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The Discount Rate: Problems and Remedies

by William N. Cox, III

When the Fed changes its discount rate, headlines appear. Stockbrokers' telephones light up, and financial pundits around the country vie to analyze why the change occurred and what it portends. Investors buy and sell securities in response to the Fed's announcement, changing prices and investment yields. In other words, discount rate changes make waves in financial markets. We call these waves "announcement effects."

In one sense, all the stir sounds silly. The only borrowers who actually pay the discount rate are a few member banks who happen to be borrowing from their District Federal Reserve Bank. The Fed can sometimes be an important source of funds to an individual bank, of course. But if we look at the number of banks and the amount of funds involved, and if we view them in the context of overall banking activity, then bank borrowing from the Fed appears relatively insignificant. On a typical day, 1/100 of the nation's banks might be borrowing an amount equal to 1/1000 of the nation's deposits. In terms of who is affected and by how much, the announcement effects seem unwarranted.

Announcement Effects

Yet, each discount rate change does cause a stir, and for good reason: The Federal Reserve System administers monetary policy. It exerts a strong influence on the availability of money, on the general level of interest rates, and eventually on the tempo of income and production throughout our economy. Because a discount rate change is a simple public and definite action taken by the Federal Reserve System at its own discretion, it is perfectly natural for the public to view the action as a signal of Fed policy. Discount rate changes provoke announcement effects because of *who* changes the rate.

Custom has reinforced the announcement effects. The Federal Reserve has sometimes used changes in the discount rate to telegraph changes in monetary policy. Back in April 1969, for example, the Fed used a $^1/_2$-percent discount rate increase to emphasize a policy of resisting inflation. In that

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case and others, the Fed has deliberately used the discount rate to produce announcement effects. When the Fed changes the discount rate, it resembles a lead cow with a cowbell around its neck: There is no way to move quietly, but there are times when the clanging serves a purpose.

Sometimes, however, no announcement effect is intended; the purpose is more routine. It is merely to bring the discount rate more closely into alignment with other short-term interest rates in the nation's markets. In 1971, for instance, the Fed changed the discount rate six times. Judging from the press releases announcing these changes, only two of these changes were intended to be overt signals of monetary policy.[1] The other four were routine. Yet, all six produced announcement effects.

Thus, discount rate changes are interpreted ambiguously by the public (Is it a signal or is it not?), and the ambiguity in turn presents problems in both administering and interpreting the discount rate. The effects of a change actually meant to signal a shift in policy may be weakened because some observers think the Fed's purpose is merely to keep the discount rate in line with other rates, whereas a change merely intended to bring the rate into line may be incorrectly interpreted as a policy signal. Moreover, the same ambiguity crops up when the Fed does not change the discount rate. If market interest rates rise without an accompanying change in the discount rate, confusion can result. Does this mean the Fed is refusing to signal a more restrictive policy? The ambiguity persists, posing problems for the Fed as it administers the discount rate and posing problems for the public in trying to interpret the rate.

Keeping the Discount Rate in Line

Why should the Fed be concerned with keeping the discount rate in line with money market interest rates anyway? Basically because these rates (notably the Federal funds rate banks pay to borrow bank reserves from each other and the Treasury bill rates yielded by short-term Treasury securities) are the alternative rates member banks face when they consider borrowing from the Fed. The spread between the discount rate and those other rates, therefore, influences the amount of reserves banks borrow from the Fed.

Discount lending to member banks is only one of several ways the Fed has to supply reserves to the banking system.[2] Discount window borrowing is unique in at least one respect, however: It happens at the initiative of individual member banks. From the standpoint of an individual bank wanting to borrow reserves, the Fed's discount window is only one source among many. The bank can borrow "new" reserves from the Fed, or it can acquire "old" reserves from another bank in various ways. To the bank, old and new reserves are indistinguishable, but from the Fed's point of view the two are quite different. If old reserves are borrowed, the banking system uses its existing reserves more intensively. But if new reserves are borrowed from the Fed, there is an expansion in the amount of reserves available to the banking system. From the standpoint of monetary policy, it makes a difference whether the bank chooses to borrow from the Fed or to borrow elsewhere. The choice is influenced by the spread between the discount rate and other rates.

Economists are divided over *how* important the discount rate spread is in controlling borrowing, however. Although it would seem evident that any source of borrowed funds would become more appealing when it becomes less costly than its alternatives, some economists find this view unpersuasive. They argue that the reason banks do not borrow more from the Fed is not the premium on the discount rate, but, rather, the administrative and collateral requirements banks must meet when they borrow. Nevertheless, even those who take this position agree it would be desirable to keep the discount rate more closely in line with money market rates, if only to eliminate member banks' advantages or disadvantages that arise whenever the discount rate gets out of line with interest rates in the money market.

For a variety of reasons, therefore, most observers are convinced that the discount rate should be changed more frequently and kept more closely in line with money market rates. The Federal Reserve System's Committee on the Reappraisal of the Federal Reserve Discount Mechanism, completing a comprehensive review in 1969, agreed with this conclusion:

> **Achieving maximum effectiveness calls for maintenance of the discount rate consistently at a level reasonably close to rates on alternative instruments of reserve adjustment. The exact relationship to market rates at any time will depend largely on current monetary conditions and policy objectives, but it would be expected that related market rates would move higher relative to the discount rate in periods of restraint and lower relative to the discount rate during periods of ease.**
>
> **The closer linkage of the discount rate to market rates will probably call for more frequent changes**

[1] "Monetary Policy and the U. S. Economy in 1971," **58th Annual Report,** 1971 (Washington D. C.: Board of Governors of the Federal Reserve System, 1972), pp. 3-58.

[2] Open market operations—purchases and sales of Government securities—are the most important.

in the discount rate than have been made in recent years. It is believed that such changes can be achieved by more active communication within the System and will become easier as the pattern of more frequent discount rate adjustments tends to reduce the unpredictable announcement effects which often attach to a given rate change.[3]

Remedies

We have capsuled some of the difficulties of administering the discount rate. To remedy the difficulties, a system of discount rate administration evidently should accomplish two objectives:

(1) It should eliminate the undesired announcement effects, which have heretofore accompanied and inhibited routine changes in the discount rate.

(2) It should preserve the Fed's ability to adjust the discount rate for discretionary purposes.

