monthly review

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Federal Reserve Bank of Atlanta - 1972

In this issue:

Savings and Loan Associations in a Changing Economy

by Boyd F. King

Institutions respond to changes in their environment by attempting to arrest some changes and by adapting to others. While neither type of response is always entirely successful, an institution's responses to change partially determine what functions that institution performs and how well it performs them. The reactions of savings and loan associations in the Southeast[1] to changes in operating conditions during the last decade are an important demonstration of institutional response to a changing environment and the effects of this response on institutional functions. This article uses the experience of the Southeast's savings and loan associations to illustrate the process of institutional response and to assess the ability of the region's savings and loan associations to deal with future change.

Rapid Growth in a Favorable Environment: The 1950's

Although savings and loan associations existed in the United States as early as 1831 and in the Southeast as early as 1865, the late 1940's and the 1950's saw the industry reborn in a healthy environment. Developments during this period account for many of the characteristics with which the industry began the 1960's.

At the beginning of the 1950's, 277 of the nation's 3,894 savings and loan associations were located in the Southeast. The region's associations held $1.1

[1]For our purposes here, the Southeast means those states that are either entirely or partly in the Sixth Federal Reserve District: Tennessee, Mississippi, Louisiana, Georgia, Florida, and Alabama.

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SUMMARY TABLE

	1950		1960		1970	
	Southeast	U.S.	Southeast	U.S.	Southeast	U.S.
Number of Associations	277	3,894	416	4,694	509	4,601
Assets and Liabilities (billion $):						
Total Assets	1.1	15.5	6.7	69.3	18.7	172.0
Mortgage Loans	1.0	12.7	5.6	58.4	15.8	147.2
Savings Capital	1.0	12.9	6.0	60.3	16.1	142.9
Advances from Federal Home Loan Banks	.1	.8	.1	2.0	.6	10.5
Interest Earned on Mortgages as Percent of Gross Operating Income	88.1	85.3	82.8	83.6	83.1	84.4
Dividends on Savings Capital as Percent of Gross Operating Income	47.5	54.3	59.9	60.6	66.7	65.1
Interest Earned on Mortgages as Percent of Average Mortgage Loans	5.1	4.9	5.7	5.5	6.5	6.4
Dividends on Savings Capital as Percent of Average Savings Capital	2.7	2.5	3.9	3.9	5.2	5.1

billion of the nation's $15.5 billion of savings and loan association assets. In the Southeast, as in the rest of the nation, associations were required to hold most of their assets in residential mortgages and most of their liabilities in savings accounts. The region's associations held about one-third of the total of time and savings deposits of individuals, partnerships, and corporations at banks and thrift institutions in the Southeast; in the nation as a whole, associations held only one-fifth of the national total of these deposits. Absence of mutual savings banks from the Southeast accounts for the larger share held by the region's associations. Mutual savings banks operating outside the Southeast held one-fourth of the nation's time and savings deposits in 1950.

Savings and loan associations in the Southeast grew rapidly during the Fifties and captured an increasing share of savings and residential mortgage markets. Their growth was based both on changes in the institutions themselves and on an environment that was conducive to the performance of their two primary functions: providing a relatively safe, interest-earning depository for a portion of the public's accumulated savings and financing the construction and purchase of housing.

The post World War II housing shortage in the U. S. encouraged changes in the laws governing savings and loan associations and in the practices of associations. Reform of deposit insurance for savings and loan accounts was the most important of these changes. In 1950, Congress voted to reduce the cost of this insurance and make it equal to the cost of insurance for commercial bank deposits, to double the maximum coverage for an individual account to $10,000—an amount equal to that for commercial bank accounts, and to provide for cash payments to depositors upon liquidation of an association. These reforms made savings accounts at savings and loan associations very similar to time and savings deposits at commercial banks and, thus, more competitive with them.

During the same period that deposit insurance provisions were being altered, lending powers of savings and loan associations were broadened and made more flexible. Maximum limits were raised on individual loans used to secure association borrowing from the Federal Home Loan Banks; the proportion of loans that an association might make on improved real estate other than one-to-four unit homes was increased, and the requirement that loans be secured by property located within 50 miles of the association was lifted in cases involving loans secured by multiunit residences or Government-backed mortgages.

These changes were a boon to savings and loan associations. The housing shortage and rising incomes and population in the Southeast generated strong housing demand in the region during most of the 1950's. This demand was concentrated in the market for single-family homes—a market in which savings and loan associations specialized. The associations took advantage of their new powers, strong housing demand, and weak demands for credit from businesses and governments to increase the share of the savings of the private sector of the economy that they funneled into residential mortgages.

By the end of 1960, savings and loan associations in the Southeast had outdistanced commercial banks in the competition for time and savings deposits. During the decade, they had raised their share from one-third to three-fifths of these deposits at the region's banks and thrift institutions. In the nation as a whole, associations had also raised their share of time and savings deposits at the expense of both commercial banks and mutual savings banks. Rapid growth accompanied the deposit share increase at savings and loan associations. The region's addition of 139 associations during the 1950's accounted for one-sixth of the nation's increase in associations. Assets of the region's associations rose by 500 percent to $6.7 billion; assets of all of the nation's associations rose 350 percent to $69.3 billion.

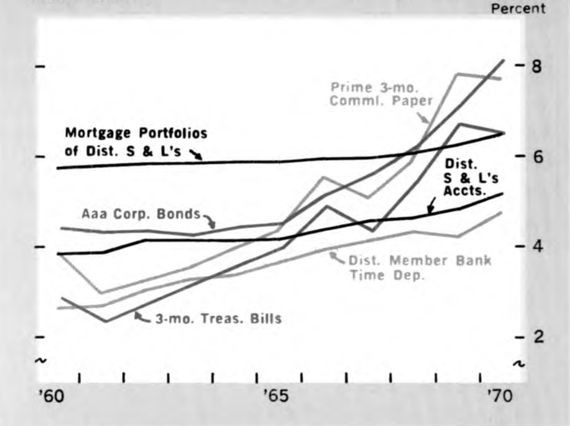
New Problems and Responses: The 1960-1970 Decade

Problems. As the halcyon days of the 1950's were ending, the region's savings and loan associations began to encounter significant changes in their environment. Changes continued to occur throughout the 1960's, and the problems that they caused reached climaxes when interest rates rose rapidly. Some of these changes resulted from rapid growth of savings and loan associations during the 1950's; others resulted from altered financing demands of businesses and governments, evolving structure of housing and mortgage markets, aggressive expansion by banks, greater awareness by savers of savings alternatives, and increased taxation of associations. In many cases, the specialized nature of the associations themselves intensified the problems caused by these changes and impeded associations' responses.

The rapid growth of savings and loan associations in the 1950's reduced their growth potential in the 1960's. The associations were able to grow rapidly in the 1950's because they attracted many savers away from competitors for savings dollars. As this occurred, the pool of savers that could be induced to switch from other savings outlets became smaller, and continued growth of associations became increasingly dependent on additions to savings by existing customers. This type of market penetration in the 1950's would have lowered the growth rate of savings and loan associations in the 1960's even if the forces that attracted savers to associations had remained unchanged.

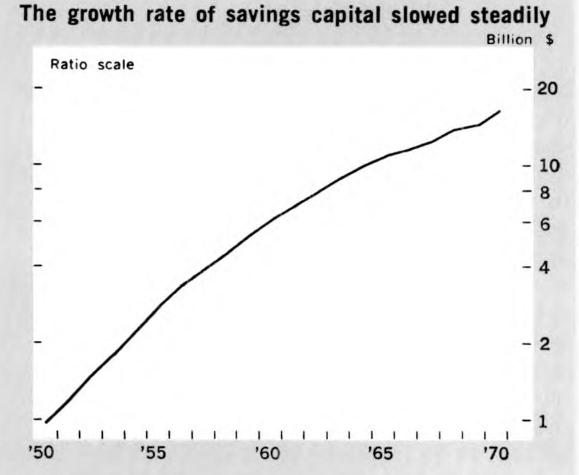
These forces did not remain unchanged, however. As the rate of growth of economic activity rose during the 1960's, business and government financing needs expanded, increasing competition for the savings of the private sector of the economy. At the same time, the growth of demand for housing and housing finance slackened. The combination of expanding nonmortgage financing demands and slack residential mortgage demands raised yields on nonmortgage financial instruments relative to yields on residential mortgages. When this happened, requirements that savings and loan associations specialize in residential mortgages worked to the associations' disadvantage. Returns on the assets of the region's associations fell relative to returns on the assets of other intermediaries—such as commercial banks—and returns on directly purchased securities. Since savings and loan associations depended largely on earnings from mortgages for the returns that they paid to savers, rates paid on associations' savings accounts rose less rapidly than those paid on savings deposits at banks and on their financial assets.

Rates of return for S & L's increased less than other rates



Changes in financing needs within the housing sector accompanied expanding demands for credit outside the housing sector. In other parts of the country, after the Korean War, an increasing proportion of new housing units was in multifamily structures. The 1960's brought this new emphasis on multifamily housing to the Southeast. The proportion of building permits issued in the region for housing units in five-or-more-unit buildings rose in each year from 1960, when it was 16.6 percent, to 1969, when it was 51.7 percent. (It fell slightly in 1970.) Lending on multifamily residences required associations to develop new skills and expertise in assembling, underwriting, and supervising larger and more complex financing packages along with greater knowledge of the market for rental housing.

