Bank Debits**	Aug. 397	403r	405	332
Farm Employment	Aug. 87	88	86	89	LOUISIANA				
Unemployment Rate					INCOME				
(Percent of Work Force)†	Aug. 4.8	4.7	4.8	4.5	Manufacturing Payrolls	Aug. 134	133r	129	127
Insured Unemployment					Farm Cash Receipts	July 147	122	94	145
(Percent of Cov. Emp.)	July 2.8	2.8	2.8	2.9	EMPLOYMENT				
Avg. Weekly Hrs. in Mfg. (Hrs.)	Aug. 40.6	40.7r	40.8	40.4	Nonfarm Employment†	Aug. 104	104	104	104
Construction Contracts*	Aug. 133	176	189	113	Manufacturing	Aug. 100	100	99	100
Residential	Aug. 181	184	199	141	Nonmanufacturing	Aug. 105	105	105	105
All Other	Aug. 85	168	179	87	Construction	Aug. 80	80	79	82
Electric Power Production**	July 167	170r	166	168	Farm Employment	Aug. 80	77	75	72
Cotton Consumption**	July 88	89r	89	95	Unemployment Rate				
Petrol. Prod. in Coastal La. and Miss.**	Sept. 123	127r	124r	127r	(Percent of Work Force)†	Aug. 6.8	6.5	6.6	6.2
Manufacturing Production					Avg. Weekly Hrs. in Mfg. (Hrs.)	Aug. 42.8	42.2r	43.0	42.5
Nondurable Goods	June 180	177	176	167	FINANCE AND BANKING				
Food	June 257	253	252	244	Member Bank Loans*	Aug. 139	135	138	130
Textiles	June 246	243	239	229	Member Bank Deposits*	Aug. 138	135	142	120
Apparel	June 282	278	276	262	Bank Debits*/**	Aug. 257	249	244	222
Paper	June 200	199	201	192	MISSISSIPPI				
Printing and Publishing	June 167	166	166	168	INCOME				
Chemicals	June 261	261	260	252	Manufacturing Payrolls	Aug. 142	141	144	128
Durable Goods	June 300	295	293	289	Farm Cash Receipts	July 153	156	139	174
Lumber and Wood	June 181	174	173	170	EMPLOYMENT				
Furniture and Fixtures	June 180	177	176	185	Nonfarm Employment†	Aug. 110	110	109	108
Stone, Clay and Glass	June 169	166	167	169	Manufacturing	Aug. 112	112	111	108
Primary Metals	June 207	210	207	198	Nonmanufacturing	Aug. 109	109	108	109
Fabricated Metals	June 244	241	240	239	Construction	Aug. 104	103r	104	109
Nonelectrical Machinery	June 404	386	380	362	Farm Employment	Aug. 78	96	90	93
Electrical Machinery	June 629	614	619	611					
Transportation Equipment	June 392	389	384	378					
FINANCE AND BANKING									
Loans*									
All Member Banks	Aug. 156	153	154	141					
Large Banks	Aug. 144	141	143	132					
Deposits*									
All Member Banks	Aug. 148	145	149	127					
Large Banks	Aug. 132	130	136	117					
Bank Debits*/**	Aug. 341	341r	337	287					
ALABAMA									
INCOME									
Manufacturing Payrolls	Aug. 134	134	136	130					
Farm Cash Receipts	July 162	157	166	157					
EMPLOYMENT									
Nonfarm Employment†	Aug. 106	106	106	106					
Manufacturing	Aug. 105	106r	106	109					
Nonmanufacturing	Aug. 106	106	106	105					
Construction	Aug. 107	107r	105	101					
Farm Employment	Aug. 83	79	81	88					

	Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago		Latest Month 1971	One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)† Aug.	5.4	5.2	5.1	5.2	EMPLOYMENT				
Avg. Weekly Hrs. in Mfg. (Hrs.) Aug.	40.6	40.3r	40.5	40.1	Nonfarm Employment† Aug.	110	111	111	108
FINANCE AND BANKING					Manufacturing Aug.	105	107	106	106
Member Bank Loans* Aug.	163	158	157	142	Nonmanufacturing Aug.	113	113	113	109
Member Bank Deposits* Aug.	145	146	149	132	Construction Aug.	109	110	112	113
Bank Debits/**. Aug.	342	315	325	294	Farm Employment Aug.	90	89	91	91
TENNESSEE					Unemployment Rate (Percent of Work Force)† Aug.	4.7	4.6	4.9	4.7
INCOME					Avg. Weekly Hours in Mfg (Hrs.) Aug.	40.3	40.5r	40.4	39.8
Manufacturing Payrolls Aug.	137	140r	137	129	FINANCE AND BANKING				
Farm Cash Receipts July	55	138	214	134	Member Bank Loans* Aug.	154	152	150	140
					Member Bank Deposits* Aug.	139	136	143	124
					Bank Debits/**. Aug.	332	341	329	280