One specific proposal to accomplish the above objectives is to use smaller and more frequent changes in the discount rate. The rationale is simple:

The Fed would keep the discount rate closely in touch with money market rates by changing the discount rate more frequently. This would obviously reduce the Fed's rate-alignment difficulties. Less obviously, it would also reduce unintended announcement effects. This is because, historically, discount rate changes have come so infrequently that the public has interpreted any discount rate change, routine or not, as a policy signal. But if changes were made twice a month, for instance, rather than twice a year, the public would soon realize that most of the changes were routine.

The idea of more frequent changes is often combined with the idea of making discount rate changes in smaller increments. Adoption of a policy of making discount rate changes in quarter-percent increments, instead of the traditional half-percent ones, would offer several advantages. As a practical matter, quarter-point changes can be made more frequently than half-point ones. A policy of making routine changes in smaller increments could also help the Fed to use non-routine changes as a way of announcing monetary policy changes. For example, changes that are intended to be policy signals could be made in half-percent increments. If that were done, the public would soon come to understand that quarter-percent changes were routine and that half-percent changes were intended to constitute signals of monetary policy. For these and other reasons, the proposal to change the discount rate more frequently and in smaller increments offers an appealing remedy to present difficulties.

The Fed experimented with smaller and more frequent changes in the months from November 1970 through February 1971. Five successive quarter-percent reductions were announced during that period, each accompanied by a press release emphasizing that the rate reduction was made in recognition of reductions in short-term interest rates. As intended, the discount rate stayed in close alignment with rates in the money markets during this period. But following this flurry of rate changes, there were no discount rate changes for five months, even though money market rates moved down further and then moved up again. All of the subsequent discount rate changes, however, have involved quarter-percent changes.

During this brief period of experimentation, did these smaller and more frequent changes fulfill the promise of reducing unintended announcement effects? There are those who would argue either way, but the most obvious answer is that the experiment did not continue long enough for us to find out.

A second proposal is simply to "tie" the discount rate to some other market-determined interest rate. A constant spread between a money market "base rate" and the discount rate would be maintained. A formula could be publicly announced, and by agreeing to adhere to it, the Fed would relinquish any discretionary control over the discount rate. Unintended announcement effects would disappear, since it would make no sense for the public to view the mechanical discount rate changes as policy signals.

This is not a rash proposal; it has been urged by many economists for over 20 years. Nor is it without precedent. The Bank of Canada, that country's analogue of the Fed, used a tied rate from 1956 to 1962. Several large American banks recently adopted a similar procedure to set their prime rates.

With regard to a specific formula, most proponents of the tied discount rate proposal have advocated setting the discount rate at a $^1/_2$- or 1-percent spread above the average rate quoted on 91-day Treasury bills. This is what the Bank of Canada did. Here in the United States, bill auction averages are published by the Treasury Department the day after each auction and are widely publicized in the financial press. The rate is widely enough known, and the bill market itself is large enough to make it an attractive candidate for a base rate.

The mechanical, nondiscretionary nature of the tied discount rate proposal, however, gives rise to a substantial objection: Since a discretionary

[3] **Reappraisal of the Federal Reserve Discount Mechanism** (Washington D. C.: Board of Governors of the Federal Reserve System, 1971), I, 21-22.

discount rate can be a useful policy tool, some policymakers and economists are reluctant to give up that discretion by tying the rate. To be acceptable, a discount rate remedy should preserve the ability to use the discount rate as a discretionary tool when the Fed wants to. A tied rate cannot do that. This objection was what caused the Bank of Canada to abandon its experiment in 1962.

The problem leads us to a third remedy, however: the *flexibly tied* discount rate. This is essentially an attempt to modify the tied discount rate into an acceptable hybrid of the tied and the administered rate. Under a flexible-tie procedure, the discount rate would become the sum of two components: (1) a *base rate,* inflexibly tied to a money market interest rate formula just as in the tied-rate case, and (2) a *policy spread,* set with complete discretion by the Fed. Banks would pay the sum of these two components when borrowing from the Fed. At times when the Fed decided not to change the policy spread, the total discount rate would move with the base rate, automatically preserving its alignment with money market interest rates, but without provoking announcement effects. When the Fed decided to change the policy spread component, however, there would be announcement effects, deliberate and unambiguous.

Although this remedy is more complicated than the others we have discussed, its adoption would require only two changes in present procedures. First, the Fed would regularly have to announce three rates instead of one: (1) the publicly anticipated base rate, (2) the policy spread, and (3) the total discount rate. Second, policy discussions and concerns would have to focus, not on the total rate, but, on the policy spread.[4] Thus, the flexible-tie proposal, like the smaller-and-more-frequent-changes idea, appears to offer an appealing remedy to the difficulties of the discount rate.

One question about the flexible-tie proposal remains, however: How should the base rate be calculated? The specific answer to this question is probably not critical, provided the procedure selected meets certain criteria. To begin with, whatever money market rate (or group of rates) enters into the base rate calculation, it should be representative of the money markets in the sense of moving roughly in line with the borrowing costs faced by member banks. Twenty years ago, when the tied-rate idea gained currency, banks presumably acquired reserves by selling Treasury bills. Perhaps for that reason, the bill rate has often been mentioned as a money market rate to which the discount rate base might be tied. The Bank of Canada used the bill rate.

Times have changed, however, and banking practices have changed with them,[5] so that now the Federal funds rate might be a better alternative. At present, the Federal funds rate is widely regarded as *the* money market interest rate. Although the Federal funds rate itself is often interpreted as a barometer of other Federal Reserve policy actions, tying the base rate to the Federal funds rate would still eliminate the *separate* announcement effects of discount rate changes. Both the Federal funds rate and the Treasury bill rate also meet other obvious criteria: Each is determined by supply and demand in its own markets, rather than being set administratively, and each is widely and quickly available to the public.

Although both of these rates are more volatile than many observers would like the discount rate to move, several devices could be used to calm movements of a discount rate base. The first is to move the tied discount rate only in quarter-percent increments. (Bill rates are normally quoted in hundredths of a percent; Federal funds rates in sixteenths.) The second is to use a simple moving average of the rate over several recent weeks. Finally, the base rate could be changed every two weeks instead of weekly or daily.[6] Our empirical investigation, the results of which are summarized in the Appendix, indicates that a simple five-week moving average of the weekly Federal funds rate, quoted and changed biweekly in increments of a quarter percent, might be a reasonable formula.