The growth rate of savings capital slowed steadily



While competition for savings increased and the structure of demand for housing finance changed, new competition from other lenders arose in the financing of both multifamily and single-family housing. The larger financing packages required by multifamily structures and by planned communities drew increasing interest from banks, insurance companies, and (in the last half of the decade) real estate investment trusts. Expanded FHA and VA programs with lower down payment requirements and longer maturities than those normally offered by savings and loan associations drew customers for single-family residences out of the savings and loan associations' market for conventional loans.

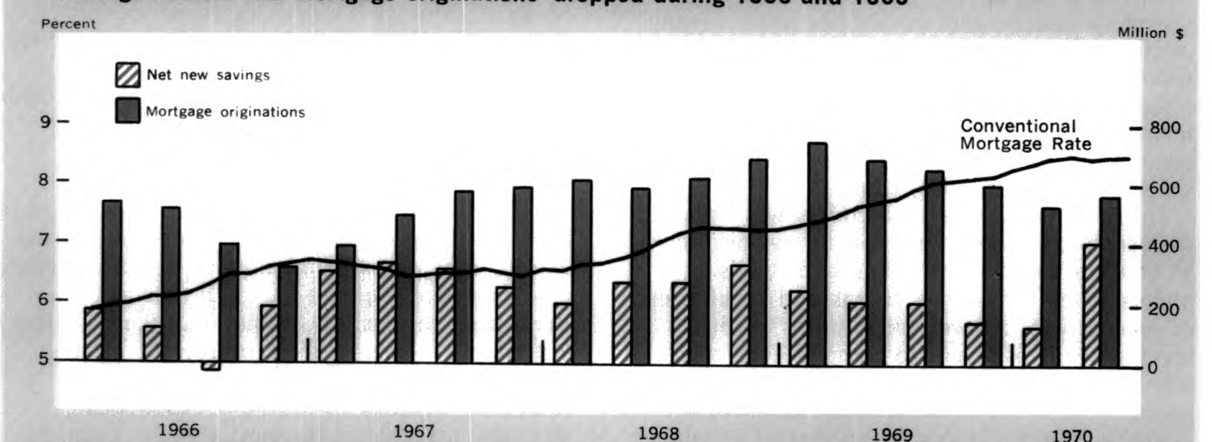
Problems created by these major changes in markets in which savings and loan associations operated were magnified during two periods of rising interest rates in the last half of the Sixties. Changes requiring rapid alterations in operations joined the changes to which associations had been making gradual adjustments.

In 1966 and again in 1969 and early 1970, interest rates were bid up rapidly in intense competition for limited credit. In each period, short-term rates rose more rapidly than long-term rates. Because they depend on long-term assets to provide the earnings necessary to pay for short-term liabilities, both of these phenomena placed savings and loan associations in situations of considerable strain and severely tested their abilities to respond adequately. On the one hand, the associations' long-term assets provided small cash flow from repayments; consequently, it was possible to shift only a small percentage of assets into mortgages with higher rates. On the other hand, most of the liabilities of associations were passbook accounts that were withdrawable on demand. As interest rates rose, the region's associations were under pressure to increase rates of return on nearly all liabilities in order, at best, to bring in new savings that could be lent at higher mortgage rates or, at worst, to avoid savings outflows.

The experience of associations in Alabama in 1966 was typical. Repayments of principal on the mortgages held by these associations were only 11 percent of the principal value of the mortgages. Although interest rates on conventional mortgages on new single-family housing rose from a monthly average of 5.81 percent in 1965 to a monthly average of 6.25 percent in 1966, the associations were able to raise the rate of return earned on their mortgage portfolios only from 6.11 percent to 6.15 percent between 1965 and 1966. During the same period, they raised the rate of return paid on savings capital from 4.25 percent to 4.35 percent even though maxima on rates payable on savings capital were imposed in September of 1966.

The ability of savings and loan associations to raise returns to savers was further limited by their need to pay a portion of their earnings out in Federal income taxes. This need stemmed from revision of tax laws in 1963. The associations' earnings had been made technically subject to the Federal income tax in 1950, but tax regulations had allowed loan loss reserve write-offs of such magnitude that most associations were able to report no taxable income. In the Southeast, savings and loan associations paid no Federal income taxes in 1950 and only $0.2 million, or .06 of one percent of gross earnings in 1960. By 1966, they were paying $12.9 million, or 2 percent of gross earnings in Federal income taxes. In 1969, this total had risen to $26.3 million, or 3 percent of gross earnings. Although the percentage of earnings going to taxes in 1966 and 1969 was small, the effective imposition of Federal income taxes in 1963 marginally reduced the proportion of earnings that associations could pass on to savers. Such

Savings inflows and mortgage originations dropped during 1966 and 1969



Note: Figures are seasonally adjusted and cover the six District states.

a reduction was significant during periods in which competition for savers' dollars was intense.

The performance of the region's savings and loan associations during the two periods of rising rates shows the seriousness of their problems. Net inflows of savings capital slowed dramatically in both periods. In 1966, after five consecutive years in which savings capital increased by $1 billion, the region's associations were able to attract less than $500 million in net new savings. Again in 1969, the associations' net new savings fell, this time from an average of $1.2 billion in 1967 and 1968 to slightly more than $800 million. In both periods, large net savings outflows occurred immediately after quarterly interest crediting.

Lending by associations also declined during these periods. In 1966, the value of mortgages extended by the region's associations fell from an average of $2.1 billion during the preceding three years to $1.8 billion. In 1969 and 1970, the value of mortgages extended averaged $2.7 billion, well above the $2.3 billion average of 1967 and 1968; however, during the last half of 1969 and the first half of 1970, the period when savings outflow problems were worse, the value of mortgages extended was $2.3 billion.

Responses. The reactions of savings and loan associations to the problems that they faced in the 1960's were as varied as the problems. Some responses came from the individual associations; others involved action by the Federal Home Loan Bank System. Still others required cooperation among the associations, the Home Loan Bank System, and other interested parties to press for legislation that aided associations.

The region's associations responded to more intense competition for savings by raising average dividend rates on their accounts from 3.85 percent to 5.17 percent between 1960 and 1970. They also expanded their menu of savings instruments from the passbook account to a selection of savings accounts and certificates with varying minimum balances, rates of return, withdrawal provisions, and maturities. By the end of 1970, a significant proportion (though by no means a majority) of the savings capital of the region's associations was in accounts and certificates other than the passbook account.

Enlarging the variety of accounts was designed to meet increased competition for savings and to ease the associations' adjustment to rising interest rates. Offering accounts and certificates of several types allowed associations to meet specific needs of savers, to compete with a greater number of financial instruments, and to offer greater returns on accounts with long-term maturities. Since the certificates carried penalties for premature withdrawal, their use reduced savers' incentive to withdraw funds as interest rates rose.

Savings and loan associations in the region enlarged the variety of their lending during the decade. In the early years, the construction of a greater proportion of homes in multiunit structures and the rising demand for improvements in existing single-family homes brought an expansion in lending for construction and permanent financing of apartments and for home improvements. In the later years of the decade, these two forces were joined by the desire of associations to increase their cash flow from loan repayments. As this occurred, short-term loans such as construction, home improvement, and personal loans were emphasized.

Increasing the variety of loans that they made allowed associations to respond to shifts in loan demand within the housing sector of the economy and gave some promise of increasing their cash flow. Construction, home improvement, and personal loans are shorter-maturity instruments than permanent mortgages. Their inclusion in asset portfolios increased cash flows from maturing assets, allowing associations to take more advantage of rising interest rates and to limit the squeeze on the margin of interest earnings over dividends that accompanied rising interest rates. These results were offset, however, by extension of the maturity of permanent loans of all sorts, a practice that the region's associations adopted in response both to competition from Government-backed mortgages and to rising prices of housing.

Under pressure to raise dividends on savings capital during most of the decade, savings and loan associations reduced the proportion of their earnings going to nondividend uses and paid a greater proportion of earnings to savings account holders. Between 1960 and 1970, the region's associations took advantage of economies of scale and operating innovations to cut operating expenses from 22 percent of gross earnings to 18 percent of gross earnings. During the same period, associations also reduced the proportion of their gross earnings allocated to reserves and surplus from 18 percent to 10 percent. Slower asset growth allowed this diminution to take place without lowering the ratio of reserves and surplus to assets of the region's associations.

Despite all of these changes, many savings and loan associations in the region required outside aid when competition for limited funds became intense. One important response to their problems came from the Federal Home Loan Banks. These institutions increased their borrowing in the nation's capital markets in order to provide a source of funds to associations experiencing difficulty maintaining savings account balances and making new mortgage loans. The region's associations, while continuing their historical practice of borrowing less than those in the rest of the nation, increased their borrowing during both periods of rising interest rates. In 1966, their debt to the Federal Home Loan Banks rose by $89 million; in 1969 it rose by $310 million.

Another important response to actual and threatened savings outflows was the limited suppression of competition for savings. Competition for savings was the most obvious manifestation of the problem of rising interest rates for savings and loan associations all over the nation. In 1966 and again in 1969 and 1970, savings and loan associations, the Federal Home Loan Bank Board, and others concerned with the solvency of associations and the adequacy of the nation's housing sought to limit competition for savers' funds by banks, the Federal Government, and Federal agencies.

