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Liability Management Banking:

Its Practice in the Sixth District

by Arnold Dill

The banking practice of buying reserves through the marketing of liabilities in the money market is called liability management banking (LMB). This practice has commonly been associated with giant money market banks in New York and a few other major cities. Strong credit demands during the last two decades could have afforded these banks with profit opportunities if only the banks had been able to increase their deposits rapidly and, thus, expand lending capacity. But deposit growth was particularly slow at money market banks in the 1950's because sophisticated investors were trimming temporarily idle demand deposits at these banks to buy increasingly lucrative interest-bearing money market instruments.

Money market banks responded to this situation with creative liability innovation. First, the Fed funds market was developed to tap the idle lending capacity of smaller banks. Then, the negotiable certificate of deposit (CD) was used with great success to compete for funds that were flowing into Treasury bills, commercial paper, and other money market instruments. This led to some shifting of credit flows from nonbank to bank channels, but it probably increased total credit availability only slightly.[1] By subjecting CD's to higher reserve requirements and effective interest rate ceilings during the periods of restraint in 1966 and 1969, the Fed added to pressures on money market banks. And this, in turn, led to the further development of Eurodollar borrowing and to the creation of CD substitutes, such as commercial paper issued by bank holding companies or affiliates. In time, these instruments were subjected to restrictive regulation by the Fed.

During the 1960's, many large regional banks, like money market banks, were faced with heavy credit demands that could not be met by ordinary

[1]See Arnold Dill, "Liability Management Banking: Its Growth and Impact," this **Review**, February 1971, pp. 22-33.

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deposit inflows. In attempting to meet these credit demands, many large regional banks also turned increasingly to Fed funds, CD's, and nondeposit sources of funds; in other words, they became practitioners of LMB.

This study describes the way LMB functions in the Sixth Federal Reserve District and estimates the extent to which large regional banks in the District have engaged in LMB. What was assumed to distinguish banks that practiced LMB from those that did not was *evidence of marketing a variety of liabilities in the money market in response to impending reserve deficiencies and credit demands in excess of lending capacity.* The conclusions are based upon personal interviews with officers of 17 banks and upon an analysis of weekly balance sheet reports of 27 major banks for the 1966-1970 period. These banks, with deposits ranging from approximately $130 million to over $1 billion are located in 14 of the largest cities of the Sixth District. Of these banks, five were thought to have definitely engaged in LMB. Each of these banks had been net purchasers of Fed funds and issuers of substantial volumes of negotiable CD's and nondeposit liabilities. Nine banks were judged to be less aggressive practitioners of LMB. Although these banks as a group were usually net purchasers of Fed funds, they did not issue negotiable CD's in substantial volume, and they issued no nondeposit liabilities. There was no evidence that the 13 remaining banks engaged in LMB; but rather, they followed only traditional asset management banking, taking impending reserve deficiencies as a signal to restrict lending and investment activity and to dispose of secondary reserves. As a group, these banks were net sellers of Fed funds and issued only small amounts of CD's and no nondeposit liabilities.

The Analysis of Balance Sheet and Income Data

In order to observe the relative behavior of banks practicing different liability techniques, 27 District banks that have been weekly reporting member banks since January 1966 were divided into three groups on the basis of liability practices.

Quarterly averages of weekly data for selected asset and liability categories were derived for each bank for the 1966-1970 period. Data on individual banks were grouped, indexed, and charted. Selected income and expense data for the 1966-1970 period were also grouped, indexed, and charted. Net Fed funds positions of the three groups were charted for 1969 and 1970. [Copies of these charts are available on request from the Research Department of this Bank.]

The examination of balance sheet and income data indicated that in most asset-liability and income expense categories, each of the three groups of banks mentioned in the text displayed somewhat similar trends and cyclical patterns, except during the 1969 credit squeeze. When adjusted for loan sales to affiliates, loans rose more sharply at banks practicing LMB in late 1969 than they did at the other two categories of banks. Subsequently, loans declined slightly at banks practicing LMB in 1970 but rose steadily at the other banks. The increase in nondeposit liabilities in 1969 at banks prcaticing LMB was almost equivalent to the coincident drop in CD's at these banks. When adjusted for nondeposit liabilities, total deposits held up equally well at all three categories of banks in 1969. Over the 1966-1970 period, net income before taxes rose the most at banks practicing LMB, and these banks had the greatest increase in net income in 1966 and the least decline in 1969.

The Fed Funds Market

The number of District banks participating in the Fed funds market and the volume of their trading have risen sharply in recent years. Generally, smaller banks are sellers of Fed funds (hereafter Funds), but most do buy Funds occasionally. Large banks in metropolitan areas often both buy and sell Funds daily, although they are usually net purchasers of Funds. Thus, the market shifts Funds from smaller to larger banks. Most large banks, however, do not feel this has caused a serious diversion of Funds away from local loans. Rather, they contend, it has attracted Funds that, otherwise, would have gone into Treasury bills or other money market instruments.

The managements of most large banks look at Funds purchases as a more or less permanent source of funds. Most feel, too, that they have considerable discretion over their net Funds position. They generally prefer to be in a net purchase position, thinking they can invest Funds at a profit. A few sizable banks, however, avoid the Market. Still others use the Market only occasionally to meet extraordinary reserve needs or to accommodate correspondent banks.

In aggregate, banks in the District have usually been net sellers of Funds to the rest of the nation (see Chart). During the tight money period of 1969, however, District banks were a net importer of Funds. As soon as money markets eased in 1970, the District quickly returned to a net sales position. This may indicate that Funds were more scarce in the District than in some other parts of the nation during 1969 and more available than elsewhere during 1970 and other periods of easy money conditions.

Mechanics of Trading. Most sizable banks in the ten or so largest cities throughout the District

An Introductory Note on Liability Management Strategy and the Money Desk

Banks that are members of the Federal Reserve System must maintain reserves (deposits at the Federal Reserve and vault cash) equal to a specified percent of reserve-subject liabilities (mainly deposits). A bank's required reserves are calculated on the weekly average of its reserve-subject liabilities outstanding two weeks earlier. Over a Thursday-to-Wednesday week, a bank is required to maintain, on average, reserves equal to its required reserves.

Every large bank has a person, called the manager of the "money desk," to monitor its reserve position and to manage its liquid assets. Early each weekday morning, the manager is informed of his bank's reserve balance at the end of the previous day. The manager, on the basis of his known reserve requirement, his average reserve balance so far this week, and his anticipated reserve gains or losses for the rest of the week, can figure whether he is headed for a surplus or deficit in his reserve position. If the manager thinks that a deficiency is shaping up in his bank's reserve balance, he will—depending on bank policy and relative interest rates and transaction costs—buy Fed funds, reduce overnight loans to bond dealers and brokers, sell short-term securities, or if necessary, borrow from the Federal Reserve. Conversely, if the manager foresees a surplus in his bank's reserve balance, he will sell Fed funds, pay off borrowings, etc.

In planning liability strategy, most large banks project sources and uses of bank funds. Short-run projections are based on the local and national economic outlook and estimates of loan demand, deposit flows, etc. Longer-run projections are based on the same variables, but they may reflect a bank's desired target balance sheet position.

A bank often starts by projecting the items over which it has the least control—demand deposits or business loans, for example. Demand deposit volumes depend on spending and depositing decisions of customers, factors largely out of a bank's control. In the case of business loans, a bank may feel obliged to meet the loan demands of at least a portion of its business customers because of existing commitments and established customer relationships. The bank continues to project various asset and liability items, leaving to the last those items over which it has the most discretion, such as holdings of short-term securities, negotiable CD's outstanding, loans to bond dealers and brokers, and its net Fed funds position. Banks that practice LMB view these items as balancing or residual items. Depending on projections of interest rates and the cost and availability of CD's, Fed funds, and other sources of funds, these banks will either revise projections of asset items over which they have some control or decide how to minimize the cost of obtaining the reserves needed to finance asset positions.

regularly trade Funds with their smaller correspondent banks. As a service, these large, urban banks (called lead banks) accommodate the needs of correspondents, either absorbing or providing Funds.

The money desk manager of a lead bank begins each day with a rough estimate of his desired net Funds position. He also has a feel for the net amount of Funds his smaller correspondents will supply or absorb. This leaves him with a residual amount of Funds to buy from or sell to other lead banks elsewhere in the region or nation. He locates buyers or sellers of Funds either by phoning large correspondents—who may stand ready to absorb or supply reserves to the District lead bank—or by phoning a Funds broker in New York. In the latter case, the bank informs the broker of its desired purchase or sell position. As the day progresses, the broker matches buyers and sellers.

A Funds transaction between a District lead bank and one of its smaller correspondents is usually initiated by a morning telephone call from the correspondent to its lead bank. The correspondent advises its lead bank of the quantity of Funds it wishes to buy or sell. In many cases, a Funds position is on a "roll-over" basis, meaning a lead bank continues the position until advised otherwise by the correspondent.