Recapitulation

To sum matters up, we have noted that discount rate changes are of two types: (1) routine changes made merely to keep the discount rate in line with short-term money market interest rates, and (2) changes intended to influence discount-window borrowing and to convey signals of monetary policy. Ideally, the second type should provoke such announcement effects; the first type should not. In practice, however, the public finds it difficult to distinguish between the two. We thus have a situation where routine discount rate changes produce unintended announcement effects, on the one hand, and where the announcement effects produced by changes

[4]The Board of Directors of each of the 12 Federal Reserve Banks, as now, would establish changes in both the total rate and the policy spread subject, as now, to review and determination by the Board of Governors in Washington.

[5]See Arnold Dill, "Liability Management Banking: Its Growth and Impact," this **Review,** Federal Reserve Bank of Atlanta, February 1971, pp. 22-33.

[6]The Federal Reserve Act (Section 14d) requires that each Federal Reserve bank "shall establish such (discount) rates every fourteen days. . . ."

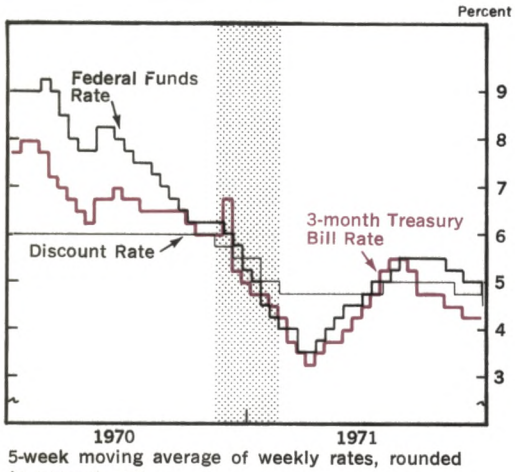
intended to be policy signals are weakened by ambiguity, on the other.

To overcome these difficulties would seem to require a system of discount rate administration with two attributes. It should eliminate the unintended announcement effects of routine discount rate changes, and it should preserve the Fed's ability to use the discount rate as a discretionary policy tool.

We then discussed specific remedies in light of these requirements: Smaller and more frequent changes seemed to fill the requirements for improvement. A more mechanical proposal, that of inflexibly "tying" the discount rate to some base rate determined in the money market, seemed unsatisfactory because it would force the Fed to relinquish discretionary control. But if the spread between the base rate and the discount rate remained subject to discretionary change, as in the case of the "flexible tie," the requirements would be met. Therefore, we concluded that both "smaller and more frequent changes" and the "flexible tie" merit further consideration as possible ways of improving discount rate administration. ■

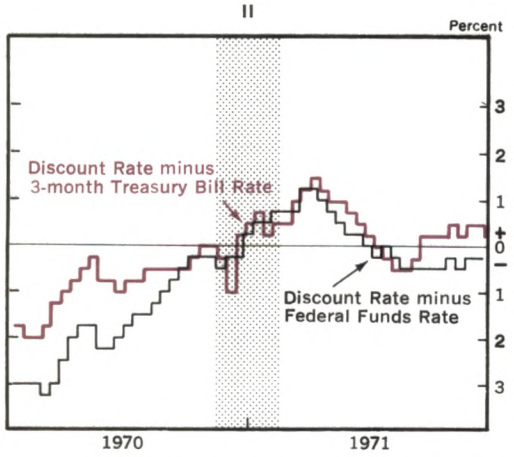
APPENDIX

I



5-week moving average of weekly rates, rounded to nearest ¼%

II



The two charts provide a basis for discussing how various systems of discount rate determination might have performed during 1970 and 1971. Money market rates showed unusual volatility during these two years, making it a period when the Fed would have had to put the discount rate through unusual gyrations in order to keep it in line with interest rates in the money market.

The first chart shows clearly how, except for one brief period, the discount rate failed to move in tandem with money market rates (here represented by simple moving averages, rounded to the nearest quarter-percent, of the Federal funds rate and the 91-day Treasury bill auction rate). The exceptional period, cross-hatched on the chart, came between mid-November 1970 and mid-February 1971. This was when the Fed experimented with smaller and more frequent changes, announcing five successive quarter-percent reductions which moved the discount rate from 6 percent to 4¾ percent in three months. A glance at the second chart shows however, that even rapid succession of discount rate changes failed to keep up with the simultaneous reductions in money market rates, for the differences or "spreads" between the discount rate and each of the two money market rates rose gradually. The period is instructive because it provides a sample of how the "smaller–and–more–frequent–changes" proposal for discount rate administration would operate.

We can also look at the Treasury bill rate and Federal funds rate movements on the first chart to see how a "tied-rate" system of discount rate administration would have worked. Again, the base rates plotted have been treated as suggested in the article: They are unweighted five-week moving averages rounded to the nearest quarter percent. Many other ways of calculating base rates are available, but we chose the five-week average because for each of the rates over the four-year period 1968-71, this formula produced the fewest number of changes in direction.

It is more difficult to see how the "flexible-tie" proposal would have worked. The base rate component would have behaved just as in the tied-rate case, of course, but it is impossible to tell how the Fed would have managed the discretionary "policy spread" component. If, for example, either of the two base-rate formulas had been adopted in conjunction with a constant policy spread of one-half percent, the discount rate would obviously have paralleled the chosen base rate at a constant half-percent premium. (For reasons discussed in the article, a Federal funds rate base appears preferable over one based on the bill rate.)

Taking still another tack, finally, we can also view the second chart as describing the policy spread that would have resulted had a flexible-tie system been used to produce the *actual* pattern of behavior in the total discount rate.

What's in Store for Bank Credit Cards in the Southeast?

by Emerson Atkinson

Credit cards are a unique method of setting financial obligations and, according to many persons, are the key to future changes in the payments system. Though consumers have used credit cards for over ten years, they are probably not aware of the tremendous change that has taken place in the credit card business. This is true for all types of credit cards, whether issued by retail stores, oil companies, travel and/or entertainment companies, and banks.

After an unsettling period in the 1950's and early 1960's, the growth of bank credit cards has been rapid, both in terms of banks offering plans and volume outstanding. As the public's acceptance of bank credit cards increased, changes in the operation of the card system and distribution and physical makeup of the cards also occurred.