Bank competition for savings, which had become more active since the early 1960's, intensified in late 1965 when bank regulatory agencies allowed banks to raise the interest rates that they paid for time certificates of deposit. Further increases in yields on competing assets helped to induce the bank regulatory agencies in July of 1966 to allow banks to market multiple maturity time deposits (generally known as golden passbook accounts). Savings and loan associations had difficulty responding in the market. Between late 1965 and September 1966, the savings and loan industry sought regulatory rulings and legislation to limit commercial bank rate competition on small denomination time and savings deposits. In September 1966, Congress adopted legislation that allowed bank regulatory agencies to set lower rate ceilings on lower denomination certificates of deposit than on large certificates, gave the FDIC power to set maximum rates payable on time and savings deposits at insured mutual savings banks, and gave the Federal Home Loan Bank Board power to set maximum rates payable on savings accounts at insured associations. Debate in both houses of Congress made it clear that it was the intent of Congress that the bank regulatory agencies and the Bank Board should cooperate in setting maximum rates and that the maxima applicable to savings and loan associations and mutual savings banks should be above those applicable to commercial banks.

Although competition between savings and loan associations and banks was limited primarily to advertising and promotion when interest rates rose again in 1969 and early 1970, savings and loan associations encountered interest rate competition from other quarters. Large financing demands by businesses, governments, and Federal agencies pushed interest rates on short-term financial instruments well above those that savings and loan associations and commercial banks were allowed to pay. Again, interest groups including savings and loan associations and commercial banks sought to limit competition for savings. They pressed the U. S. Treasury and Federal agencies to raise the minimum denomination of Treasury bills and other Treasury and agency obligations, making these instruments unavailable to many savers with smaller accounts. In early 1970, several Federal agencies raised the minimum denomination of their obligations from $1,000 to $10,000. The Treasury followed in February 1970 by raising the minimum denomination of Treasury bills from $1,000 to $10,000.

Results. Because of their responses to changes during the 1960-1970 decade, savings and loan associations in the Southeast offered a larger variety of both loans and savings accounts by the end of 1970. They passed a larger proportion of earnings through to savers and earned and paid higher rates of return. Yet, these associations continued to specialize in short-term liabilities and long-term housing finance.

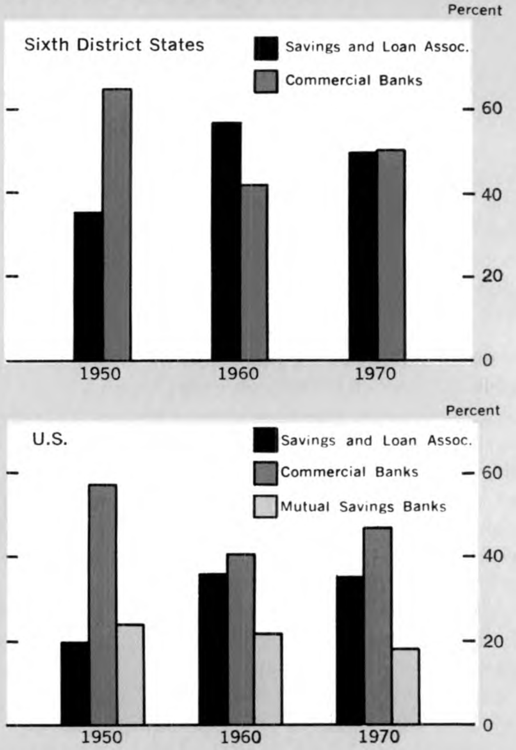
Their growth rate over the 1960-1970 decade hardly matched their growth rate during the preceding decade. The region's associations outstripped those in the rest of the nation in growth. The number of associations in the Southeast increased by 93 during the decade, while the number in the nation as a whole decreased by 93. Assets of the region's associations grew by 173 percent to $18.7 billion. In the nation, assets grew 161 percent. Although these growth rates are quite respectable in each case, they are only about one-third as large as the growth rates of the preceding decade.

In maintaining their share of time and savings deposits at banks and thrift institutions, the region's associations did not do as well as associations in other parts of the nation. Their share of these deposits in the region began the decade at 57 percent, fell to 52 percent by the end of 1966 and to 49 percent by the end of 1970. Over the 1960-1970 period, the share of time and savings deposits held by the nation's savings and loan associations fell only from 36 percent to 35 percent; mutual savings banks' share fell from 22 percent to 17 percent.

Future Changes and Responses

General outlines of some future developments that will influence savings and loan associations during the rest of the 1970's may be projected. The associations' past record gives clues about their response to these changes. The performance of savings and loan associations in the 1960's indicates that they are capable of successfully

S & L's share of total private time and savings deposits fell during the Sixties



Note: Private time and savings deposits include savings capital at savings and loan associations and time deposits of individuals, partnerships, and corporations at commercial and mutual savings banks less large negotiable certificates of deposit at commercial banks. Figures are as of end of year.

adapting to gradual changes but that they have only limited ability to adapt to rapid change, particularly to rapid interest rate increases.

If the 1970's bring increases in planned unit developments, new towns, condominium projects, large multifamily projects, and major urban renovations, as they are expected to do, associations will need to acquire new skills and experience, broaden further the types of financing that they do, and put together larger financing packages. Associations seem capable of continuing to acquire the new skills and experience needed. It is to be anticipated also that their regulators will allow them the additional powers necessary for use of their new skills.

Acquisition of the funds needed for larger and more complex financings is likely to be difficult for many individual associations. Financing needs of individual projects will be large, and development capital not presently provided by associations is likely to be necessary. Larger-sized financing needs will require increasing cooperation among individual savings and loan associations and among associations and other lenders. Methods of cooperation might be as formal and permanent as mergers of associations or the gathering of associations, or associations and other lenders, into holding companies or as informal as *ad hoc* arrangements made specifically for individual projects. Capital for development and construction of large projects might be provided by cooperation between associations and other types of financers, by long-term borrowing or stock issues by associations where stock associations exist, or by further expansion of the long-term advances program of the Federal Home Loan Banks.

Adjustments are also likely to be necessary in associations' lending for single-family housing. Secondary markets for conventional single-family loans are now developing. These markets have been designed to attract more investors to conventional mortgages. If they succeed, which appears likely, mortgage banking firms seem certain to become stronger competitors of associations in originating conventional mortgages on single-family housing. Such competition may limit associations' share of conventional mortgages originated, but it is also likely to shift borrowers from Government-backed to conventional mortgages so that conventional mortgages will finance a greater proportion of single-family housing purchases.

The ability of savings and loan associations to withstand large interest rate increases, should these occur, without encountering the troubles of the 1960's is still restricted by the maturity structure of the associations' assets and liabilities. Associations continue to concentrate heavily on long-term assets and short-term liabilities. Consequently, they continue to be vulnerable to rising interest rates.

Some responses of the 1960's and other projected responses promise to diminish this vulnerability, but other developments foreshadow more competition for savings in times of rising interest rates. An aggressive program of advances by the Federal Home Loan Bank System, widespread use of modified mortgage instruments—such as the variable rate mortgage—that increase earnings or cash flow as other interest rates rise, and further development of secondary markets for conventional home mortgages should help to mitigate cash flow problems. Competitors for savings, however, are likely to find new ways to induce savers to withdraw funds from savings and loan associations. One large business corporation has already seriously studied plans for issuing low-denomination "savings bonds" when funds are difficult to obtain from other instruments. Treasury obligations other than bills are still issued in $1,000 denominations. Mutual funds of fixed income securities are another possible source of competition for savings.

In the Southeast, savings and loan associations have met the problems that confronted other associations in the past and are likely to do so in the future. They, like other associations, have shown ability to adapt to gradual change. There is no obvious reason why this should be different in the future. The region's associations are similar in size to those elsewhere; consequently, problems caused by limited resources and large financing needs on individual projects should be no more difficult for them to solve than for associations elsewhere. During the Sixties, the region's growth rates of income, population, and number of housing units—all three which exceeded national growth rates—were key factors in the ability of the region's associations to grow faster and to withstand rising interest rates with less damage done. In general, these factors are likely to continue to differentiate the region's associations from those in the rest of the nation and to aid their responses to changes. ■

Bank Announcements

MARCH 7, 1972

SOUTHSIDE BANK OF ST. PETERSBURG

St. Petersburg, Florida

Opened for business as a nonmember. Officers: L. W. Baynard, president; L. G. Limroth, executive vice president; and T. L. Stacy, vice president and cashier. Capital, $350,000, surplus and other capital funds, $350,000.

MARCH 18, 1972

CITIZENS & SOUTHERN BANK OF HENRY COUNTY

McDonough, Georgia

Opened for business as a nonmember. Officers: Edward J. Korb, president; and Henry P. Bradford, cashier. Capital, $375,000; surplus and other capital funds, $375,000.

MARCH 20, 1972

NATIONAL BANK OF GRADY COUNTY

Whigham, Georgia

Opened for business. Officers: E. L. Chastain, chairman; Agnew Smith, president; Thomas L. Walker, executive vice president and cashier; J. J. Newberry, vice president; and Hilda L. Gray and Mintene Vickers, assistant cashiers. Capital, $200,000; surplus and other capital funds, $102,117.

MARCH 20, 1972

DORA BANKING AND TRUST COMPANY

Dora, Alabama

Began to remit at par.

MARCH 22, 1972

THE CITIZENS BANK OF PASCO

Zephryhills, Florida

Opened for business as a nonmember. Officers John J. Jenkins, president; and H. E. Johnson, cashier. Capital, $380,000; surplus and other capital funds $380,000.

MARCH 24, 1972

THE ORLANDO NATIONAL BANK—WEST

Orlando, Florida

Opened for business. Officers: C. Howard McNulty, chairman and president; and J. C. Barfield, Jr., executive vice president and cashier. Capital, $500,000; surplus and other capital funds, $300,000.

MARCH 28, 1972

BARNETT BANK OF WEST ORLANDO

Orlando, Florida

Opened for business as a nonmember. Officers: C. Lee Maynard, president; Robert L. Barnett, assistant vice president; and Gary L. McIlhenny, cashier. Capital, $400,000; surplus and other capital funds, $350,000.