A lead bank usually executes a purchase of Funds from a correspondent by debiting the seller's deposit account (Balance Sheet 1). The lead bank sends the correspondent an "advice of debit" form on which the type of transaction (Fed funds) and interest rate payable are noted. As a result of the transaction, the lead bank's required reserves are reduced and, more importantly, a probable reserve drain is prevented. If, instead of selling Funds to its lead bank, the

Balance Sheet 1

Lead Bank		Correspondent Bank	
Assets	Liabilities	Assets	Liabilities
	Deposits owed correspondent bank −	Deposits at lead bank −	
	Fed funds purchased +	Fed funds sold +	

correspondent had used its balance at the lead bank to purchase a Treasury bill, the lead bank would have lost reserves. A lead bank sells Funds to a correspondent by crediting the buyer's account. Interest on transactions is also usually handled by entries to correspondent accounts.

There is no set formula that all lead banks use in arriving at what interest rate to pay or

to charge correspondents in Funds transactions. When buying Funds, most lead banks offer smaller regional correspondents 1/8 percent to 1/4 percent less than the rate they would have to pay to buy Funds in the national market. (The actual rate paid depends on how aggressively the lead bank seeks reserves and on the size of the transaction. Generally, the smaller the transaction, the lower the rate paid the correspondent. This is because of increased transaction costs incurred by the lead bank in packaging small amounts of Funds.) Likewise, lead banks generally charge smaller correspondents slightly more than the rate they would charge to lend Funds in the national market. Besides covering transaction costs, the spread between rates paid and charged correspondents compensates lead banks for risks incurred in taking an accommodative stance toward the needs of correspondents.

Although most Funds transactions are handled through entries to correspondent balances, Funds transactions between Federal Reserve member banks can alternatively be executed by entries to reserve accounts at Federal Reserve Banks. The transfer of Funds between member banks is facilitated by the direct telegraph lines between Federal Reserve Banks and telegraph lines between Reserve Banks and member banks. A District member bank's reserve account is kept either at the head office of the Federal Reserve Bank of Atlanta or at one of the four Reserve Bank Branch offices in the District.

When using reserve accounts to execute a Funds transaction, the bank wishing to sell Funds orders the Accounting Department at its Federal Reserve office to debit its reserve account and credit the account of the member bank that is buying the Funds. The buyer's account could be kept at the same office or any of the other 35 Federal Reserve offices in the nation. For example, if one Alabama member bank wishes to sell Funds to another Alabama member, the selling bank notifies the buying bank and then orders the Accounting Department of the Birmingham Branch to debit its account and credit the buying bank's account (Balance Sheet 2). As evidence of the transaction, the Accounting Department then sends each bank a copy of a transfer of Funds form. The next day, the transaction is usually reversed.

Balance Sheet 2

Buying Bank		Selling Bank	
Assets	Liabilities	Assets	Liabilities
Deposit at Federal Reserve (Birmingham) +	Fed funds purchased +	Deposit at Federal Reserve (Birmingham) −	
		Fed funds sold +	

Repurchase Agreements. District banks sell U. S. Treasury and Agency securities under repurchase agreements (RP's) to banks, savings and loan associations, state and corporate Treasurers, and others. A bank entering into a RP sells a security under agreement to buy it back on a given date at a higher price. If the RP is purchased by a customer of the bank, the bank debits the buyer's account, increases its liabilities for "Fed funds purchased and securities sold under RP," and earmarks securities as collateral against the RP liability. In turn, some RP buyers use these securities as collateral for secured deposits. If the RP purchaser is not a depositor of the bank, he usually pays for the RP by having his bank wire Funds to the bank selling the RP.

Banks enter into RP's either because they wish to seek Funds aggressively or because they wish to accommodate customers wanting to invest Funds for a brief period. A bank seeking Funds locates RP buyers either by phoning known prospective customers or by contacting Government bond dealers—who are in close touch with sources of RP money.

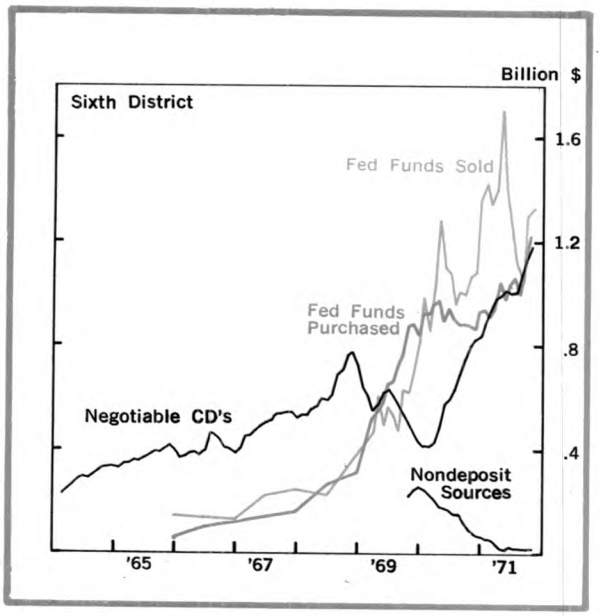
Using RP's, a bank can usually buy reserves at rates 1/8 percent to 1/4 percent below the Fed funds rate. However, RP's have the same drawback as a "secured" transaction, namely, tying up U. S. Treasury or Agency securities as collateral against RP liabilities.

Negotiable CD's

A CD is a receipt for money deposited in a bank for a specified time. Negotiable (transferable) CD's are usually issued in denominations of $100,000 or more. District banks issue negotiable CD's either to accommodate customers wishing to invest idle funds or to aggressively seek funds to finance loans and investments. Most banks maintain posted CD rates that can be adjusted up or down, depending on the bank's general desire for CD's.

Many large District banks do, on occasion, aggressively solicit CD money from local and national accounts. In this case, a bank informs customers that it is actively seeking CD's and would like to bid on available funds.

Several large District banks also issue CD's directly to investment banking firms in New York. In this case, a District bank telephones one or two firms and asks for bids on a given amount of CD's of a given maturity. After analyzing their CD inventories, these firms then offer to buy the CD's at a certain price. The District bank sells the CD's to the firm offering the highest bid (lowest interest cost). The firm either holds the CD's for its own account or distributes them to investors. Since out-of-town CD buyers some-



time require possession of CD's, some District banks arrange for correspondents to co-sign and deliver CD's issued by District banks. Most customers, however, require only a safekeeping receipt for CD's.

By adjusting posted rates and by aggressively soliciting CD's, money desk managers in the District feel they have considerable discretion over the volume of negotiable CD's outstanding at their banks. They cannot, however, always get the volume they want, especially at rates they may be willing to pay and in the maturities they desire. Therefore, CD's are a considerably less discretionary source of funds than Fed funds purchases. For one thing, a bank that seeks CD funds too aggressively or that offers rates clearly out of line with prevailing market rates may cause prospective buyers to suspect the bank is in financial difficulty. In addition, some banks intentionally limit reliance on CD's in order to protect themselves against potential CD runoffs.

Corporations are the most important holders of CD's issued by District banks, probably followed in order of importance by state and municipal governments, savings and loan associations, individuals, and correspondent banks. Since most state and municipal CD's must be secured by U. S. Treasury or other specified securities, these CD's are usually less attractive to banks than other CD's.

About 40 percent of District member banks had negotiable CD's outstanding in October 1971, with the great bulk of District CD's being issued by about 10 large banks. The total volume of negotiable CD's issued by District banks amounts to less than 5 percent of the national total; but District banks issue a considerable amount of nonnegotiable CD's in denominations of $100,000 or more. In July 1971, nonnegotiable CD's and other time deposits in denominations of $100,000 or more (held by individuals, partnerships, and corporations) were 42 percent of all District time deposits over $100,000. The comparable national figure was 30 percent.

Most of the District's nonnegotiable large-denomination CD's are issued by large Florida banks, a number of whom do not issue negotiable CD's. Florida bankers mention several reasons for not issuing negotiable CD's. Some attract all the money they want without issuing negotiable CD's. Others think that sales of CD's would not be increased by issuing CD's in negotiable form. Still others do not want their CD's sold to parties unknown to the bank in which case the bank may not know if the CD's would be renewed at maturity. Then, too, banks feel there is less risk of CD runoff when CD's are held by local interests. The risk of runoff of negotiable CD's is greater than for nonnegotiable CD's which are automatically renewed unless presented for redemption. Conversely, negotiable CD's must be paid off at maturity and then reissued.

Since 1964, negotiable CD's issued by District banks have trended upward even more rapidly than in the nation. CD runoffs in the last half of 1966 and during 1969 were slightly less severe in the District than in many other parts of the nation, especially during the first three quarters of 1969, partly because one of the state treasuries in the District was sharply increasing its holdings of negotiable CD's during that time.

To a very minor degree in the District, compensating balances are held in the form of CD's (rather than demand deposits), in which case the CD's usually yield well below the prevailing market rates or have no yield at all. This practice may be advantageous both to the bank, since CD's have a lower reserve requirement than demand deposits, and to the borrower, since his compensating balances may be more liquid (i.e., can in some cases be sold in the CD secondary market).

The Secondary Market. New York-based Government bond dealers maintain a secondary market in negotiable CD's issued by money market banks—i.e., they buy CD's from those wanting to sell prior to maturity and sell existing CD's to investors.