*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, petroleum production, 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																
						August 1971 from		Year to date 8 mos. 1971 from								August 1971 from		Year to date 8 mos. 1971 from															
						July	Aug.	July	Aug.							July	Aug.	July	Aug.														
						1971	1970	1971	1970							1971	1970	1971	1970														
STANDARD METROPOLITAN STATISTICAL AREAS																																	
						August 1971	July 1971	August 1970	July 1971	Aug. 1971							August 1971	July 1971	August 1970	July 1971	Aug. 1971												

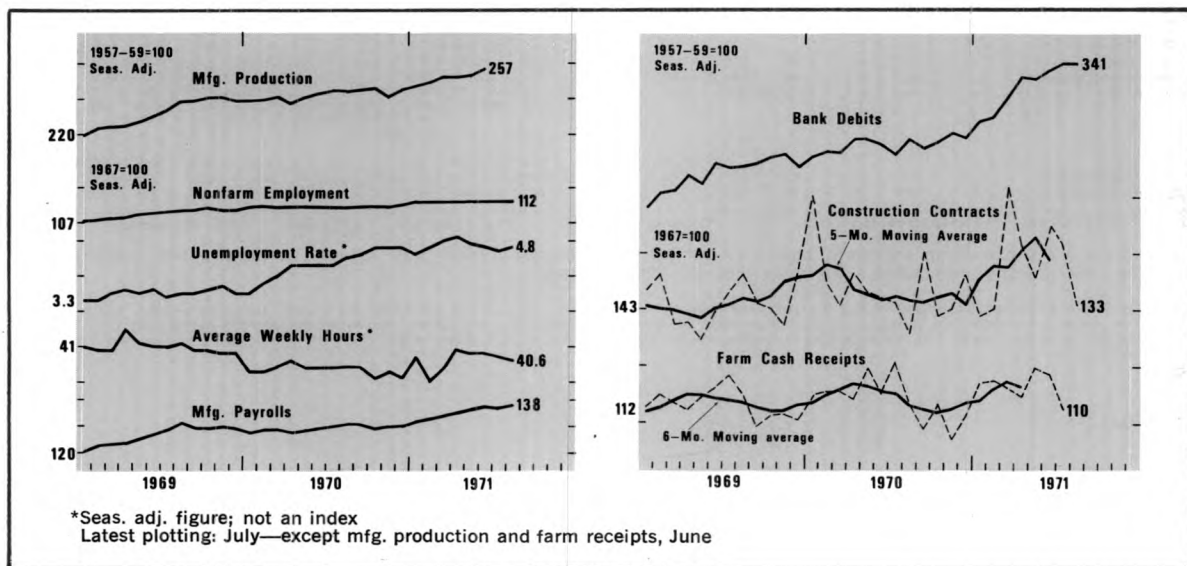
*Includes only banks in the Sixth District portion of the state

†Partially estimated

‡Estimated

r-Revised

District Business Conditions



With the onset of the autumn sports season, a strong kickoff in regional economic activity was still not noticeable. According to latest available data, a fall occurred in nonfarm employment. Construction contract volume failed to gain. Consumer debt outstanding and domestic auto sales showed strong advances. As expected, bank lending picked up considerable yardage. Farm prices were thrown for a short loss, since bumper grain crops appeared more certain.

Nonfarm employment registered a slight decline in August. Lack of any significant strength in non-manufacturing employment, coupled with employment losses in the manufacturing sector, continued to depress the labor market. Employment losses occurred throughout the nondurable goods industries; primary metals posted a sharp dropoff among the durable goods producers. After edging downward during the two preceding months, the unemployment rate for August increased to 4.8 percent.

Construction contract volume declined slightly in July; however, it remained well above levels of a year ago. July's decline was shared by both residential and nonresidential sectors. In late July and August, mortgage interest rates stabilized after climbing during the preceding two months; extremely large inflows at savings and loan associations continued.

Consumer instalment credit outstanding at commercial banks grew substantially in August. All types of loans contributed to the expansion, though auto loans and personal loans showed the greatest strength. August sales of domestically produced

automobiles were well ahead of the same period one year ago.

Bank lending rebounded in late August and continued strong through early September. Bank security holdings fell in September, since the larger banks, in particular, sold municipal obligations. Deposit inflows picked up, with gains in interest-bearing deposits exceeding the generally weak inflows experienced during the summer months. Large-denomination CD's advanced sharply, buoyed by local governments temporarily investing the proceeds of their bond sales at local banks.

Prices of farm commodities declined slightly in August but remained above the year-earlier level. The prospects for a bumper grain crop depressed prices for corn, rice, wheat, and soybeans. Broiler prices also dropped sharply from July's level, but the decline was largely offset by an increase in egg prices. Crop conditions remained generally favorable throughout the District, except for Hurricane Edith's extensive damage to sugarcane and cotton in south Louisiana. Tobacco farmers in Georgia recently completed the harvest of the most valuable crop in several years.

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