MARCH 29, 1972

FIDELITY NATIONAL BANK

Pompano Beach, Florida

Opened for business. Officers: Milton N. Weir, Jr., chairman; John H. Weir, vice chairman; Douglas A. Lowrie, president; Anthony P. Beeler, vice president and cashier; and John R. Walker, vice president. Capital, $850,000; surplus and other capital funds, $425,000.

MARCH 29, 1972

JACKSON STATE BANK

Hollywood, Florida

Opened for business as a nonmember. Officers: David L. Cory, president; and Arthur W. Mangan, cashier. Capital, $400,000; surplus and other capital funds, $200,000.

(Continued on page 87)

One-Bank Holding Companies In the Southeast

by Charles D. Salley

Ninety-one corporate organizations in the Southeast have recently registered under the 1970 Amendments to the Bank Holding Company Act— amendments that are heavily concerned with banking competition. This legislation is relatively new, and, for that matter, so is the idea that banking laws should be concerned with competition. For many years, banks have operated under the purview of the banking legislation of the early 1930's, which was concerned principally with stabilizing the country's banking system.

Stability entailed the prevention of "overbanking," which occurs when there are so many competing banks in an area that some might become weak and fail. Under this legislation, charters were difficult to obtain, and the sound, single bank was the order of the day in many towns. This restriction of competition was effective in reducing the number of bank failures and so became an accepted part of American banking.

During the 1950's, the regulatory pendulum began to swing the other way. Restrictions on entry seemed to make less sense—with a dwindling number of independent banks left by the wave of increasing bank mergers—and seemed less necessary as deposit insurance came into general force. Public concern over the increasing concentration of financial resources grew and resulted in the Bank Holding Company Act of 1956 and the Bank Merger Act of 1960. The Supreme Court carried the concern for competition still further in 1963 when it applied the antitrust laws for the first time to bank mergers in its pivotal Philadelphia National Bank case. The ensuing controversy and the enactment of the 1966 Amendments to the Bank Merger and Holding Company Acts finally accorded competition a primary role in bank regulation.

These two Acts incorporate the assumption that the most satisfactory way to maintain competitive markets in banking is to regulate the structure of banking markets rather than police the behavior of individual banks. The registration of one-bank holding companies required by the 1970 Bank Holding Company Act Amendments is the latest expansion of this structural approach to regulating competition.

Three Measures of Competition

The more competitive an industry, the more likely it is to produce an efficient allocation of resources and a steady stream of innovation—all at lower than monopoly prices. The presence of many firms in the market forces the cost savings resulting from innovation to be passed on to consumers.

One can measure competition from three angles: competitive performance, competitive conduct, and competitive structure. The performance measure of competition looks directly to performance variables such as profits, efficiency, and technological progress. If these are at socially desirable levels, the competition is deemed "workable."

The conduct measure is one step removed. It looks at a firm's performance as determined indirectly by the firm's conduct. If a firm's conduct in its pricing and output decisions is anticompetitive, i.e., if it fixes prices or agrees to limit production, we presume that the results on the firm's performance will be anticompetitive. That is, we can expect excess profits and reduced efficiency.

The structure measure is still another step removed. It asserts a line of causation running first from structure, then to conduct, and then to performance. An industry that does not have a competitive structure probably will not exhibit competitive behavior. For instance, an industry with few firms and with barriers that prevent new firms from entering the market could lead to anticompetitive conduct such as price fixing, which, in turn, could lead to artificially-inflated profits.

Problems of Enforcement

Which measure of competition—performance, conduct, or structure—is used determines the means of enforcement. If the enforcement agency judges the level of competition directly by the performance variables, these are the variables it will usually regulate. Regulating an industry in this way, though, appears to alter the enforcement policy from one of preserving competition to one of regulating monopoly. Indeed, this is the approach generally taken with public utilities.

One of the drawbacks to the performance approach is that it creates many evidence problems. Low profits, for example, generally indicate a high degree of competition. And yet, low profits might just as well conceal an inefficient monopoly, while high returns might reflect the presence of firms that are new and successful competitors in several markets.

On the other hand, if the regulatory agency judges the level of competition by a firm's price and output decisions, i.e., by its conduct, injunction will be the normal means of enforcement. The antitrust laws readily identify and enjoin anticompetitive conduct, such as predatory price cutting to drive competing firms from the market. Some types of conduct, though, such as tie-in agreements and contracts between suppliers and dealers, destroy competition only when certain companies engage in them in specific market settings. This selectivity requires the regulators to look at conduct in individual markets and requires them to use a case-by-case analysis. Furthermore, there is no guarantee that the injunction will have the desired effect on performance. An enterprising firm can often devise other ways to obtain its objectives.

Finally, if the regulatory agency takes structure as the measure of competition, the common vehicles of enforcement are divestiture, merger regulation, and the encouragement of new firms entering the market. The idea is to prevent the concentration of market power in the hands of a few firms. Market power is necessary in order to engage in anticompetitive conduct. If there is no such power in the first place, there can be no question of firms exercising it with the intent to hinder competition. The structure approach has the further advantage of being adapted more readily to guidelines and, therefore, requires a minimum of administrative resources.

Structural Regulation of Holding Companies

The Bank Holding Company Act incorporates the structure approach for preserving competition. It does so partly because of the administrative advantages of structural regulations. Moreover, it takes the structure approach because the conduct approach cannot deal with the "voluntary" tie-in behavior to which the holding company type of organization readily lends itself.

The possibility of tie-in agreements is a principal reason why the Act provides for the separation of banks and nonbanking enterprises. The Act intends that this separation prevent preferential treatment and tie-in arrangements that would jeopardize the bank's solvency or result in a competitive advantage for the nonbanking subsidiary. For example, without such a restriction, granting a bank loan might depend on whether the customer purchases the holding company's insurance and data processing services.

Although the conduct approach can control an explicit tie-in, it can do nothing about a situation where a customer voluntarily utilizes the holding company's nonbanking services with the hope of receiving favored treatment in obtaining a loan. For example, if a holding company were permitted to own a building supply subsidiary, the construction loan customer is likely to feel that being granted a loan might depend on whether he purchased materials from the subsidiary, and he would do so of his own accord.

One-Bank Holding Companies

Thus, in a structural manner, the Bank Holding Company Act of 1956 was aimed at preventing those voluntary restrictions on competition too difficult to stop in other ways. The Act did, though, exempt holding companies controlling only one bank, primarily to avoid the burden of regulating small, family-owned banks that did not appear to go against the legislation. By 1969, however, the number of organizations enjoying this exemption had mushroomed to 1,116 and controlled 32 percent of U.S. bank deposits.

These one-bank companies are of three major types. The most salient, because of its conduciveness to voluntary tie-ins, is the financial congeneric. This is a company whose major subsidiary is a large bank. The other subsidiaries, which have considerably smaller assets than the bank, engage in financial and administrative services such as real estate and mortgage brokerage, factoring, data processing, leasing, and property management.

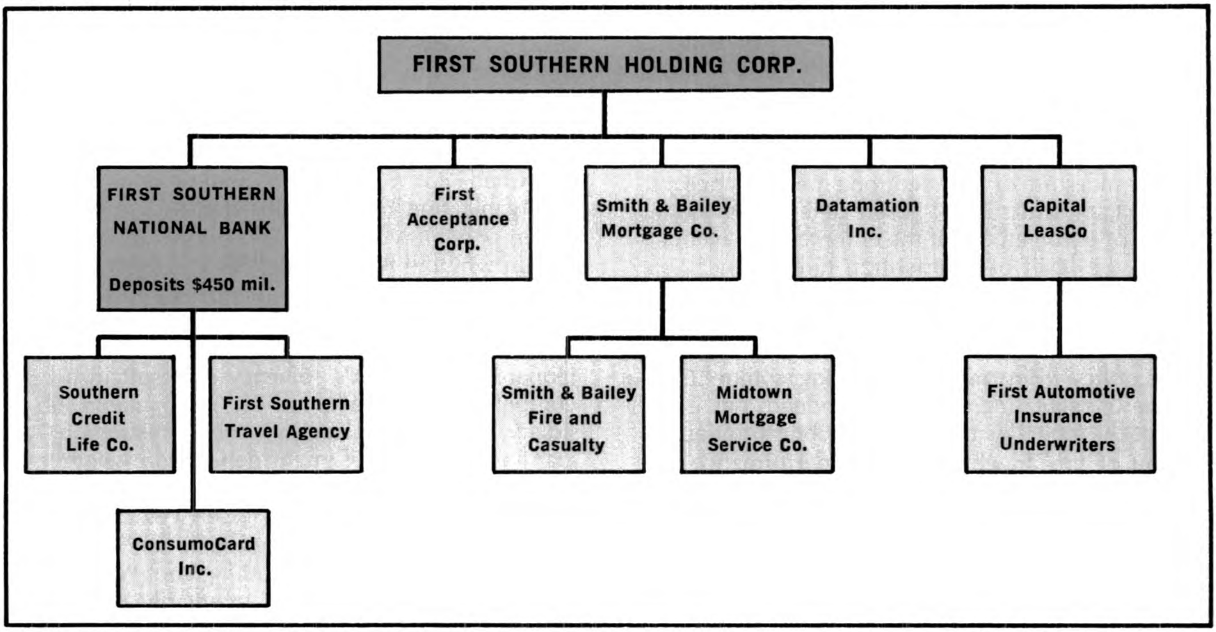
A second type of one-bank holding company takes the form of an industrial conglomerate. The company, in an effort to diversify its holdings, generally engages in some form of manufacturing or shipping as a major activity and operates a variety of unrelated minor subsidiaries. Among these subsidiaries is a bank, which may be either an investment proposition for the company, or a retail banking facility intended only to provide a banking convenience for company employees. Since the conglomerate's customers are generally in widely separated geographic and product markets, voluntary tie-ins with the banking activity are somewhat less likely to occur.