In practice, few negotiable CD's originating in the District have been traded in the secondary market. Dealers usually will bid only on CD's in minimum denominations of $1,000,000 and issued by a few of the largest banks in the District. If a depositor wishes to sell a smaller-denomination negotiable CD, he usually asks his bank to locate a buyer. Most banks can find a buyer,

but not necessarily at an attractive price. If a CD holder is in a pinch, some banks will lend him money at 2 percent above the interest rate yielded by the CD. In addition, some District lead banks have arranged for their large correspondents to buy on demand CD's issued by the District lead bank to its smaller correspondents. Because such CD's could not ordinarily be sold readily in the secondary market, this arrangement increases the liquidity of such CD's.

Nondeposit Liabilities

Most District banks that experienced a runoff of CD's in 1969 responded to this situation by increasing purchases of Fed funds. Several banks additionally marketed a substantial volume of nondeposit liabilities, including repurchase agreements on loans (loan RP's), commercial paper issued by their holding companies or subsidiaries, and Eurodollar borrowings.

Selling Loan RP's to Nonbanks. For some time, District banks have sold loans or participations in loans to other banks. This is one way lead banks can provide an investment outlet for smaller correspondents and a method in which lead banks participate in loans that are too large for a correspondent to handle alone. However, the practice of selling loan RP's to the nonbank public is new.

A loan RP is identical to a U. S. Treasury RP (described earlier) except that the asset sold is a participation certificate in a loan or pool of loans. The participation certificate describes the loan sold and stipulates the buy-back agreement and the interest rate payable on the RP. Often, a bank will not pass along the full interest income on a loan sold, retaining part as a charge for servicing the loan. In the case of participations in pools of loans, the dollar amount of the loans in the pool exceeds the dollar amount of participations sold. This gives the participant a cushion of protection against capital loss should some loans in the pool default.

A few District banks began to sell loan RP's to other than banks in early 1969; the volume of these loan RP's had already peaked out by August 1969. The volume declined rapidly thereafter because the Board of Governors ruled that such liabilities were deposits and, therefore, subject to interest rate ceilings and reserve requirements. This rendered loan RP's noncompetitive. Some investors, however, merely exchanged their loan RP's for loan participations without the repurchase agreement clause.

Loan RP's issued by a bank were often purchased with the proceeds of CD's maturing at the same bank. However, the dollar decline in CD's outstanding was less than loan RP increases at those District banks issuing loan RP's, indicating that these banks attracted loan RP funds from other sources besides their own CD's—probably mostly from CD's maturing at other banks.

Borrowing Eurodollars. When an owner of a demand deposit in a domestic bank transfers the deposit to a dollar-denominated deposit in a foreign bank (possibly a foreign branch or other affiliate of a domestic bank), a Eurodollar (E$) deposit is created. The foreign bank receives a claim on reserves of a domestic bank that it either deposits in a domestic correspondent or parent bank or lends to a domestic bank or other party. As a result of the creation and lending of E$ deposits, reserves are usually transferred from one domestic bank to another.

District banks borrow E$'s both directly and through foreign (Nassau) branches. Usually, a District bank wanting to borrow E$'s either calls a New York-based E$ broker or wires a foreign bank and asks for an offer on E$'s. Once a E$ lender has been located and a District bank agrees to borrow the E$'s, the lender orders his foreign bank to pay E$'s to the District bank. The foreign bank then orders its New York correspondent bank to pay the District bank. As a result of the transaction, the District bank receives reserves from the New York bank and incurs a liability for borrowed money. The lender receives a promissory note or confirming letter signed by the District bank. If the lender deposits E$'s in a Nassau branch of a District bank, he orders his foreign bank to pay E$'s to a District bank for the credit of the Nassau branch. The District bank receives reserves and incurs a liability to its Nassau branch.

Concerned that E$ borrowing was enabling large banks to partly offset monetary restraint, the Federal Reserve—in August 1969—subjected such borrowings above a specified base to a 10-percent reserve requirement. This increased the cost of additional loanable funds from this source, since 10 percent of the borrowing proceeds would be required reserves. E$ borrowing nationally began to subside shortly after this, but borrowing didn't peak in the District until the end of 1969. At its peak level, E$ borrowing in the District amounted to only about one-third the peak volume of District loan RP's and one-eighth the peak volume of District bank-related commercial paper.

Selling Bank-Related Commercial Paper. Commercial paper is a short-term promissory note that is sold in the money market at a discount. Most paper is issued directly to money market investors by finance companies. Nonfinancial corporations also issue a substantial volume of paper, normally placing it with dealers who distribute the paper.

In 1969, District bank holding companies and their nonbank subsidiaries began issuing paper (called bank-related paper), using most of the proceeds to purchase loans from affiliate banks. Some of the bank-related paper originating in the District was placed directly with New York-based dealers in the same manner that CD's have sometimes been issued directly to investment bankers (see section on CD's). Most often, however, bank-related paper was issued directly to holders of maturing CD's. In effect, bank-related paper was a means through which banks financed loans (and offset CD runoffs).

Bank-related paper rose very rapidly in the District in 1969, peaking out about the end of that year. This paper proved an important source of funds to several such banks. By late 1969, the volume of bank-related paper issued by District holding companies greatly exceeded the CD's outstanding at their related banks. Restrictive regulatory actions against bank-related paper were proposed by the Board of Governors in October 1969. It was not until September 1970, however, that the definition of deposits was expanded to include bank-related paper when the proceeds were used to buy assets from an affiliated bank. Actually, the volume of bank-related paper originating in the District began a slow decline in early 1970, partly because of the uncertainty about the future regulation of bank-related paper. But it was not until late in the summer of 1970, after rate ceilings on short-term CD's had been removed, that bank-related paper began to decline rapidly.

A few District banks have issued letters of credit guaranteeing commercial paper that customers have sold to dealers. These letters of credit enable firms to issue commercial paper who, otherwise, could not. Using this technique, banks arrange financing for customers without tying up their lending capacity. The guaranteeing of paper, however, increases the contingent liabilities of banks.

What Next?

As District bankers try to expand their participation in money market intermediation, they can be expected to become increasingly sophisticated participants in the markets for Fed funds, CD's, and nondeposit liabilities. An example of this is the participation by a few District banks in a futures market in Fed funds. In this case, District banks purchase and sell contracts through New York brokers for the future delivery—mainly over weekends and one week in advance—of Funds.

The negotiable CD will probably dominate money market bank liabilities in the next few years, interest rate ceilings permitting. And, if effective interest rate ceilings are imposed on CD's, it is possible that they might be extended to CD substitutes as well; otherwise, the ceiling on CD rates would deflect funds from CD's to substitute bank liabilities, with little effect on total bank credit. Therefore, it may not be significantly advantageous for bankers to develop liabilities only as backstops for CD's during tight money.

Nonetheless, even if they do not anticipate effective interest rate ceilings on CD's, bankers have an incentive to develop new liabilities to supplement CD's. The reason is that CD's are presently subject to a 5-percent reserve requirement (3 percent legal minimum). When banks are intermediating billions of dollars through CD's and when they are up against a highly competitive nonbank money market sector, the reserve requirement is a significant cost to them.

What specific techniques banks might give increasing attention to is obviously not a sure thing. However, bankers are thinking about the guaranteeing of customer-issued, commercial paper, the creation of working capital acceptances, and the sale of participations in loan pools to the nonbank public. In all of these techniques, the bank acts as a money broker who arranges outside sources to finance bank customers. In the final analysis, though, the growth of these techniques and other innovations, will depend largely on how these techniques—and CD's—are regulated by the Fed. ■

Working Capital Acceptances

During the 1969 credit squeeze, some major money market banks began to use an instrument called the working capital acceptance in arranging financing for their customers. Working capital acceptances have not yet been issued by District banks, but are under study.

In acceptance financing, a bank agrees, for a fee, to accept time drafts (orders to pay at a future date) drawn on the bank either by a customer or another party. After the draft is drawn, it is presented to the bank for acceptance. The beneficiary of the draft can either hold an accepted draft (banker's acceptance) until maturity or ask the accepting bank to discount the draft, paying the beneficiary an amount less than the draft's face value. The bank can either hold the draft until maturity and earn interest or, because the banker's acceptance is a negotiable instrument, sell it in the money market. In the latter case, as in the case of guaranteeing commercial paper issued by a customer, the bank arranges financing for a customer without making a conventional loan, which would tie up the bank's resources.

A working capital acceptance is created in conjunction with general working capital needs rather than with the shipment or storage of goods. Trade acceptances maturing in 180 days or less are eligible for discount at the Fed. However, working capital acceptances are not eligible.

Alabama: Out of the Doldrums?