Banks across the nation scrambled to set up a credit card system in the mid-1960's, perhaps thinking that the rewards of such a system would be immediate as well as large. New merchant and customer accounts were quickly attracted because they represented good profit potential. In addition, offering a credit card system was a way of meeting the competition head-on or, in some situations, jumping ahead. The mass mailing of unsolicited cards was the most common marketing approach, and, in some instances, led to disastrous results, whether banks were large or small. The large losses that banks were forced to absorb because of uncollectible debts was well publicized. As a result, the enthusiasm for bank credit cards was dampened, at least temporarily.

Since the mid-Sixties, banks have drastically revised their marketing efforts because of their unsatisfactory experience with mass mailing and because of consumer protection legislation. Amendments to the Truth in Lending legislation, which became effective in October 1970, prohibited the mass mailing of unsolicited credit cards and limited the cardholder's liability. As a result, banks have been more careful in screening prospective cardholders.

Three types of credit card operations emerged as the most common. A bank could start its own, independent system and maintain the operational responsibilities for the plan. Thus, it would carry cardholders' credit and be responsible for any losses. It could, if possible, have interchange arrangements with other systems. The second type of operation was the concept of licensee banks,which was similar to the independent bank system, but with several exceptions. The emblem or design on the card would not be that of the

licensee's banks, although its name would appear on the card. The licensee might have to pay a fee to the operator of the plan, but it would receive technical and operational assistance. Perhaps the most common arrangement was that of an agent bank. In this situation, the plan's operator (not the agent bank) would usually set credit standards, operate the accounting system, including carrying the cardholder's credit, and determine the interchange arrangements.

During the development of the bank card system, the card's physical appearance also changed. More and more often, the date of expiration has appeared on the card, and to cut down on fraudulent usage, the customer's picture, magnetic strip with a special code, signature line, or other means of identification, is usually present on all cards today. In addition, standardization of card materials, shapes, thickness, and other physical aspects has been increasing.

Credit Card Banking Expands

As the data in Table 1 show, the growth of credit card banking in the Sixth Federal Reserve District[1] has exceeded that of the U. S. Between December 31, 1967 and December 31, 1970, the number of banks reporting their participation in a credit card operation (i.e., they carried receivables on their own books) increased more than sixfold. On the other hand, in the U. S. for a comparable period, the increase in bank participation was slightly more than threefold. Moreover, in the District as well as in the U. S., the largest increase in the number of banks participating in card plans occurred during 1968. For the District, the growth was over 300 percent; for the U. S., 136 percent.

With the exception of 1968, in the District and in the U. S., the largest number of banks reporting credit card participation had a total deposit size ranging between $11 million and $25 million (Table 2). This range is relatively small, based on a deposit size ranking composed of eight groups and ranging from less than $5 million in total deposits to more than $1 billion. This suggests that banks, regardless of size, can successfully participate in credit card banking. A further classification of the data for 1969 and 1970 (Table 3) indicated that the number of banks participating in credit card plans was greater in Standard Metropolitan Statistical Areas (SMSA's) than in non-SMSA's. This, of course, should be expected in view of the greater population density of the SMSA than the non-SMSA.

Credit Cards and the Consumer

Consumers in metropolitan Atlanta and in selected cities in Florida, for the most part, have at least one credit card and have definite ideas about future card developments, according to the Atlanta Payments Project. The Georgia Tech Research Institute began this Project in 1969 for the Federal Reserve Bank of Atlanta. Its goal was to investigate means of improving the payments system. This was accomplished by mailing questionnaires to a sample of households, and thus provided interesting results in regard to ownership of cards, acceptance of a universally acceptable credit card, and automatic payment of overdrafts. Phase III of this research involved a detailed probe into consumer motivations and attitudes in regard to new payment procedures and was more extensive and approached differently than the research done in Phases I and II of the project.

According to the results from Phases I and II (Table 4), slightly more than three-fourths of all Atlanta families made widespread use of some type of credit card; in Florida, the percentage was over four-fifths of all households. As might be expected, the higher the income level the more cards a household possessed. Retail store cards

[1]*The Sixth District includes: Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee.*

TABLE 1

District Credit Card Banking Outpaces That of U. S.

	December 31, 1967		December 31, 1968		December 31, 1969		December 31, 1970	
	No. with Plans	Amount Outstanding ($ mil.)	No. with Plans	Amount Outstanding ($ mil.)	No. with Plans	Amount Outstanding ($ mil.)	No. with Plans	Amount Outstanding ($ mil.)
Sixth District	43	40.0	53	99.5	243	301.4	273	438.5
U. S.	390	828.4	510	1311.5	1207	2638.7	1432	3791.6

NOTE: Figures cover all commercial banks. Source of national data is "Growth and Profitability of Credit Card Banking," a paper presented at the 1971 National Credit Card Conference of the American Bankers Association on October 27, 1971, by Andrew F. Brimmer, member of Board of Governors.

TABLE 2

The Size Distribution of Banks Participating in Credit Card Plans is Similar to the U. S.

Size of Bank (Total Deposits in Millions of Dollars)	Number of Banks					
	December 31, 1968		December 31, 1969		December 31, 1970	
	U. S.	District	U. S.	District	U. S.	District
Under 5	29	1	56	12	74	26
5 — 10	58	6	157	48	171	46
11 — 25	123	9	331	69	389	70
26 — 50	80	10	227	54	271	57
51 — 100	67	8	153	27	190	35
101 — 500	109	17	209	28	241	33
501 — 1000	19	1	41	4	52	5
Over 1000	25	1	33	1	44	1
TOTAL	510	53	1207	243	1432	273

Source: U. S. Data—Same as Table I
District Data—Reports of Condition

were the most popular of all types, followed by oil companies, banks, travel and entertainment, and other miscellaneous types. Of the families who owned at least one credit card of any type, nearly one-half in Atlanta and two-fifths in Florida owned bank credit cards. In Atlanta, popular acceptance of bank credit cards relative to retail store and oil company cards was greater than in Florida. Perhaps surprising to some was that households having credit cards wrote more checks per month than did households, of the same economic level, that did not own credit cards. This suggests, therefore, that checking accounts and credit cards, in economic jargon, are not substitutes as might be expected but, rather, are "complementary" services.

What Does the Future Hold?

Perhaps the most important information regarding the future of all types of credit cards was consumer preference for a universally accepted card. Over half of the households in Atlanta and Florida preferred the universally accepted card concept (Table 5). Once again, household income level had a direct bearing on the response. In Atlanta, about two-fifths of the households with a gross income of less than $5,000 were in favor of the concept, compared with nearly three-fourths of the households with income of $25,000 and over. The response in Florida was similar. Since the number of cards held by a household increases with its level of income, the greater popularity of a universal card is understandable.