The third type of company is purely a banking operation. There may be a minor subsidiary that provides property management, insurance, or data processing services to the bank. Often, though, the holding company has no operational significance. It merely serves as a convenient legal form of ownership.

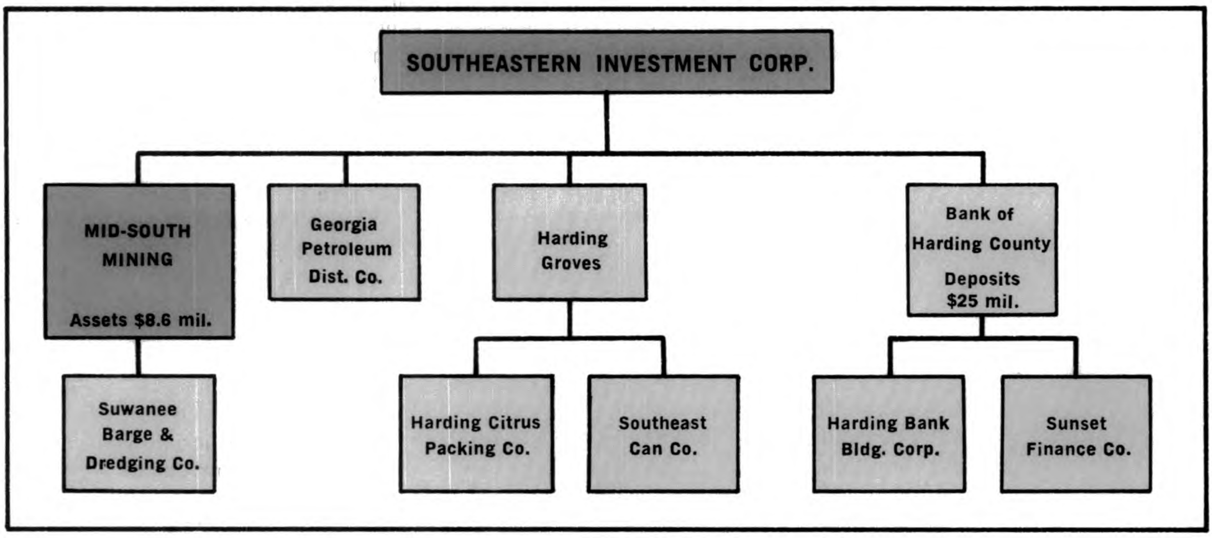
Public concern for the sharp increase in the number of these one-bank holding companies exempted from the Bank Holding Company Act prompted the passage of the Amendments of 1970. The Amendments bring *all* one-bank holding companies under the Act's jurisdiction and structurally restrict their activities to areas so closely related to banking that there will be fewer opportunities for voluntary tie-ins and the accompanying anticompetitive effects.

The new law required all one-bank holding companies to file a registration statement by September 1971. For the first time, we are now in a position to know the actual extent of one-bank holding company activity.

Hypothetical One-Bank **Congeneric**



Hypothetical One-Bank **Conglomerate**



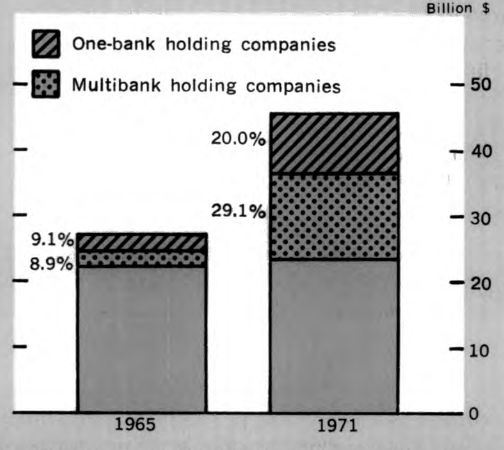
Holding Companies in the Southeast

One-bank holding companies in mid-1971 controlled 20 percent of total bank deposits in the six-state Southeastern area. This was in addition to the 29 percent already controlled by registered multibank holding companies. About one-third of the 91 newly registered companies engage solely in banking activities (Table 1). But these account for a much smaller fraction of the deposits in the newly registered category.

Fully another one-third are of the conglomerate type and engage in activities ranging from ranching and land development to dock operation and railcar leasing. Most of these are not large, however. Only four conglomerates hold nonbanking assets in excess of $40 million. The average is closer to $3 million invested in nonbanking activities, with a banking affiliate in the $25-million deposit range. So, again, the amount of bank deposits controlled by this type of organization does not make the conglomerate the major form of control of banking resources.

The remaining one-third of the new registrants are congeneric-type holding companies. The 30 banks in the congeneric class account for almost 82 percent of the deposits controlled by all one-bank organizations. Seventeen of these control large banks, each holding more than $60 million in deposits, and thus make this type of holding company the most significant category in terms of deposit control. In addition, the majority of these large congenerics were incorporated in the late 1960's and help account for the impetus to close the one-bank loophole in the Bank Holding Company Act.

Control of Total Bank Deposits



Note: Figures cover all banks in entire six-state area.

Extent of Bank-Related Activities

Taking a closer look at the financial congeneric organizations, it is now possible to identify the more common areas of activity pursued by the nonbanking subsidiaries of these larger banking concerns. The most frequent areas seem natural extensions of the principal banking activity and are bank-related. These are property management of the building that houses the banking premises, data processing and payroll services, business and tax consulting, mortgage banking ,and lending through finance and acceptance companies. These are all activities that the Board of Governors

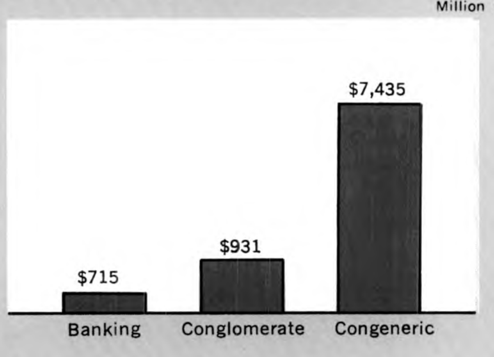
TABLE 1

Number of One-Bank Holding Company Organizations by Type and Bank Deposit Size

(June 1971)

Company Location	Congeneric		Conglomerate		Banking	
	$60 million or more	Under $60 million	$60 million or more	Under $60 million	$60 million or more	Under $60 million
Alabama	2	2		3		6
Florida		4	1	11	2	7
Georgia	3	3		8		5
Louisiana	5	2	2	3	2	2
Mississippi	2			1		1
Tennessee	4	1				4
Outside the Sixth District	1	1	1	2		
Total	17	13	4	28	4	25

One-Bank Holding Companies (June 1971)



has ruled as closely and properly related to banking, and thus are permissible activities for bank holding companies.[1] A few one-bank companies operate in other permissible areas, such as insurance agency activities, factoring, and investing in small business and community development projects.

Leasing is an area where many companies are active, but it has not yet been fully determined as closely related to banking. Certain types of personal property leasing are permissible, and several companies are active in capital equipment, business machine, and automobile leasing. The Board of Governors has not yet ruled on the propriety of real property leasing—a type of leasing engaged in frequently by a number of Sixth District congenerics.

Conclusion

As we have seen, the concentration of banking resources and the mixing of banking and commerce can place lenders in a position to restrain competition through reciprocal agreements and tie-in contracts. Furthermore, the regulatory tradition of the 1930's concerned with banking stability has encouraged a banking structure with many markets that have few banking alternatives. The possibilities of tie-ins are thus too numerous to prevent by a policy of regulating the behavior of individual banks. The line between prudent business behavior and economic coercion cannot easily be distinguished from afar with aggregate statistics. The Bank Holding Company Act was designed, instead, to prevent the development of a banking structure conducive to coercive conduct in the first place.

It appears that the considerable percentage of bank deposits exempted from the Bank Holding Company Act—20 percent in the Sixth District—supports the decision to close the one-bank loophole. In addition, the comparatively recent incorporation of the majority of this control testifies to the timeliness of the 1970 Amendments.

On the other hand, the actual registration of these companies has not revealed so extensive an intertwining of banking and commerce as many observers had anticipated. The nonbanking activities of conglomerate one-bank holding companies are extensive in terms of the variety of these activities. But in terms of the deposit size of

[1]The nature of these rulings has been discussed in an earlier article, "What is 'Closely Related to Banking'?", this **Review,** June 1971.

Table 2

Bank-Related Activities Permissible for Bank Holding Companies

—Rulings by the Board of Governors as of May 1972

1. Making loans and operating finance and factoring companies
2. Operating industrial savings banks
3. Servicing loans and mortgages
4. Acting as fiduciary
5. Investment and financial advisory services
6. Leasing of personal property and equipment
7. Financing community development corporations
8. Bookkeeping, billing, payroll, and data processing services
9. Insurance agency and brokerage services
10. Acting as insurer for holding company's own subsidiaries

Activities Under Consideration by the Board

1. Investment counseling for investment companies
2. Property management and mineral rights leasing
3. Armored car services
4. Insurance underwriting
5. Leasing of real property

the banks involved and the asset size of the nonbanking subsidiaries, these conglomerate activities are relatively small-scale. Moreover, the activities of the majority of large congenerics already fall well within the bank-related bounds stipulated by the new Amendments.