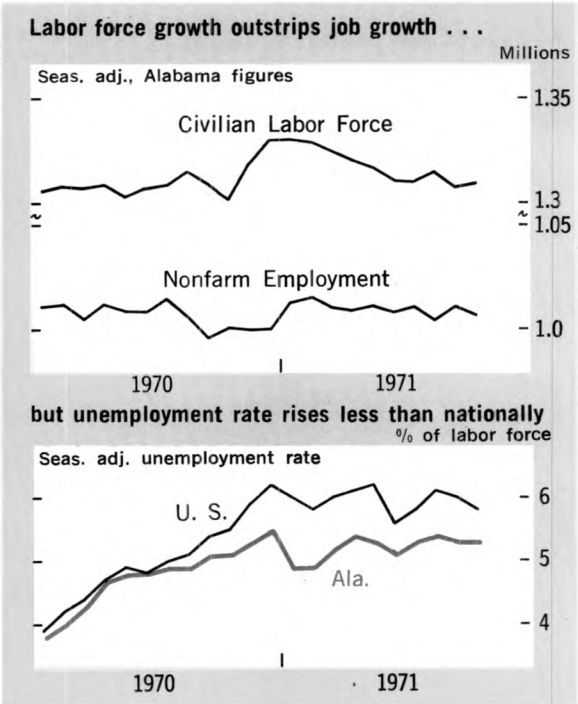
by Brian Dittenhafer

When Alabama's economy was last reviewed, the author ended his analysis with a prediction that Alabama's growth pattern would follow the pattern set by the nation.[1] That prediction came true, with Alabama and the nation showing a decline in economic activity, although Alabama did post a slightly better performance than the nation during 1970 and during the first three quarters of 1971. For example, the State's unemployment rate has been consistently lower than the national rate since June 1970. Moreover, Alabama has an orientation toward production of goods for civilian consumption. Therefore, with national sales of consumer goods up sharply during 1971 and with further expansion expected, the stage seems set for Alabama to move out of the doldrums and experience a faster pace of activity.

Employment Holds A Steady Course

Total employment has remained relatively steady during the 1970-1971 period, with increases in some sectors offsetting decreases in others. Nonmanufacturing employment, which accounts for about two-thirds of Alabama's nonfarm jobs, has shown a small but steady increase in 1971, after the stagnation of last year. Rebounding from a strike in Birmingham, contract construction employment increased strongly during 1971. A steady increase in the value of construction contracts awarded in Alabama has reinforced the increase in employment in that industry and promises more of the same for the future. Government remains a primary growth sector in nonmanufacturing, showing an increase of more than 3,000 workers during 1971. Two-thirds of the increase reflected expansion in state and local government jobs, where both school and nonschool positions expanded substantially. The business and financial services industry, which had been a growth sector during the last half of the Sixties, leveled off during the first half of 1971, after adding 2,000 workers during 1970.

[1]Boyd F. King, "Alabama's Economy Moves in Step with the Nation's," this **Review**, July 1970, pp. 100-103.



Reductions in durable goods employment led the trend downward in the manufacturing sector. Manufacturing, which accounts for approximately one-fourth of total employment in the State, was down 2 percent between January and October 1971. Primary metals, the largest employer in this group, did not match 1969 levels of employment during the first half of 1971, in spite of the strong demand for steel output brought about by fear of a strike. After the strike threat passed, buyers were reluctant to maintain high inventories, resulting in abnormally low employment in this sector.

The transportation equipment industry has shown the effect of defense cutbacks, losing a substantial number of jobs in aircraft maintenance at Fort Rucker. Ship repair employment has also displayed substantial decline, with fewer ships being repaired at Mobile.

Defense cutbacks have not hit Alabama as hard as the nation. It has been estimated that only 14.3 percent of value added in manufacturing in Alabama is defense or space oriented. By way of contrast, the average figure for the other Sixth District states is 17.5 percent, and the comparable national figure is 25.5 percent.[2] This accounts in large part for the State's relatively good economic performance during the past year. Nationally and locally, those areas that were dependent upon defense and space-related activity suffered high unemployment, reflecting sharp cutbacks in spending at the national level.

Nondurable goods manufacturing experienced employment losses from its 1969 peak, although this sector has declined less in Alabama than nationally for the 1970-1971 period. After very rapid expansion during the 1960's, paper and allied products employment leveled off during 1970 and 1971. Despite the employment stagnation, small month-to-month increases in production continued, holding the prospect of job growth in the future. Employment in the textile and apparel industries was relatively stable throughout 1970 and the first three quarters of 1971. This was much better than the national performance, where employment in textiles and apparel was down 3½ percent from early 1970 levels.

Production Catches A Light Breeze

Industrial production in the State economy increased during the first three quarters of 1971. Seven of the ten production indexes maintained by the University of Alabama Center for Business and Economic Research showed increases for the first eight months of this year. Electric power consumption for industrial purposes, when corrected for aberrations in primary metals and paper products production, increased during the third quarter. This is a good indication of industrial output for the State and confirms the slight upward trend established during the first half of 1971. An increase in the average weekly hours worked in manufacturing during the first ten months of this year is a favorable sign in manufacturing. If employers follow past patterns, an increase in average weekly hours worked will be followed by an increase in employment. These indicators are clearly encouraging; however, faster growth is necessary to provide jobs for an expanding labor force.

Income Continues to Expand

Personal income for Alabama consumers continued to expand during the first half of 1971. The strongest advances occurred in construction and services. Income from manufacturing jobs continued weak, with the small increases that occurred being brought on by higher wages and salaries. Income of nonfarm proprietors appeared to move up briefly during 1970 but fell back to 1969 levels by the end of the second quarter of this year.

In the agricultural sector, cash receipts from farm marketings for the first three quarters of the

[2]Based on 1967 data. See Frederick R. Strobel, "Defense Related Cutbacks: Their Impact on the Southeast", this **Review**, September 1971, p. 196. The figure for Alabama is probably lower at this time, owing to the severe cuts that have taken place in the Huntsville area since 1967.

year were up more than 2 percent over the comparable period in 1970. The increase reflected strong upward movements in cash receipts from crops, since receipts from livestock marketings declined. Prices paid by farmers were up sharply, raising the prospect of lower net farm income for 1971. Although final returns are not yet in, 1971 should prove to have been a good, but not outstanding, year for Alabama's farmers.

Retail Activity Moves Ahead

With income up, consumers spent more freely, providing a good first three quarters for Alabama retailers. According to the University of Alabama, retail sales were up approximately 16 percent over the same period during 1970, which was a slow year for sales. Most of last year's slowdown came in the sales of durable goods, where declines occurred in automotive sales, lumber and building materials, and hardware and farm implements. Furniture, furnishings, and appliance sales increased only one percent in dollar volume, not adjusted for price increases. When price increases are taken into account, these sales also show a slight drop. In contrast, during the first three quarters of 1971, sales of durable goods showed the strongest increase, with large increases in sales of lumber and building materials. Auto sales were 20 percent above the comparable period of 1970, showing increased confidence on the part of Alabama consumers.

Banking Activity Sails Smartly Ahead

Confirming the pickup in consumer and business activity, bank debits to demand deposit accounts trended much higher during 1971. Moreover, total deposits at member banks increased, just as they did in 1970. The bulk of this year's deposit increase occurred in time deposits, with Alabama's growth in time deposits outdistancing the Sixth District's growth in the same category. Likewise, loans outstanding increased sharply. In October, loans were 12 percent above year-ago totals.

Metropolitan Areas Present A Varied Pattern

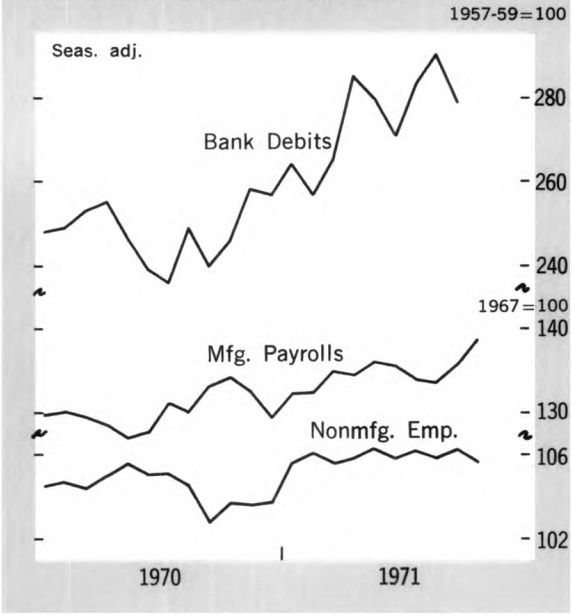
According to the **1970 Census of Population and Housing,** the metropolitan areas of Alabama increased their population by 111,000 during the Sixties. The growth rates of the nonmetropolitan and metropolitan areas, however, were about the same and, therefore, the proportion of the total population living in metropolitan areas remained at the 1960 level of 52 percent.

Most of the population growth in metropolitan areas took place in the Huntsville SMSA, which increased its population during the decade by 48 percent because of the boom in space-oriented industries. This increase in population allowed Huntsville to surpass Montgomery as the third largest metropolitan area in the State. Gadsden experienced a population decline of 2.9 percent during the decade. The remaining SMSA's in Alabama experienced very slow growth during the ten-year period, with Birmingham and Mobile having the lowest growth rates among the 25 largest SMSA's in the Southern region of the U. S.