Males and females do not think alike, with respect to acceptance of the universal card. Two-thirds of male heads of households in Atlanta were in favor of the idea, compared with less than one-half of the female household heads. Again, Floridians had similar responses.

It is not too surprising that age was an important determinant in the one-card idea. Generally speaking, the younger the heads of households, the more inclined they were toward the universal card idea. For the most part, the "under 25 group" had the highest favorable response rate of all groups. As a whole, females in practically all age groups were less receptive to the universal card concept than were males.

The response to an already available service, the automatic overdraft, was also surveyed. The

TABLE 3

More District Banks Located in SMSA'S Participated in Credit Card Plans Than Did Banks Outside SMSA'S

Size of Bank (Total Deposits in Millions of Dollars)	Number of Commercial Banks			
	December 31, 1969		December 31, 1970	
	SMSA	Non-SMSA	SMSA	Non-SMSA
Under 5	3	9	5	21
5 — 10	12	36	15	31
11 — 25	34	35	30	40
26 — 50	32	22	34	23
51 — 100	19	8	25	10
101 — 500	27	1	32	1
501 — 1000	4		5	
Over 1000	1		1	
TOTAL	132	111	147	126

Source: Reports of Condition

TABLE 4

Household Credit Card Ownership Atlanta Metropolitan Area and Metropolitan Areas of Florida

	Percentage of Households Owning at Least One Credit Card			
	Atlanta Metropolitan Area 76		Metropolitan Areas of Florida 83	
BY INCOME LEVEL				
Gross Income Level of Household	Percentage of Households with at Least One Credit Card	Average number of Cards Held	Percentage of Households with at Least One Credit Card	Average Number of Cards Held
Under $5,000	37	1.8	59	2.2
$ 5,000 — 9,999	74	3.2	86	4.1
$10,000 — 14,999	85	5.2	92	5.5
$15,000 — 19,999	93	6.2	96	7.6
$20,000 — 24,000	98	8.6	94	7.9
$25,000 and Over	96	9.3	97	9.3
BY TYPE				
Credit Card Type	Percent of Households with Credit Card Type	Average Number Held	Percent of Households with Credit Card Type	Average Number Held
Retail Store	66	2.8	71	3.2
Oil Company	55	2.8	64	2.9
Bank	48	1.5	39	1.4
Travel and Entertainment	18	1.5	19	1.6
All Other	3	1.8	6	2.2

results showed that in Atlanta and Florida consumers were generally in favor of this concept of stretching a checking account "automatically."

In the near future, the form and function of bank credit cards as we know them today will probably undergo dramatic changes. Assuming that households in Atlanta and Florida are representative of Sixth District consumers, it is clear that a majority of consumers have at least one credit card and would prefer to have only a universally acceptable one. Recently, 24-hour automated banking machines have been put into operation in various parts of this region and elsewhere, and point-of-sale terminals have been tested in selected banks and retail outlets across the nation. Is this the small beginning of an automatic, practically paperless, payments system? Undoubtedly such developments **could** be the first step toward such a payments system because the card is a natural vehicle for the transfer of funds to and from a consumer's account.

TABLE 5

Consumers Were Receptive to a Universally Acceptable Credit Card

Percentage of Households in Favor of a Universally Acceptable Credit Card	
Atlanta Metropolitan Area	Metropolitan Areas of Florida
61	65
By Income (Percentage)	
Less than $5,000 — 44	46
$25,000 and over — 70	72
By Sex (Percentage)	
Male — 65	67
Female — 45	53

An interesting arrangement that is quite similar to present card operations is the cash-card service. This concept was presented to selected consumer groups in 1971 as part of the research in Phase III of the Atlanta Payments Project. The cash-card arrangement, though very similar to the basic operation of a credit card, is a dual-purpose card. It could be used for cash as well as credit transactions. The card itself would have a magnetic strip encoded with a consumer's checking account number. It would be inserted into a point-of-sale terminal by the sales person and the customer would receive a sales slip, similar to the credit card receipt presently used. The merchant's and customer's account would be promptly settled by electronic transfer. At the end of the month or other specified settlement time, the customer would receive his checking account statement (and cancelled checks) and a separate category with all his cash-card transactions recorded. The study found consumers to be only

mildly positive toward the cash-card concept, but willing to accept it. It is clear that consumers do have some reservations concerning the immediate transfer of funds, the loss of grace periods in settling accounts, and the loss of the ability to "play the float," but these objections do not appear to be of great intensity.

If the credit card does smooth the way for a future electronic payments system, widespread acceptance of the concept and perfection and implementation of such a system is not likely to occur immediately. One reason is that some have not fully recognized its advantages. Perhaps, as others have suggested, the offering by financial institutions of "tailor-made" financial management services (including deposits and withdrawals, credit, collections, payments, transfers, and record keeping) would have mass appeal to consumers and businesses. And greater public acceptance, spurred by an intensive educational effort, might make a change in our payments system more economically feasible as well as easier. ■

Bank Announcements

May 1, 1972
FARMERS & MERCHANTS BANK
Centre, Alabama

Opened for business as a nonmember and began to remit at par. Officers: Mary George Jordan Waite, president; Nell Kilgore, assistant to president; J. W. Hampton, Thomas S. Graves, and Jack Fortenberry, senior vice presidents; Jane Poovey, vice president; Elba Sewell, cashier; and Nell Tracy, Lounell Usry, Frances Burns, and Phillip N. Davis, assistant cashiers. Capital, $300,000; surplus and other capital funds, $1,040,132.

May 2, 1972
PAN AMERICAN BANK OF MIAMI BEACH
Miami Beach, Florida

Opened for business as a nonmember. Officers: Joseph Shulman, chairman; Edward J. Melniker, president; William E. Boyd, senior vice president; and Ronald G. Potter, vice president and cashier. Capital, $1,000,000; surplus and other capital funds, $700,000.

May 8, 1972
PEOPLES NATIONAL BANK
Naples, Florida

Opened for business. Officers: Charles M. Odorizzi, chairman; B. Gene Trapnell, president; Edward J. Oates, Jr., vice president and cashier; John H. Druffel and W. Duke Taliaferro, vice presidents; and Mrs. M. V. Anspach, Mrs. Mildred A. Nestor, and William C. Root, assistant vice presidents. Capital, $1,500,000; surplus and other capital funds, $1,500,000.