As to the future course, it is probable that the larger congenerics will become multibank organizations where permitted by state law. Several, in fact, have already acquired additional banks since the registration. The probable action of the conglomerates is not so clear. The Amendments still provide an exemption for the smaller convenience banks of conglomerates, and these will likely continue to operate as subsidiaries. A number of companies, however, still might have to divest either their banking or their nonbanking interests by 1980.

In summary, the disclosure of the full structure of bank holding companies reveals that the Amendments of 1970 have turned out to be, at least in the Southeast, largely a piece of preventative legislation. Such a measure in the hands of the Federal Reserve System should go a long way toward preserving a competitive market structure that can secure the full public benefits of an innovative banking system. ■

Bank Announcements

(Continued from page 81)

MARCH 29, 1972

WESTSIDE ATLANTIC BANK OF ORLANDO

Orlando, Florida

Opened for business as a nonmember. Officers: E. G. Simmons, president, Jim W. Matthews, vice president; and David J. Wilson, cashier. Capital $360,000; surplus and other capital funds, $144,000.

APRIL 3, 1972

MERCHANTS AND FARMERS BANK

Millport, Alabama

Began to remit at par.

APRIL 7, 1972

CENTURY NATIONAL BANK

New Orleans, Louisiana

Opened for business. Officers: Joseph M. Connolly, chairman; Ralph J. Giardina, president; George Allen, vice president and cashier; Adrien Dupuis, vice president; and Nick Bonura, Clarence Braunea, Mrs. Leona Clade, and John Seghers, assistant vice presidents. Capital, $1,000,000; surplus and other capital funds, $1,000,000.

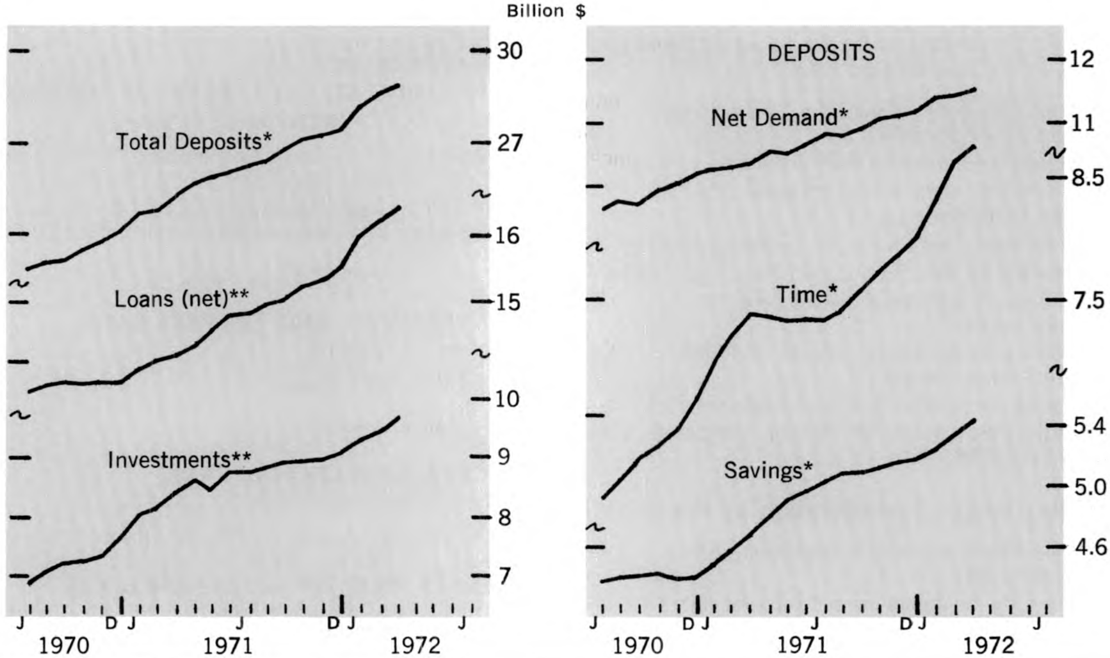
APRIL 19, 1972

BANK OF HOLLYWOOD BEACH

Hollywood Beach, Florida

Opened for business as a nonmember. Officers: Harold E. Shaw, president; Carol R. Owen, executive vice president; and William A. Kern, cashier. Capital $900,000; surplus and other capital funds, $315,000.

BANKING STATISTICS



LATEST MONTH PLOTTED: MARCH

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

SIXTH DISTRICT MEMBER BANK CONSUMER LOANS

% Change December 1970 to December 1971

	Total Instalment Loans	Single Payment Loans
DISTRICT	+ 16	+ 18
ALABAMA	+ 19	+ 26
Anniston-Gadsden	+ 14	– 0
Birmingham	+ 20	+ 53
Dothan	+ 23	+ 31
Mobile	+ 19	– 7
Montgomery	+ 15	+ 10
FLORIDA	+ 14	+ 24
Jacksonville	+ 7	+ 24
Miami	+ 15	+ 31
Orlando	+ 20	+ 21
Pensacola	+ 1	– 11
Tampa-St. Petersburg	+ 18	+ 16
MISSISSIPPI*	+ 21	+ 1
Jackson	+ 14	– 2
Hattiesburg-Laurel-Meridian	+ 42	+ 16
Natchez	+ 20	– 5
GEORGIA	+ 14	+ 22
Atlanta	+ 20	+ 29
Augusta	– 1	+ 27
Columbus	+ 12	+ 16
Macon	+ 7	+ 0
Savannah	+ 9	+ 12
South Georgia	— 0	+ 22
LOUISIANA*	+ 17	+ 2
Alexandria-Lake Charles	+ 38	+ 16
Baton Rouge	+ 15	+ 6
Lafayette-Iberia-Houma	+ 27	+ 2
New Orleans	+ 10	+ 1
TENNESSEE*	+ 14	+ 21
Chattanooga	+ 17	+ 22
Knoxville	+ 19	+ 18
Nashville	+ 12	+ 21
Tri-Cities	+ 21	+ 8

Note: Figures shown are for trade and banking areas, which include several counties surrounding central cities. Boundaries of some areas do not coincide with state lines.

*Trade and banking areas in the Sixth District portion of state.

DISTRICT BANKS: CONSUMER LOANS CONTINUE TO GROW

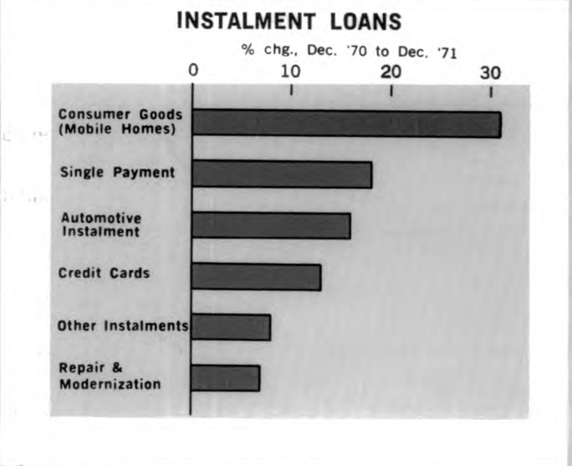
Consumers in the Southeast are continuing to make heavy use of bank credit. In fact, through the first half of April, total consumer loans—instalment loans and single payment loans—grew at an even faster rate than in 1971, a year of all-time record dollar increases. Total consumer loans increased at an annual rate of 23 percent during the first quarter of 1972, while the annual rate for 1971 was 16 percent.

Reports through March from a representative group of District banks, including nonmember insured banks, indicate that all categories of consumer instalment loans have made strong gains throughout the District. Personal instalment loans (unsecured signature loans) and repair and modernization loans registered the strongest gains, each increasing at an annual rate of 10 percent. Automobile loans continued to show large gains, increasing slightly faster than during comparable months of a year ago. The 1972 pace in bank auto financing, however, is below that achieved during the second half of 1971.

Data for 1971 show that consumer loans increased sharply at both large and small member banks. In fact, this total dollar growth was the largest gain ever achieved in the District. Consumer loans at member banks increased by over $800 million, an amount three times as great as the 1970 increase. Instalment loans increased by over $500 million, accounting for over half of the increase in consumer loans. Although single payment loans advanced by a smaller amount, they did achieve roughly the same percentage growth.

Instalment loan growth, largely because of tremendous increases in automobile loans between August and October, registered much stronger gains in the second half of 1971 than during the first half. Automobile loan gains ($221 million) accounted for nearly half of the increases in total instalment lending. Instalment loans for retail consumer goods, particularly mobile home loans, also accounted for a large portion ($198 million) of consumer instalment lending increases.

The amount of instalment debt per District consumer at insured commercial banks in the District also went up, rising from $216 in mid-1970 to $240 in mid-1971. Nationally, it increased from $225 to $250 during the same period. Within the region, Tennessee ranked highest, with $280 per individual, and Louisiana the lowest, $186. In each state, 1971 figures were greater than those for 1970.



Note: Figures cover all District member banks.

The ability of consumers to support additional debt also increased. A preliminary estimation of per capita income, based on the first three quarters of 1971, shows that 1971 per capita income for the District will be slightly more than $3,400, a rise of $200 over 1970 figures. Per capita savings (based on midyear figures) at insured commercial banks also climbed during 1971 to $353, an increase of $44 from 1970 figures.

The interaction of improved economic conditions and the President's New Economic Program (NEP) played an important role in shaping consumer willingness to assume additional debt during the latter part of 1971. The proposed elimination of the auto excise tax and the temporary price freeze, which consumers anticipated would be removed during Phase II, made automobiles an attractive buy. Moreover, District banks were receptive to consumer requests for loans, since business loan demand was not sufficiently strong enough to absorb the very large time and savings deposit gains of 1971. Many banks also encouraged consumer loans by lowering interest charges.