Despite losing its rank as the State's third-largest metropolitan area, Montgomery continued to show an impressively low unemployment rate. Unemployed job seekers comprised less than 4 percent of the labor force during 18 of the last 21 months. During this time span, rapid expansion in bank debits to demand deposit accounts and retail sales indicated the continued strength of activity in the Montgomery SMSA. Tuscaloosa showed much the same pattern: less unemployment and substantially higher retail sales and bank debits. Major increases occurred in nondurable goods employment and in nonmanufacturing employment.

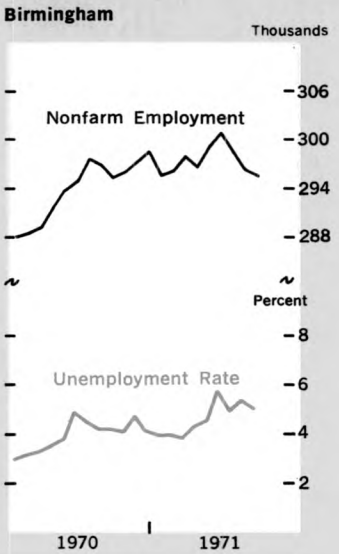
Gadsden's performance must be viewed in light of the 9.8-percent unemployment rate that prevailed in November 1970 and the 8.0-percent average for the same year. The rate was reduced to 6.5 percent in July 1971, with the reduction coming from both increased employment

Key economic indicators: Up slightly



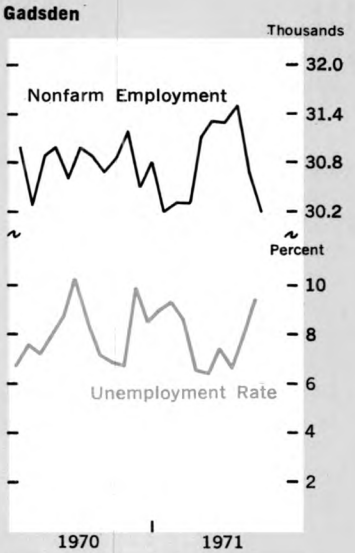
Patterns Vary Among Standard Metropolitan Areas

Birmingham



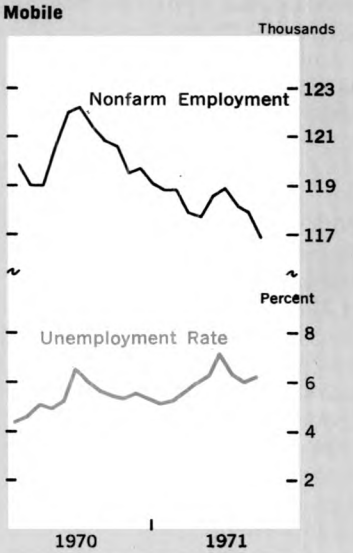
	Percent change 1970*	1971**
Bank Debits	14	8
Retail Sales	7.7	14.1

Gadsden



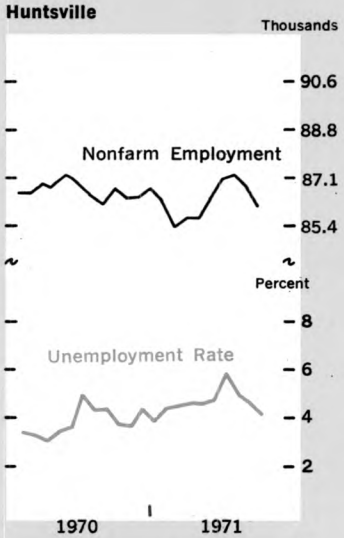
	Percent change 1970*	1971**
Bank Debits	3	13.2
Retail Sales	10.6	19.2

Mobile



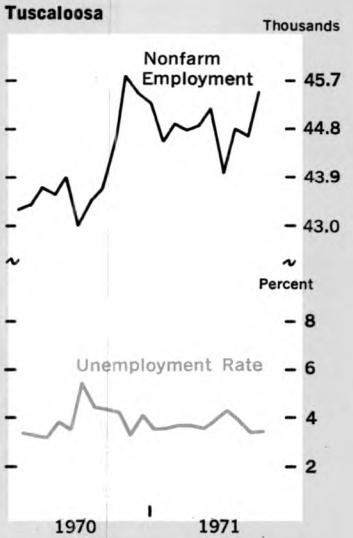
	Percent change 1970*	1971**
Bank Debits	7	24.4
Retail Sales	2.1	17.9

Huntsville



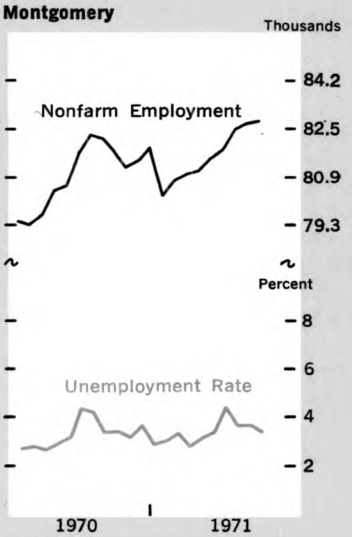
	Percent change 1970*	1971**
Bank Debits	6	9.4
Retail Sales	7.7	23.6

Tuscaloosa



	Percent change 1970*	1971**
Bank Debits	8	11.8
Retail Sales	15.5	26.9

Montgomery



	Percent change 1970*	1971**
Bank Debits	12	6.9
Retail Sales	18.5	19.1

*Dec. '70 from Dec. '69

**Latest month '71 from same month '70
Latest month for bank debits: Oct.
Latest month for retail sales: Aug.

and cutbacks in the civilian labor force. Job cutbacks in primary and fabricated metals caused temporary increases in unemployment during August and September. As steel users work down bloated inventories, however, the level of unemployment should be reduced. Gadsden has suffered from the national malaise in the durable goods sector. Durable goods industries normally provide jobs for a large share of total employment in the area; the national softness in this sector hit Gadsden particularly hard.

The slow population growth of the Birmingham SMSA did not keep the civilian labor force from outstripping employment. Birmingham, therefore, continued to show an erratic increase in its unemployment rate. Manufacturing, which accounts for 35 percent of total employment in Birmingham has continued weak; all of the employment expansion took place in nonmanufacturing industries. Like Gadsden, Birmingham has suffered from the national decline in steel production, and the employment picture there cannot brighten significantly until steel production reaches more normal levels.

As in Birmingham, the unemployment rate has increased in both Mobile and Huntsville. Increases in the number of people seeking jobs were not matched by growth in the number of jobs available, particularly during the summer months. Despite lower levels of employment, the most recent figures show unemployment rates improving. This seeming paradox can be simply explained: The number of people looking for jobs declined, possibly because workers who could not find jobs dropped out of the labor force.

Alabama Prepares for 1972 With Sails Set

Alabama prepares for 1972 ready to take advantage of any increases in demand and production on the national level. If the national economic program is successful, Alabama will be able to take full advantage of national growth. Any increases in the national demand for consumer durables and apparel — important sectors to Alabama's economy — are sure to have a favorable impact upon the State. The worst of the defense- and space-related cutbacks seem to have passed, leaving the State's economy ready and willing to advance smartly into 1972. ■

Bank Announcements

NOVEMBER 1, 1971
BANK OF THORSBY
Thorsby, Alabama

Converted to par

NOVEMBER 2, 1971
THE SUN CITY CENTER BANK
Sun City Center, Florida

Opened for business as a nonmember. Officers: Clyde C. Sharpe, chairman; William P. Battell, president; Ellsworth G. Simmons, vice president; George G. Lamberson, executive vice president; and William T. Wills, cashier. Capital, $300,000; surplus and other capital funds, $225,000.

NOVEMBER 5, 1971
HOBE SOUND NATIONAL BANK
Hobe Sound, Florida

Opened for business. Officers: Joseph C. Mueller, president; Abram V. Honan, executive vice president; and Herbert R. Nowack, Jr., vice president and cashier. Capital, $500,000; surplus and other capital funds, $500,000.