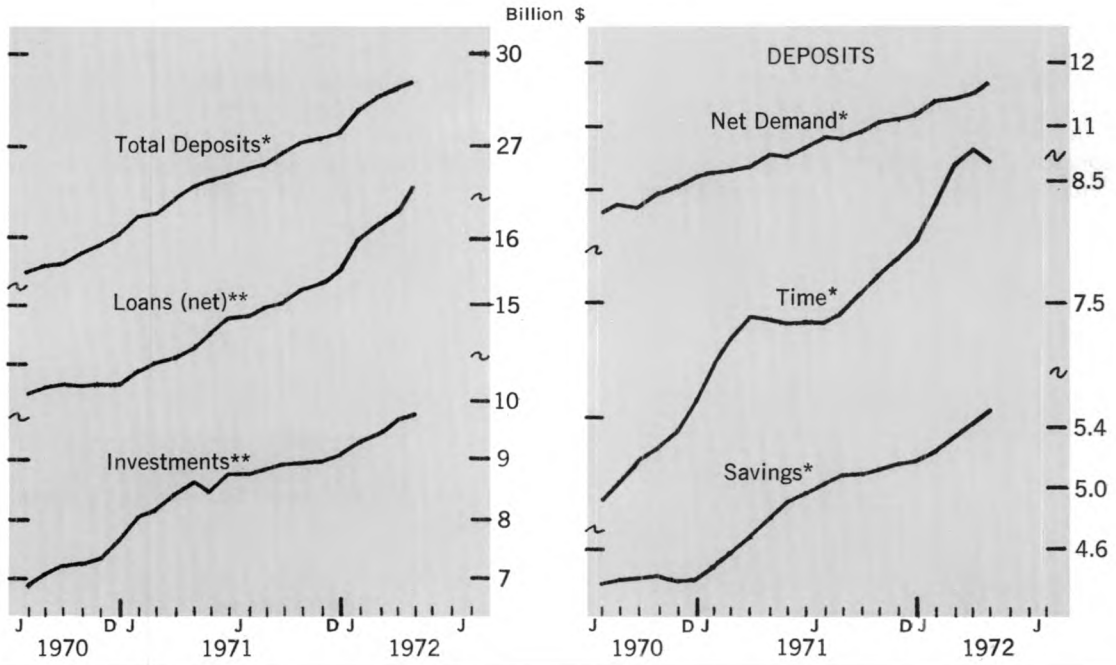
May 15, 1972
BANK OF BOSTON INTERNATIONAL OF MIAMI
Miami, Florida

Opened for business as an Edge Act Corporation.

May 16, 1972
THE CITIZENS COMMERCIAL BANK OF OCALA
Ocala, Florida

Opened for business as a nonmember. Officers: D. H. Oswald, president; and James L. Williams, vice president and cashier. Capital, $250,000; surplus and other capital funds, $208,617.

BANKING STATISTICS



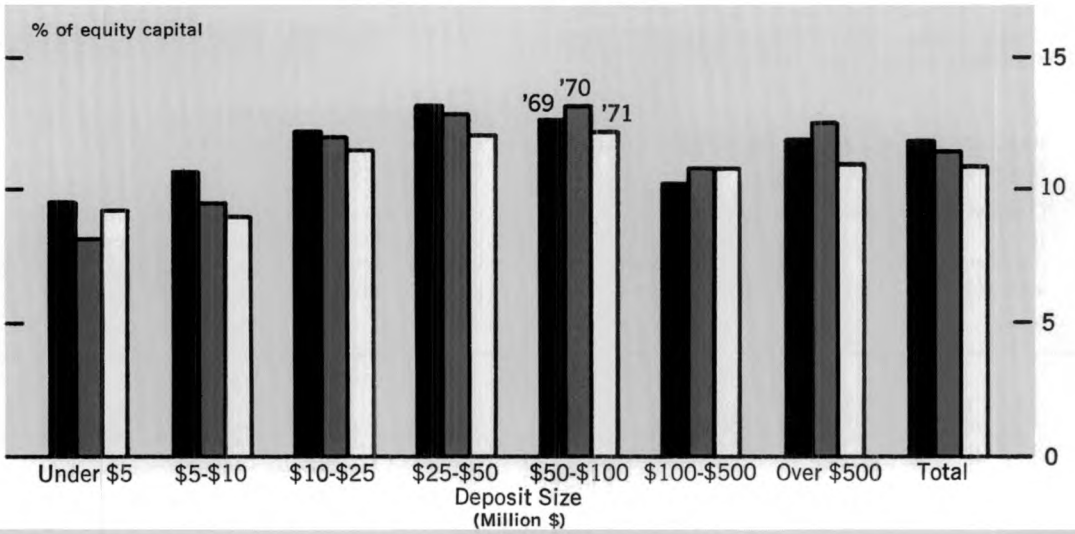
LATEST MONTH PLOTTED: APRIL

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

INCOME AFTER TAXES



Note: Figures shown are before gains or losses on securities. Ratios are averages of individual bank ratios and cover all Sixth District member banks.

PROFIT RATE AT DISTRICT MEMBER BANKS DECLINES IN 1971

For the second year in a row, average profits—as a percent of equity capital—declined at District member banks from 11.3 percent in 1970 to 10.9 percent in 1971.[1] These figures are based on income after operating expenses, interest on capital notes and debentures, and taxes. There were, however, exceptions to this decline: Banks with deposits of less than $5 million experienced an increase in their rate of profitability, and banks with deposits ranging from $100 million to $500 million managed to maintain the same rate of profitability as they did during the previous year.

There was no change in the relative rate of profitability among the various deposit size categories of member banks. As a group, the medium-size banks (those banks with deposits of $10 million to $100 million) continued to earn more than the District average. But within this group, the larger banks tended to earn the most. Banks with deposits of $100 million and over had profit rates about equal to the District mean. Most notably, banks with deposits in excess of $500 million only equaled the District average in 1971, although in 1970 their profit rate exceeded the District mean by more than 10 percent. As in previous years, the smaller banks (deposits under $10 million) earned below-average profits.

We must examine the level and changes in interest rates to explain a major part of the change in bank profitability during 1971. Interest rates have a major impact on banking earnings because nearly 90 percent of total bank operating income is derived from interest on loans and securities and more than 40 percent of total operating expenses go for interest payments on deposits and borrowed money. Last year, banks were caught in an unfavorable crosscurrent of interest rate changes: Interest rates earned on most loans and U. S. Treasury securities declined, but were not offset by the generally higher rates of return earned on state and local government obligations and U. S. Government agency issues. During this same period, total interest expenses increased because of strong deposit gains in time and savings deposits, although the average interest rate paid on these deposits was virtually unchanged.