If recent surveys are correct in concluding that consumers have recently become freer in their spending habits, one can expect consumers to continue to expand their use of bank credit. However, an outburst in consumer credit seems unlikely without a stimulating force of the magnitude that Phase I had on auto sales last fall.

JOSEPH E. ROSSMAN, JR.

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

	Latest Month 1972		One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Manufacturing Payrolls	March	146	145r	143r	134
Farm Cash Receipts	Feb.	144	142	126	130
Crops	Feb.	160	175	142	143
Livestock	Feb.	149	132	132	130
Instalment Credit at Banks* (Mil. $)					
New Loans	March	434	425	388	369
Repayments	March	377	363	351	337
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment	March	116	115	115r	112
Manufacturing	March	108	107	107	108
Nondurable Goods	March	108	108	108	106
Food	March	105	104	103r	103
Textiles	March	104	103	104r	103
Apparel	March	106	106	106r	103
Paper	March	109	109	109r	110
Printing and Publishing	March	114	114	114r	112
Chemicals	March	103	104	105r	104
Durable Goods	March	107	106	106r	104
Lbr., Wood Prods., Furn. & Fix.	March	101	102	102r	97
Stone, Clay, and Glass	March	112	112	111r	107
Primary Metals	March	105	104	105	103
Fabricated Metals	March	116	116	115r	111
Machinery	March	165	163	163r	159
Transportation Equipment	March	104	103	103r	105
Nonmanufacturing	March	119	118	118r	115
Construction	March	113	114	116r	113
Transportation	March	115	116	115	111
Trade	March	118	118	118r	114
Fin., ins., and real est.	March	124	123	123r	119
Services	March	123	123	123r	118
Federal Government	March	101	101	101r	100
State and Local Government	March	124	124	123r	119
Farm Employment	March	93	91	94	92
Unemployment Rate (Percent of Work Force)	March	4.4	4.3	4.3	4.8
Insured Unemployment (Percent of Cov. Emp.)	March	2.4	2.5	2.5	2.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	March	41.0	40.9	41.2	40.4
Construction Contracts*	March	193	211	172	212
Residential	March	222	273	209	159
All Other	March	165	150	137	263
Electric Power Production**	Dec.	168	169	168	165
Cotton Consumption**	Feb.	88	88	90	94
Petrol. Prod. in Coastal La. and Miss.**	April	119	118	119	129
Manufacturing Production	Jan.	258	258	258	248
Nondurable Goods	Jan.	224	222	222	213
Food	Jan.	178	177	176	171
Textiles	Jan.	263	257	257	240
Apparel	Jan.	272	267	269	268
Paper	Jan.	206	204	205	200
Printing and Publishing	Jan.	161	161	161	167
Chemicals	Jan.	291	282	267	263
Durable Goods	Jan.	299	300	302	289
Lumber and Wood	Jan.	188	189	193	167
Furniture and Fixtures	Jan.	182	181	181	181
Stone, Clay, and Glass	Jan.	179	174	174	171
Primary Metals	Jan.	200	198	195	209
Fabricated Metals	Jan.	252	251	250	246
Nonelectrical Machinery	Jan.	386	384	401	373
Electrical Machinery	Jan.	627	635	635	621
Transportation Equipment	Jan.	388	392	398	355
FINANCE AND BANKING					
Loans*					
All Member Banks	March	175	170	171	151
Large Banks	March	161	154	157	140
Deposits*					
All Member Banks	March	160	159	156	143
Large Banks	March	143	143	141	132
Bank Debits*/**	March	183	178	174	159
ALABAMA					
INCOME					
Manufacturing Payrolls	March	146	144	143	135
Farm Cash Receipts	Feb.	185	182	135	155
EMPLOYMENT					
Nonfarm Employment	March	108	108	108	106
Manufacturing	March	107	107	107	107
Nonmanufacturing	March	109	108	108	106
Construction	March	96	97r	100	98
Farm Employment	March	89	88	85	84

	Latest Month 1972		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)	March	5.0	5.0	5.3	5.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	March	41.1	40.8r	40.9	40.2
FINANCE AND BANKING					
Member Bank Loans	March	168	167	166	144
Member Bank Deposits	March	154	151	151	136
Bank Debits**	March	167	168	169	139
FLORIDA					
INCOME					
Manufacturing Payrolls	March	149	143	140r	138
Farm Cash Receipts	Feb.	141	134	151	116
EMPLOYMENT					
Nonfarm Employment	March	125	124	124r	121
Manufacturing	March	109	110	109	108
Nonmanufacturing	March	128	127	127r	128
Construction	March	134	132	130r	134
Farm Employment	March	102	90	98	90
Unemployment Rate (Percent of Work Force)	March	4.0	3.9	3.9	4.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	March	41.0	41.1	41.3r	40.7
FINANCE AND BANKING					
Member Bank Loans	March	191	190	188	165
Member Bank Deposits	March	179	181	175	160
Bank Debits**	March	210	207	194	176
GEORGIA					
INCOME					
Manufacturing Payrolls	March	145	143	145	133
Farm Cash Receipts	Feb.	138	129	136	133
EMPLOYMENT					
Nonfarm Employment	March	115	115	115	113
Manufacturing	March	105	104	105	104
Nonmanufacturing	March	120	120	120	117
Construction	March	111	109	115	106
Farm Employment	March	92	91	93	91
Unemployment Rate (Percent of Work Force)	March	3.7	3.7	3.7	3.4
Avg. Weekly Hrs. in Mfg. (Hrs.)	March	41.1	40.3r	41.3	40.4
FINANCE AND BANKING					
Member Bank Loans	March	169	163	164	141
Member Bank Deposits	March	143	141	141	129
Bank Debits**	March	190	179	182	165
LOUISIANA					
INCOME					
Manufacturing Payrolls	March	135	133r	132	125
Farm Cash Receipts	Feb.	138	119	109	124
EMPLOYMENT					
Nonfarm Employment	March	109	109	109	105
Manufacturing	March	102	102	102r	100
Nonmanufacturing	March	111	111r	110	106
Construction	March	94	95r	97	87
Farm Employment	March	83	83	85	82
Unemployment Rate (Percent of Work Force)	March	6.5	6.1	6.0	6.5
Avg. Weekly Hrs. in Mfg. (Hrs.)	March	42.2	42.4	42.2	41.5
FINANCE AND BANKING					
Member Bank Loans*	March	152	149	152	139
Member Bank Deposits*	March	149	150	147	135
Bank Debits*/**	March	151	143	141	142
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	March	160	163	158	139
Farm Cash Receipts	Feb.	179	208	135	170
EMPLOYMENT					
Nonfarm Employment	March	114	114	114	110
Manufacturing	March	119	117	116	111
Nonmanufacturing	March	112	112	113	109
Construction	March	96	98	105	100
Farm Employment	March	96	92	98	107

	Latest Month 1972		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate					
(Percent of Work Force)	March	4.0	3.8	3.8	5.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	March	40.5	40.8r	40.8	40.3
FINANCE AND BANKING					
Member Bank Loans*	March	184	170	175	159
Member Bank Deposits*	March	158	156	152	142
Bank Debits*/**	March	171	177	166	158
TENNESSEE					
INCOME					
Manufacturing Payrolls	March	147	150	143r	133
Farm Cash Receipts	Feb.	137	133	109	128

	Latest Month 1972		One Month Ago	Two Months Ago	One Year Ago
EMPLOYMENT					
Nonfarm Employment	March	115	114	114	109
Manufacturing	March	108	107	107r	105
Nonmanufacturing	March	119	118	118r	112
Construction	March	125	131	136r	132
Farm Employment	March	89	92	94	90
Unemployment Rate					
(Percent of Work Force)	March	3.6	3.7	3.7r	4.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	March	40.6	40.7	41.0r	40.1
FINANCE AND BANKING					
Member Bank Loans*	March	173	162	168	152
Member Bank Deposits*	March	155	153	147	138
Bank Debits*/**	March	161	158	154	149

*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 bank debits, construction contracts, cotton consumption, employment, farm cash receipts, loans, deposits, petroleum production, and payrolls: 1967=100. All other indexes: 1957-59=100.

Nonfarm employment data for all District states have been adjusted to new bench marks.