NOVEMBER 10, 1971
DEERFIELD BEACH STATE BANK
Deerfield Beach, Florida

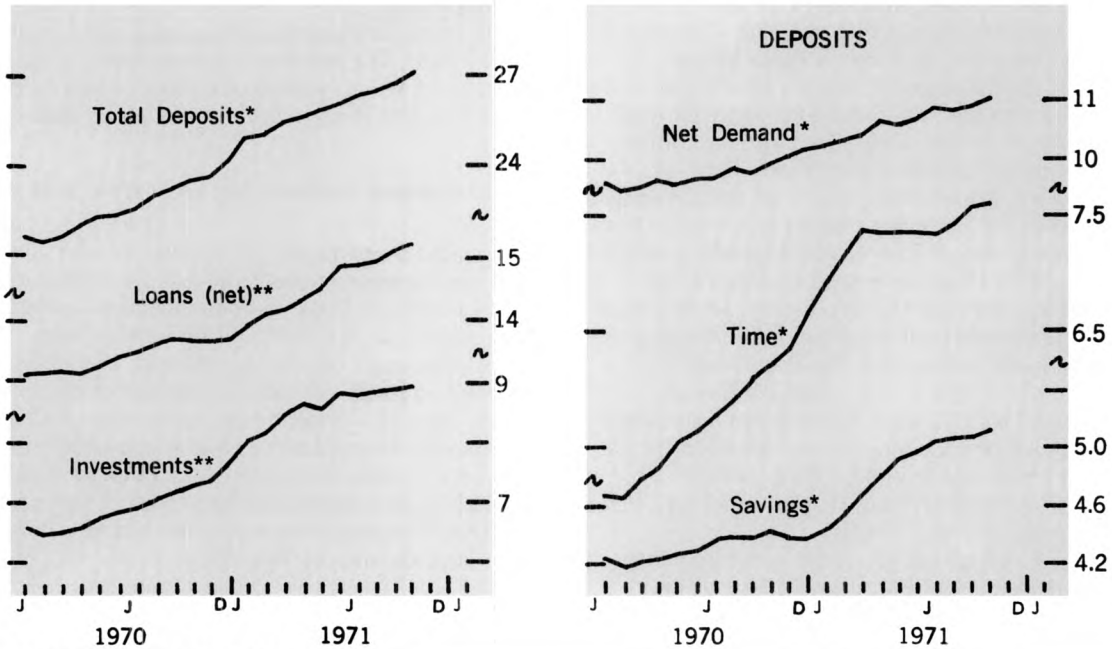
Opened for business as a nonmember. Officers: Edgar G. Hamilton, chairman; Richard B. Wiggins, president; George W. Henry, executive vice president; and James M. Lord, cashier. Capital, $600,000; surplus and undivided profits, $400,000.

NOVEMBER 26, 1971
FOXWORTH BANK
Foxworth, Mississippi

Converted to par.

BANKING STATISTICS

Billion $



LATEST MONTH PLOTTED: OCTOBER

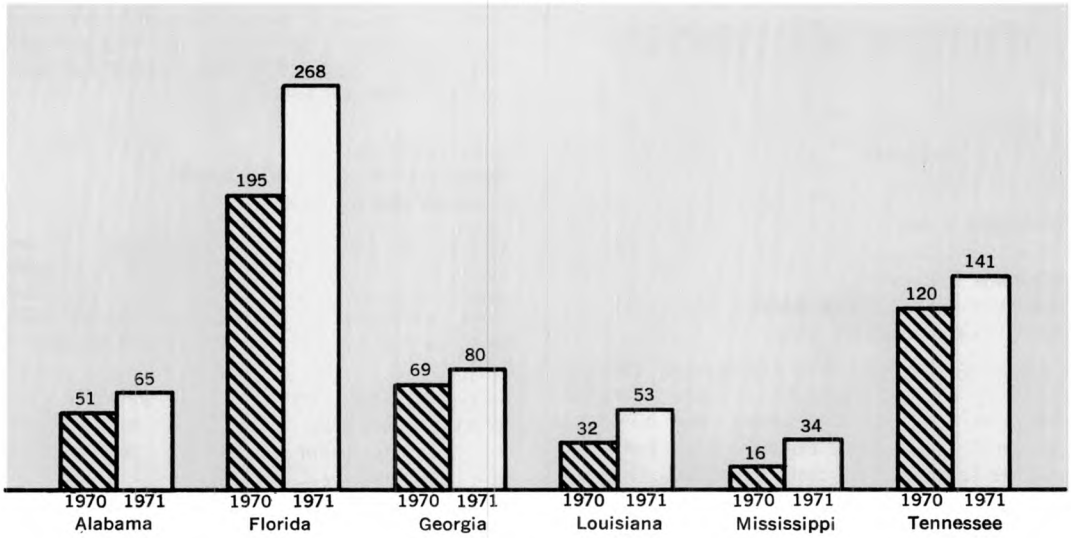
Note: All figures are seasonally adjusted and cover all Sixth District member banks.
*Daily average figures **Figures are for the last Wednesday of each month.

SIXTH DISTRICT

BANKING NOTES

MOBILE HOME LOANS TO INDIVIDUALS AT ALL COMMERCIAL BANKS

Million $



Note: Data are based on midyear Call Reports

DISTRICT BANKS: AN IMPORTANT SOURCE OF FINANCING FOR MOBILE HOMES

Southeastern banks provide a substantial and rapidly growing volume of financing for persons purchasing mobile homes. As of midyear 1971, consumer instalment loans for mobile homes totaled $640 million at all commercial banks in the six District states. Moreover, this total marked a 33-percent increase in the dollar volume of mobile home loans over the previous year.

Banks in the District states make a relatively larger amount of mobile home loans than do banks nationally — one indication of the importance of mobile homes in the Southeast. While the District banks account for only 8.2 percent of the total dollar loan volume in the United States, they make 16.5 percent of the mobile home loans. In addition, their dollar volume of mobile home loans is equivalent to 25 percent of the volume of bank mortgage financing for one-to four-family residences. In contrast, the proportion at banks nationally is less than 10 percent.

The impact of bank mobile home financing is even more significant when the number of mobile homes District banks are financing is considered. Estimates indicate that the average **original** mobile home loan balance at banks is less than $6,000 and the average **existing** loan balance is probably about $4,000. Therefore, District banks are currently financing nearly 160,000 mobile homes—40 percent of the more than 400,000 mobile homes in the District. This increased availablility of bank financing helped make possible the 224-percent increase in mobile homes in the District during the last ten years. Now mobile homes account for over 4 percent of all residential units in the six states and virtually all those new housing units costing less than $15,000.

The increased demand for mobile homes also stimulated the growth of an important new industry in the Southeast. Last year, approximately 28 percent of the nation's 408,000 units were produced in some 235 firms in the six District states and provided employment for more than 17,000 persons. Additional employment opportunities also developed at those firms engaged in supplying raw materials and components to the mobile home manufacturers.

Banks and finance companies still extend the bulk of the mobile home credit for homeowners because, until November 1969, Federal savings and loan associations were not authorized to make such loans. Now savings and loan associations are permitted to have up to 5 percent of their assets as mobile home loans.

Mobile home loans make up a large part of total bank consumer instalment debt in the Southeast.

MOBILE HOME LOANS IN SIXTH DISTRICT STATES (June 30, 1971)

	Amount (thousands)	Distribution (Percent)
Reserve City Banks	$125,582	19.6
Country Banks	303,828	47.5
Member Banks	429,410	67.1
Nonmember Banks	210,702	32.9
All Commercial Banks	$640,112	100.0

Eleven percent of total consumer instalment debt is for mobile homes, and many bankers wish to increase these loans because of their favorable experience. Mobile home loans have grown to the point where they are almost one-fourth as large as the total amount of auto instalment loans at banks.

Since mobile homes are generally located away from the larger cities and metropolitan areas, smaller banks situated outside the major District cities tend to make the most mobile home loans. Country member banks and nonmember banks hold 47 percent and 33 percent, respectively, of the volume of mobile home loans in the District states, while reserve city member banks account for 20 percent of the total. Florida banks make about 40 percent of mobile home loans, roughly the same proportion as the State's share of the District's mobile homes.

Banks generally make mobile home loans to homeowners on an instalment basis (such as automobile loans) and not as a real estate loan (such as a conventional home mortgage). The rates typically run between 5 1/2 percent and 8 1/2 percent "add-on" interest—resulting in an effective rate that ranges between 11 percent and 17 percent, depending on the maturity. The maturity of the bank loans are usually no more than seven years, although some banks may extend the maturity up to ten years for some of the larger, more expensive units. One reason mobile home loans have shorter maturities than conventional home mortgages is because mobile homes include, as standard equipment, many appliances and fixtures which depreciate rapidly. Down payments on mobile home loans range between 10 percent and 25 percent of the retail mobile home price. Many banks use credit service companies for aid in the dealer solicitation, default collection, repossession, and credit insurance involved in their mobile home lending programs.