When measured as a proportion of total assets, total operating income clearly slipped in 1971, with the reduction in interest and fees on loans being the major reason for this decrease. The smaller banks were hit hardest by lower rates on Federal funds sales, while the medium- and large-size banks were affected most by lower rates on consumer, business, and real estate loans. The decline in total loans as a proportion of total assets was also responsible for the decrease in operating income.

MAJOR SOURCES AND USES OF BANK INCOME

Income*	1971	1970
Loans	60.6	63.0
Treasury Securities	12.5	12.7
Municipal Obligations	10.2	8.9
Government Agency Issues	5.5	4.7
Expenses*		
Interest on Deposits	34.7	32.1
Interest on Borrowed Money	0.6	0.8
Salaries and Wages	20.4	20.7
Employee Benefits	2.7	2.6

*Expressed as a percentage of total operating income.

Business loans posted the largest relative decline, which, along with cuts in business loan rates, had the greatest impact on banks with over $50 million in deposits. Expanded real estate and consumer lending, however, took up this slack.

The decline in interest on U. S. Government securities and the reduction in the proportion of Governments to total assets were other reasons for the drop in total income. While the market rates on Governments generally declined during 1971, District banks managed to offset this development by adding higher yielding medium- and long-term Governments to their portfolios while reducing their holdings of the lower yielding short-maturity bills and coupons.

District banks, on the other hand, managed to boost the income from Government agency issues and municipal obligations, more than offsetting the decline from Treasury securities. The banks not only increased the average yield on their agency and municipal portfolios, but they also increased their holdings of these securities. Banks found still another way to increase income. They reduced cash assets to 14.3 percent of total assets, down from an average of 15.1 percent in 1970.

Expenses also declined as a percent of total assets, but not as much as operating income did. The major increase in expenses was interest payments on deposits. Even though the average rate paid on time and savings deposits dipped slightly, a nearly 20-percent increase in interest-bearing deposits last year resulted in a higher proportion of expenses going for interest payments. Interest on borrowed money—mostly Federal funds—declined by a significant amount for the larger banks.

Banks did find some relief last year in two other important expense items: labor costs and taxes. The relative impact of wages, salaries, and other employee benefits, on average, was actually reduced. One exception occurred at the very largest District banks, where this measure of employee compensation rose. Reduced net income was not without some benefit for the banks: Payments for income taxes posted a relative decline in all bank size categories, thus moderating the "after-tax" impact of the dip in net income.

JOHN M. GODFREY

[1]Data are based upon information contained in "1971 Operating Ratios, Sixth District Member Banks" and are subject to the footnotes and explanatory remarks contained therein. Copies of this release are available on request.

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	145	143	134
Farm Cash Receipts	March	146	144	142	125
Crops	March	193	160	175	138
Livestock	March	143	149	132	127
Instalment Credit at Banks* (Mil. $)					
New Loans	April	450	434	425	380
Repayments	April	380	377	363	349
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment	April	116	116	116	112
Manufacturing	April	109	108	107	106
Nondurable Goods	April	110	109	108	107
Food	April	104	104	104	101
Textiles	April	104	104	103	103
Apparel	April	106	107	107	105
Paper	April	109	109	109	110
Printing and Publishing	April	114	115	114	113
Chemicals	April	104	103	104	105
Durable Goods	April	107	107	106	104
Lbr., Wood Prods., Furn. & Fix.	April	102	101	102	98
Stone, Clay, and Glass	April	112	112	112	107
Primary Metals	April	105	106	105	105
Fabricated Metals	April	117	117	116	113
Machinery	April	122	121	120	116
Transportation Equipment	April	103	104	102	105
Nonmanufacturing	April	119	119	118	114
Construction	April	113	113	113	110
Transportation	April	116	115	118	112
Trade	April	118	118	118	115
Fin., ins., and real est.	April	124	124	124	120
Services	April	123	123	123	119
Federal Government	April	100	101	101	100
State and Local Government	April	126	124	124	118
Farm Employment	April	89	93	91	92
Unemployment Rate (Percent of Work Force)	April	4.3	4.4	4.4	5.0
Insured Unemployment (Percent of Cov. Emp.)	April	2.3	2.5	2.6	3.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	April	41.3	41.2	41.1	40.6
Construction Contracts*	April	224	193	211	168
Residential	April	282	222	273	154
All Other	April	167	165	150	181
Electric Power Production**	Jan.	170	168	169	162
Cotton Consumption**	March	93	89	88	93
Petrol. Prod. in Coastal La. and Miss.**	May	112	119	118	128
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	April	173	175	170	151
Large Banks	April	159	161	154	138
Deposits*					
All Member Banks	April	161	160	159	142
Large Banks	April	143	143	143	129
Bank Debits*/**	April	182	183	178	161
ALABAMA					
INCOME					
Manufacturing Payrolls	March	146	144	143	135
Farm Cash Receipts	March	171	185	182	144
EMPLOYMENT					
Nonfarm Employment	April	108	109	108	107
Manufacturing	April	106	108	107	107
Nonmanufacturing	April	109	109	109	108
Construction	April	96	96	97	99
Farm Employment	April	82	89	88	87
Unemployment Rate (Percent of Work Force)	April	5.4	5.1	5.3	5.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	April	41.4	41.2	41.1	40.5
FINANCE AND BANKING					
Member Bank Loans	April	172	168	167	146
Member Bank Deposits	April	157	154	151	137
Bank Debits**	April	169	167	168	147
FLORIDA					
INCOME					
Manufacturing Payrolls	March	149	143	140	138
Farm Cash Receipts	March	175	141	134	110
EMPLOYMENT					
Nonfarm Employment	April	126	125	124	119
Manufacturing	April	114	113	109	107
Nonmanufacturing	April	129	128	127	121
Construction	April	135	130	128	132
Farm Employment	April	97	102	90	99
Unemployment Rate (Percent of Work Force)	April	3.8	3.9	3.9	4.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	April	41.6	41.6	41.4	40.7
FINANCE AND BANKING					
Member Bank Loans	April	190	191	190	164
Member Bank Deposits	April	177	179	181	158
Bank Debits**	April	208	210	207	178
GEORGIA					
INCOME					
Manufacturing Payrolls	March	145	143	145	133
Farm Cash Receipts	March	136	138	129	134
EMPLOYMENT					
Nonfarm Employment	April	116	115	115	113
Manufacturing	April	105	105	104	104
Nonmanufacturing	April	121	120	120	117
Construction	April	109	111	110	106
Farm Employment	April	86	92	91	89
Unemployment Rate (Percent of Work Force)	April	3.7	3.8	3.8	4.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	April	41.2	41.0	40.6	40.4
FINANCE AND BANKING					
Member Bank Loans	April	166	169	163	143
Member Bank Deposits	April	146	143	141	127
Bank Debits**	April	193	191	179	167
LOUISIANA					
INCOME					
Manufacturing Payrolls	March	135	133	132	125
Farm Cash Receipts	March	122	138	119	120
EMPLOYMENT					
Nonfarm Employment	April	108	108	108	111
Manufacturing	April	102	102	101	100
Nonmanufacturing	April	109	109	110	105
Construction	April	93	93	93	89
Farm Employment	April	82	83	83	82
Unemployment Rate (Percent of Work Force)	April	5.6	6.6	6.3	6.5
Avg. Weekly Hrs. in Mfg. (Hrs.)	April	42.2	42.7	42.6	42.6
FINANCE AND BANKING					
Member Bank Loans*	April	154	152	149	137
Member Bank Deposits*	April	150	149	150	135
Bank Debits*/**	April	149	151	143	142
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	March	160	163	158	139
Farm Cash Receipts	March	162	179	208	152
EMPLOYMENT					
Nonfarm Employment	April	114	114	114	111
Manufacturing	April	119	119	118	112
Nonmanufacturing	April	112	112	112	110
Construction	April	96	98	99	102
Farm Employment	April	88	96	92	89