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

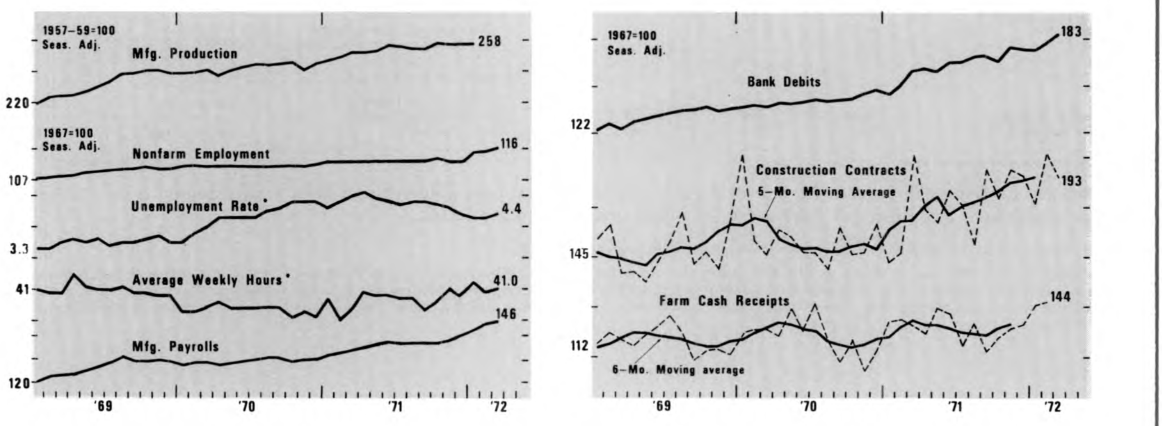
(In Thousands of Dollars)

	Mar. 1972	Feb. 1972	Mar. 1971	Percent Change: Mar. 1972 From Feb. 1972	Mar. 1972 From Mar. 1971	Year to date 3 mos. 1972 from 1971
STANDARD METROPOLITAN STATISTICAL AREAS						
Birmingham	2,802,253	2,669,711	2,251,786	+ 5	+25	+ 35
Gadsden	75,696	72,655	77,350	+ 4	− 2	+ 3
Huntsville	264,665	235,483	250,460	+12	+ 6	+ 10
Mobile	916,748	762,241	720,385	+20	+27	+ 24
Montgomery	482,690	449,549	461,718	+ 7	+ 5	+ 14
Tuscaloosa	¹57,118	137,039	147,194	+15	+ 7	+ 9
Ft. Lauderdale—Hollywood	1,650,350	1,528,836	1,422,381	+ 8	+16	+ 24
Jacksonville	2,969,637	2,722,849	2,320,477	+ 9	+28	+ 31
Miami	5,332,246	4,799,464	4,927,575	+11	+ 8	+ 18
Orlando	1,275,211	1,083,271	974,813	+18	+31	+ 28
Pensacola	393,172	348,994	340,224	+13	+16	+ 17
Tallahassee	621,649	533,281	278,122	+17	+124	+124
Tampa—St. Pete.	3,321,989	2,910,496	2,641,738	+14	+26	+ 23
W. Palm Beach	909,426	837,589	827,834	+ 9	+10	+ 13
Albany	158,226	139,753	139,130	+13	+14	+ 16
Atlanta	10,715,874	9,046,327	9,119,636	+18	+18	+ 18
Augusta	413,566	402,999	353,509	+ 3	+17	+ 17
Columbus	368,139	343,635	335,467	+ 7	+10	+ 17
Macon	422,265	390,611	378,339	+ 8	+12	+ 16
Savannah	438,655	395,673	400,967	+11	+ 9	+ 12
Alexandria	214,714	173,631	181,922	+24	+18	+ 19
Baton Rouge	1,023,424	947,905	1,010,958	+ 8	+ 1	+ 14
Lafayette	216,997	191,654	192,213	+13	+13	+ 15
Lake Charles	213,334	188,514	190,527	+13	+12	+ 12
New Orleans	3,447,343	2,944,718	3,311,548r	+17	+ 4	+ 5
Biloxi—Gulfport	193,250	191,928	181,997	+ 1	+ 6	+ 17
Jackson	1,012,512	1,098,629	1,013,476	− 8	− 0	+ 13
Chattanooga	1,088,418	944,962	1,016,936	+15	+ 7	+ 8
Knoxville	781,253	638,182	689,276	+22	+13	+ 12
Nashville	2,599,000	2,325,610	2,377,620	+12	+ 9	+ 20
OTHER CENTERS						
Anniston	94,333	88,044	83,407	+ 7	+13	+ 13
Dothan	125,503	118,341	108,269	+ 6	+16	+ 19
Selma	59,808	53,331	53,218	+12	+12	+ 14
Bartow	42,722	41,061	40,515	+ 4	+ 5	+ 11
Bradenton	146,184	132,144	118,838	+11	+23	+ 20
Brevard County	251,754	249,280	227,269	+ 1	+11	+ 11
Daytona Beach	145,014	121,886	113,149	+19	+28	+ 26
Ft. Myers—N. Ft. Myers	202,637	165,852	173,197	+22	+17	+ 15

	Mar. 1972	Feb. 1972	Mar. 1971	Percent Change: Mar. 1972 From Feb. 1972	Mar. 1972 From Mar. 1971	Year to date 3 mos. 1972 from 1971
Gainesville	180,352	153,665	148,146	+17	+22	+ 21
Lakeland	249,715	222,063	210,345	+12	+19	+ 22
Monroe County	66,052	62,673r	52,542	+ 5	+26	+ 24
Ocala	141,498	129,999	117,432	+ 9	+20	+ 29
St. Augustine	30,831	26,536	26,843	+16	+15	+ 20
St. Petersburg	793,558	671,548	672,181	+18	+18	+ 23
Sarasota	253,853	231,543	217,115	+10	+17	+ 26
Tampa	1,606,257	1,405,103	1,331,616	+14	+21	+ 15
Winter Haven	134,149	119,757	111,870	+12	+20	+ 22
Athens	137,813	121,137	172,067	+14	−20	− 11
Burnswick	76,009	70,720	69,049	+ 7	+10	+ 22
Dalton	154,968	137,195	134,182	+13	+15	+ 17
Elberton	18,781	15,920	16,766	+18	+12	+ 9
Gainesville	95,632	95,573	95,573	+ 0	+ 0	+ 4
Griffin	51,373	48,680	52,581	+ 6	− 2	+ 4
LaGrange	31,987	29,004	27,738	+10	+15	+ 20
Newnan	44,761	37,019	31,999	+20	+40	+ 38
Rome	116,629	103,715	104,543	+12	+12	+ 18
Valdosta	87,548	76,149	74,502	+16	+18	+ 22
Abbeville	14,164	14,926	14,895	− 5	− 5	+ 6
Bunkie	9,189	7,380	8,399	+25	+ 9	+ 5
Hammond	56,046	50,581	54,149	+11	+ 4	+ 10
New Iberia	49,294	44,761	47,707	+10	+ 3	+ 5
Plaquemine	14,954	13,924	13,381	+ 7	+12	+ 6
Thibodaux	32,033	30,110	31,966	+ 6	+ 0	+ 7
Hattiesburg	102,484	96,242	102,205	+ 6	+ 0	+ 12
Laurel	60,989	65,668	59,868	− 7	+ 2	+ 12
Meridian	96,976	89,620	88,780	+ 8	+ 9	+ 16
Natchez	47,873	47,633	43,709	+ 1	+10	+ 15
Pascagoula—Moss Point	121,595	119,377	101,621	+ 2	+20	+ 24
Vicksburg	59,357	52,243	55,898	+14	+ 6	− 0
Yazoo City	39,232	32,803	34,076	+20	+15	+ 12
Bristol	126,950	105,731	115,236	+20	+10	+ 13
Johnson City	153,359	125,481	111,819	+22	+37	+ 24
Kingsport	254,531	185,105	237,286	+38	+ 7	+ 12
District Total	58,384,204	51,640,711r	50,701,894r	+13	+15	+ 18
Alabama‡	6,667,725	6,151,908	5,592,839	+ 8	+19	+ 25
Florida‡	20,620,512	18,405,566r	17,336,047	+12	+19	+ 22
Georgia‡	15,632,573	13,423,170	13,373,587	+16	+17	+ 17
Louisiana†*	6,145,531	5,376,027	5,848,416r	+14	+ 5	+ 8
Mississippi†*	2,420,684	2,347,463	2,240,752	+ 3	+ 8	+ 15
Tennessee†*	6,897,179	5,936,577	6,310,253	+16	+ 9	+ 14

¹Estimated ²Includes only banks in the Sixth District portion of the state; partially estimated. ³Partially estimated. NA—Not available.

District Business Conditions



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

The Southeastern economy gathered speed on its ascent trajectory. Increasing thrust from favorable burns in the engines of employment, business loans, residential construction, consumer spending, and farm income overpowered the retro-rocket of lagging nonresidential construction contracts.

Nonfarm employment continued its expansion in March. Further growth of manufacturing jobs outweighed small losses in nonmanufacturing industries. Moreover, an expansion in output of nondurable goods lifted total manufacturing production. Construction employment again declined, though less than in the previous month. Employment in transportation and communications edged down slightly, while other nonmanufacturing sectors showed little change. The unemployment rate rose slightly, reflecting a sharp rise in the civilian labor force.

Continued strength in business loan demand at the larger District banks during April confirms a pickup in the region's business activity. Through the first four months of 1972, business loans increased at more than twice the rate experienced in early 1971. Loans advanced in all major commercial and industrial categories except transportation, communication, and other public utilities. According to preliminary data, consumer and business time and savings deposits in April declined slightly after a near record deposit gain in the first quarter of the year.

Consumer instalment credit at commercial banks continued its hefty expansion in March. Credit for automobile purchases showed the largest gain, though instalment loans in all sectors increased. March department store sales, which included the important pre-Easter period, were robust. Sales of domestically produced cars remained strong.

Farm cash receipts were up 16 percent from a year ago, led by a 30-percent increase in Florida. Average prices received by farmers dropped only slightly in March, even though tobacco, vegetable, and grapefruit prices declined sharply. Most livestock prices also eased somewhat, but prices of eggs and soybeans registered strong gains. Preliminary data for April indicate that soybean, egg, and cotton prices increased, while livestock prices stabilized. Farmers in District states plan to reduce feed grain production this year but will expand cotton production, particularly in Louisiana where a 25-percent increase is expected.

Construction contract activity continued to hold the advances of the past year. Residential contracts in March were well above levels of a year ago. In recent months, Florida has accounted for a major part of the District's construction picture. Ample home mortgage credit continues to be available. Nonresidential contract activity has shown little growth over the past year, since large manufacturing and electric generating projects have been few and far between.

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