JOHN M. GODFREY

INDEX FOR YEAR 1971

MONTH	PAGES	MONTH	PAGES
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May	78-96	November	198-216
June	98-120	December	218-236

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	Oct.	137	137	137	129
Farm Cash Receipts	Sept.	104	127	110	96
Crops	Sept.	96	144	56	80
Livestock	Sept.	123	121	131	122
Instalment Credit at Banks* (Mil. $)					
New Loans	Oct.	411	404	411	338
Repayments	Oct.	347	361	370	329
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment†	Oct.	113	112	112	111
Manufacturing	Oct.	106	106	105	106
Nondurable Goods	Oct.	107	106	106	107
Food	Oct.	102	102	102	104
Textiles	Oct.	104	103	104	105
Apparel	Oct.	105	104	103	103
Paper	Oct.	107	107	104	107
Printing and Publishing	Oct.	115	116	115	115
Chemicals	Oct.	106	105	106	107
Durable Goods	Oct.	105	104	104	105
Lbr., Wood prods., Furn. & Fix.	Oct.	101	100	100	100
Stone, Clay, and Glass	Oct.	105	104	103	107
Primary Metals	Oct.	104	103	101	107
Fabricated Metals	Oct.	113	113	113	113
Machinery, Elec. & Nonelec.	Oct.	160	161	160	163
Transportation Equipment	Oct.	101	100	104	101
Nonmanufacturing	Oct.	115	115	114	113
Construction	Oct.	108	108	107	104
Transp., Comm., & Pub. Utilities	Oct.	111	113	113	112
Trade	Oct.	114	114	114	112
Fin., ins., and real est.	Oct.	120	119	119	118
Services	Oct.	118	117	116	116
Federal Government	Oct.	102	102	101	100
State and Local Government	Oct.	122	121	120	118
Farm Employment	Oct.	86	82	87	89
Unemployment Rate (Percent of Work Force)†	Oct.	4.9	4.8	4.8	4.8
Insured Unemployment (Percent of Cov. Emp.)	Oct.	2.8	3.0	3.0	3.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.5	40.3	40.7	40.1
Construction Contracts*	Oct.	168	225	133	126
Residential	Oct.	187	226	181	132
All Other	Oct.	149	225	85	120
Electric Power Production**	Sept.	168	165	167	168
Cotton Consumption**	Sept.	89	89	90	90
Petrol. Prod. in Coastal La. and Miss.**	Nov.	120	128	123	132
Manufacturing Production	Aug.	254	256	257	244
Nondurable Goods	Aug.	218	220	222	207
Food	Aug.	175	176	180	166
Textiles	Aug.	252	250	247	236
Apparel	Aug.	261	274r	283	262
Paper	Aug.	199	198	200	194
Printing and Publishing	Aug.	161	164r	167	165
Chemicals	Aug.	262	261	261	262
Durable Goods	Aug.	298	299	295	288
Lumber and Wood	Aug.	188	184	179	168
Furniture and Fixtures	Aug.	179	180r	180	182
Stone, Clay and Glass	Aug.	170	164	169	167
Primary Metals	Aug.	197	201	208	199
Fabricated Metals	Aug.	248	246	244	238
Nonelectrical Machinery	Aug.	414	430	400	361
Electrical Machinery	Aug.	626	612	630	605
Transportation Equipment	Aug.	383	391r	392	382
FINANCE AND BANKING					
Loans*					
All Member Banks	Oct.	160	158	156	142
Large Banks	Oct.	146	146	144	132
Deposits*					
All Member Banks	Oct.	151	149	148	129
Large Banks	Oct.	135	133	132	118
Bank Debits*/**	Oct.	342	338	339	286
ALABAMA					
INCOME					
Manufacturing Payrolls	Oct.	139	136	134	134
Farm Cash Receipts	Sept.	112	136	162	107
EMPLOYMENT					
Nonfarm Employment†	Oct.	106	106	106	105
Manufacturing	Oct.	106	106	105	109
Nonmanufacturing	Oct.	106	106	106	104
Construction	Oct.	104	106	106	83
Farm Employment	Oct.	78	74	83	77
Unemployment Rate (Percent of Work Force)†	Oct.	5.3	5.3	5.4	5.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.9	40.6	40.7	40.4
FINANCE AND BANKING					
Member Bank Loans	Oct.	157	152	153	138
Member Bank Deposits	Oct.	145	143	143	124
Bank Debits**	Oct.	285	279	290	246
FLORIDA					
INCOME					
Manufacturing Payrolls	Oct.	137	144	141	133
Farm Cash Receipts	Sept.	133	135	105	136
EMPLOYMENT					
Nonfarm Employment†	Oct.	122	122	121	120
Manufacturing	Oct.	109	109	109	110
Nonmanufacturing	Oct.	124	124	124	122
Construction	Oct.	128	127	129	129
Farm Employment	Oct.	91	99	103	104
Unemployment Rate (Percent of Work Force)†	Oct.	4.1	4.0	3.9	3.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.4	40.6	40.8	41.2
FINANCE AND BANKING					
Member Bank Loans	Oct.	172	170	168	152
Member Bank Deposits	Oct.	170	168	167	145
Bank Debits**	Oct.	374	368	367	309
GEORGIA					
INCOME					
Manufacturing Payrolls	Oct.	137	135	137	123
Farm Cash Receipts	Sept.	126	113	88	117
EMPLOYMENT					
Nonfarm Employment†	Oct.	112	112	111	111
Manufacturing	Oct.	104	103	104	103
Nonmanufacturing	Oct.	116	115	115	114
Construction	Oct.	107	106	105	102
Farm Employment	Oct.	83	83	93	86
Unemployment Rate (Percent of Work Force)†	Oct.	4.0	4.4	3.9	4.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.0	40.0	40.4	39.0
FINANCE AND BANKING					
Member Bank Loans	Oct.	152.	152	152	137
Member Bank Deposits	Oct.	134	132	134	118
Bank Debits**	Oct.	395	392	397	331
LOUISIANA					
INCOME					
Manufacturing Payrolls	Oct.	129	130	134	124
Farm Cash Receipts	Sept.	89	167	147	72
EMPLOYMENT					
Nonfarm Employment†	Oct.	104	104	104	104
Manufacturing	Oct.	100	100	100	100
Nonmanufacturing	Oct.	105	105	105	105
Construction	Oct.	81	82	80	82
Farm Employment	Oct.	78	71	80	71
Unemployment Rate (Percent of Work Force)†	Oct.	7.8	6.9	6.7	6.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	41.9	40.9	42.7	41.9
FINANCE AND BANKING					
Member Bank Loans*	Oct.	144	142	139	130
Member Bank Deposits*	Oct.	145	144	138	121
Bank Debits*/**	Oct.	258	255	257	213
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	Oct.	143	140	142	132
Farm Cash Receipts	Sept.	75	143	153	57
EMPLOYMENT					
Nonfarm Employment†	Oct.	112	110	110	109
Manufacturing	Oct.	112	110	112	109
Nonmanufacturing	Oct.	111	110	109	109
Construction	Oct.	101	103	103	107
Farm Employment	Oct.	90	81	78	87

	Latest Month 1971		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)†	Oct.	4.7	5.1	5.3	5.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.1	40.E	40.5	40.0
FINANCE AND BANKING					
Member Bank Loans*	Oct.	165	161	163	147
Member Bank Deposits*	Oct.	145	144	145	132
Bank Debits*/**	Oct.	331	327	342	283
TENNESSEE					
INCOME					
Manufacturing Payrolls	Oct.	139	137	138	131
Farm Cash Receipts	Sept.	98	116	55	95

	Latest Month 1971		One Month Ago	Two Months Ago	One Year Ago
EMPLOYMENT					
Nonfarm Employment†	Oct.	112	111	110	109
Manufacturing	Oct.	107	106	105	107
Nonmanufacturing	Oct.	114	114	113	111
Construction	Oct.	113	109	108	101
Farm Employment	Oct.	86	91	90	90
Unemployment Rate (Percent of Work Force)†	Oct.	4.6	4.6	4.7	5.2
Avg. Weekly Hours in Mfg. (Hrs.)	Oct.	40.5	39.9	40.3	39.7
FINANCE AND BANKING					
Member Bank Loans*	Oct.	160	161	154	145
Member Bank Deposits*	Oct.	142	141	139	125
Bank Debits*/**	Oct.	338	338	316	284

*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.

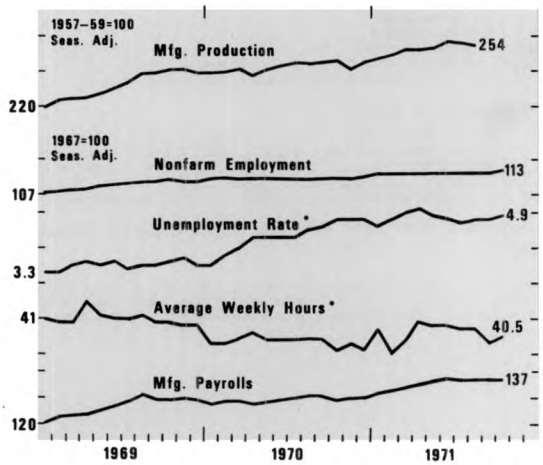
Debits to Demand Deposit Accounts

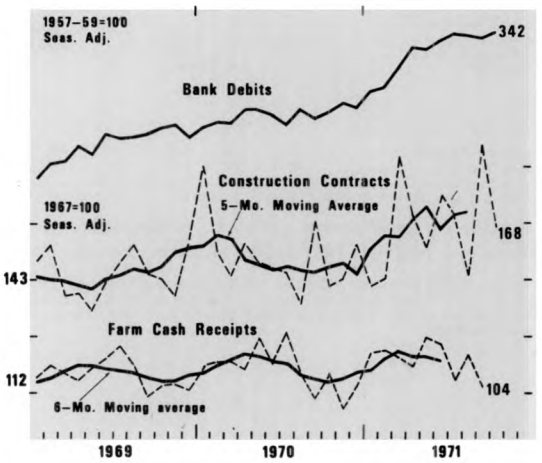
Insured Commercial Banks in the Sixth District
(In Thousands of Dollars)

	Oct. 1971	Sept. 1971	Oct. 1971	Percent Change: Oct. 1971 from Sept. 1971	Oct. 1971 from Oct. 1970	Year to date 10 mos. 1971 from 1970
STANARD METROPOLITAN STATISTICAL AREAS						
Birmingham	2,254,465	2,368,856	2,087,052	− 5	+ 8	+14
Gadsden	83,997	82,562	74,207	+ 2	+13	+12
Huntsville	247,261	235,136	226,012	+ 5	+ 9	+ 8
Mobile	760,533	774,917	611,177	− 2	+24	+ 7
Montgomery	470,387	457,515	440,125	+ 3	+ 7	+17
Tuscaloosa	136,820	150,344	122,355	− 9	+12	+13
Ft. Lauderdale—Hollywood	1,164,322	1,149,509	1,149,324	+ 1	+ 1	+12
Jacksonville	2,488,391	2,856,196	1,952,513	−13	+27	+19
Miami	4,291,435	4,149,616	3,715,605	+ 3	+15	+22
Orlando	1,015,909	999,924	796,234	+ 2	+28	+18
Pensacola	328,869	332,223	280,841	− 1	+17	+22
Tallahassee	394,054	412,959	216,047	− 5	+82	+56
Tampa—St. Pete.	2,454,810	2,510,458	2,279,058	− 2	+ 8	+15
W. Palm Beach	727,846	698,317	679,663	+ 4	+ 7	+11
Albany	145,785	148,413	132,611	− 2	+10	+ 9
Atlanta	9,020,447	9,310,682	8,043,263	− 3	+12	+14
Augusta	399,338	380,108	319,094	+ 5	+25	+18
Columbus	376,767	356,387	304,515	+ 6	+24	+16
Macon	407,397	402,998	349,204	+ 1	+17	+14
Savannah	422,746	382,397	343,080	+11	+23	+18
Baton Rouge	1,030,040	1,016,313	754,250	+ 1	+36	+21
Lafayette	205,645	203,934	174,986	+ 0	+18	+11
Lake Charles	191,404	192,365	175,034	− 0	+ 9	+10
New Orleans	3,142,932	3,344,605	2,812,745	− 6	+12	+15
Biloxi—Gulfport	177,756	188,186	171,974r	− 6	+ 3	+10
Jackson	988,904	960,763	838,765	+ 3	+18	+15
Chattanooga	946,956	1,004,214	900,506	− 6	+ 5	+12
Knoxville	738,809	702,783	657,840	+ 5	+12	+15
Nashville	2,258,436	2,247,395	1,907,281	+ 0	+18	+10
OTHER CENTERS						
Anniston	96,176	90,575	82,316	+ 6	+17	+ 8
Dothan	120,618	122,623	100,733	− 2	+20	+21
Selma	56,784	54,165	56,609	+ 5	+ 0	+ 4
Bartow	37,726	32,957	35,034	+14	+ 8	+ 0
Bradenton	123,077	115,564	100,033	+ 7	+23	+13
Brevard County	214,892	231,881	208,515	− 7	+ 3	− 0
Daytona Beach	117,008	100,888	104,736	+16	+12	+ 9
Ft. Myers—N. Ft. Myers	149,741	144,888	137,595	+ 3	+ 9	+20
Gainesville	148,757	150,019	124,405	− 1	+20	+24
Lakeland	187,774	186,731	158,831	+ 1	+18	+18
Monroe County	44,327	46,366	42,685	− 4	+ 4	+13
Ocala	120,826	122,687	100,875	− 2	+20	+16
St. Augustine	24,476	25,833	21,366	− 5	+15	+ 5
St. Petersburg	604,621	614,255	518,947	− 2	+17	+21
Sarasota	190,743	180,357	168,987	+ 6	+13	+ 7
Tampa	1,237,194	1,311,109	1,229,203	− 6	+ 1	+ 9
Winter Haven	93,487	95,479	81,487	− 2	+15	+15
Athens	149,337	170,248	132,709	−12	+13	+40
Brunswick	68,984	75,514	59,296	− 9	+16	+20
Dalton	145,122	143,135	124,307	+ 1	+17	+14
Elberton	16,636	16,034	18,075	+ 4	− 8	−14
Gainesville	100,938	99,727	97,874	+ 1	+ 3	+ 5
Griffin	52,118	53,476	47,378	− 3	+10	+14
LaGrange	30,043	31,656	25,181	− 5	+19	+36
Newnan	38,477	37,083	33,905	+ 4	+13	+12
Rome	110,901	108,816	96,488	+ 2	+15	+12
Valdosta	77,448	79,192	71,630	− 2	+ 8	+ 8
Abbeville	15,170	15,564	13,385	− 3	+13	+ 6
Alexandria	173,070	164,693	173,419	+ 5	− 0	+ 6
Bunkie	8,943	7,306	8,030	+22	+11	+ 7
Hammond	55,409	53,653	51,576	+ 3	+ 7	+12
New Iberia	48,006	45,607	43,737	+ 5	+10	+12
Plaquemine	13,141	12,223	13,784	+ 8	− 5	− 2
Thibodaux	29,265	28,245	24,644	+ 4	+19	+13
Hattiesburg	91,622	92,611	86,204	− 1	+ 6	+35r
Laurel	54,770	48,439	55,744	+13	− 2	+ 2
Meridian	90,422	82,524	81,126	+10	+11	+ 6
Natchez	44,313	46,058	41,587	− 4	+ 7	+ 6
Pascagoula—Moss Point	93,966	88,416	88,856	+ 6	+ 6	+12
Vicksburg	66,537	58,576	58,975	+14	+13	+12
Yazoo City	31,803	38,168	32,488	−17	− 2	+ 9
Bristol	117,171	118,443	99,049	− 1	+18	+13r
Johnson City	121,493	121,896	101,939	− 0	+19	+14
Kingsport	190,503	188,272	179,514	+ 1	+ 6	+ 5
District Total	49,402,504	49,994,182	43,320,161r	− 1	+14	+15
Alabama‡	5,793,550	5,879,819	5,254,981	− 1	+10	+11
Florida‡	16,091,740	16,294,002	13,919,596	− 1	+16	+18
Georgia‡	13,526,487	13,738,725	11,889,743	− 2	+14	+15
Louisiana†*	5,728,732	5,854,603	4,955,187	− 2	+16	+15
Mississippi†*	2,175,262	2,136,054	1,946,441r	+ 2	+12	+14
Tennessee†*	6,086,733	6,090,979	5,354,213	− 0	+14	+12

*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: October—except mfg. production, August, and farm receipts, September

At the beginning of Phase II, the District economy is showing some encouraging signs of improvement. According to latest available data, nonfarm employment grew strikingly, despite the paralysis of most Southern ports by a dock strike. Manufacturing employment posted its sharpest gain in more than two years. Spurred by strong auto sales, consumer borrowing also rose sharply. Bank lending also continued to advance, although this growth was more modest than robust. Construction activity held to its earlier pattern of powerful growth. Meanwhile, farmers reported fine weather and strong cash receipts.

Nonfarm employment continued to expand in October, when both nonmanufacturing and manufacturing employment notched sizable increases. The growth of nonmanufacturing employment was kept from rising even more by the dock strike at Atlantic and Gulf ports. The manufacturing sector recorded its largest employment gain in over two years; both durable and nondurable goods industries shared in the employment growth. Correspondingly, the insured unemployment rate (of workers covered by state unemployment insurance programs) declined.

Consumer instalment debt outstanding at commercial banks continued its robust expansion in October. All types of credit showed good gains, but auto loans showed most of the strength. Encouraged by the price freeze and the prospect of excise tax removal, consumers bought an exceptionally large number of American-made cars.

Preliminary information for November shows that bank lending continued to advance moderately. Loans by the larger banks to nonbank financial institutions, commercial and industrial firms, and consumers accounted for most of the lending increase. Time deposit gains continued weak through early November, but inflows of demand deposits at the smaller banks were quite strong. Aside from the rise in Government security holdings following the mid-November Treasury refunding, banks made only minor adjustments in their investment portfolios. Effective November 15, the Atlanta Fed joined other Reserve Banks in reducing its discount rate from 5 percent to $4^3/_4$ percent.

Construction activity continued strong, both relative to 1970 and relative to the national performance. The recovery of nonresidential contract awards in metropolitan areas was particularly notable. There were some exceptions, however, mainly in Tennessee and Louisiana. In retrospect, residential construction has shown exceptional vigor since the first quarter of 1971; moreover, this strength has been well balanced between metropolitan and rural areas.

Throughout the District, farm cash receipts through September were running well ahead of the period a year ago, led by particularly strong gains in Florida and Louisiana. In those states, both crop and livestock receipts exceeded 1970 levels even though livestock receipts were down for the District as a whole. Prices received by farmers in October were higher than a month earlier, reflecting gains for oranges, cotton, vegetables, milk, and hogs. Prices for grain and poultry products dropped, however, and partially offset these increases. Extended warm, sunny weather and delayed frosts aided late-season cotton production and contributed to a rapid harvest of all crops.

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