	Latest Month 1972		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)	April	4.2	4.0	3.9	5.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	April	41.0	40.8	40.9	40.3
FINANCE AND BANKING					
Member Bank Loans*	April	175	184	170	157
Member Bank Deposits*	April	160	158	156	144
Bank Debits*/**	April	173	171	177	163
TENNESSEE					
INCOME					
Manufacturing Payrolls	March	147	150	143	133
Farm Cash Receipts	March	147	137	133	142
EMPLOYMENT					
Nonfarm Employment	April	115	115	116	110
Manufacturing	April	108	107	107	105
Nonmanufacturing	April	120	120	120	113
Construction	April	123	128	129	110
Farm Employment	April	92	89	92	98
Unemployment Rate (Percent of Work Force)	April	3.6	3.7	3.9	4.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	April	40.8	40.7	41.0	40.1
FINANCE AND BANKING					
Member Bank Loans*	April	169	173	163	151
Member Bank Deposits*	April	156	155	153	136
Bank Debits*/**	April	155	161	158	143

*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 and to new seasonal factors.

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

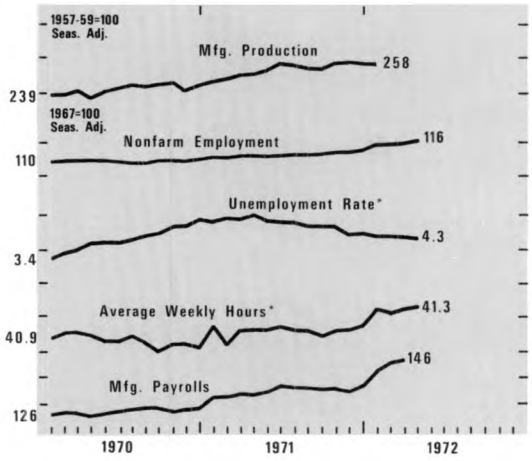
Insured Commercial Banks in the Sixth District

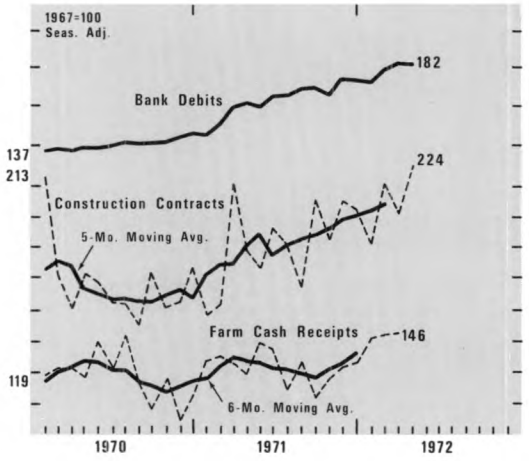
(In Thousands of Dollars)

	Apr. 1972	Mar. 1972	Apr. 1971	Percent Change Apr. 1972 From Mar. 1972	Apr. 1971	Year to date 4 mos. 1972 from 1971
STANDARD METROPOLITAN STATISTICAL AREAS						
Birmingham	2,686,666	2,802,253	2,365,380	− 4	+14	+ 29
Gadsden	80,392	75,696	81,682	+ 6	− 2	+ 2
Huntsville	302,880	264,665	246,895	+14	+23	+ 14
Mobile	834,661	916,748	760,523	− 9	+10	+ 20
Montgomery	460,303	482,690	445,782	− 5	+ 3	+ 11
Tuscaloosa	149,194	157,118	152,926	− 5	− 2	+ 6
Ft. Lauderdale—Hollywood	1,515,806	1,650,350	1,479,838	− 8	+ 2	+ 18
Jacksonville	2,705,866	2,969,637	2,314,454	− 9	+17	+ 27
Miami	4,996 580	5,332,246	4,827,988r	− 6	+ 3	+ 14
Orlando	1,235,180	1,275,211	1,115,921	− 3	+11	+ 23
Pensacola	354,551	393,172	339,965	−10	+ 4	+ 14
Tallahassee	584,763	621,649	282,331	− 6	+107	+120
Tampa—St. Pete.	2,995.096	3,321,989	2,640,247	−10	+13	+ 21
W. Palm Beach	896,686	909,426	835,974	− 1	+ 7	+ 11
Albany	148,930	158,226	140,751	− 6	+ 6	+ 13
Atlanta	9,874,733	10,715,874	8,955,452	− 8	+10	+ 16
Augusta	398,412	413,566	379,430	− 4	+ 5	+ 14
Columbus	342,346	368,139	335,738	− 7	+ 2	+ 13
Macon	397,715	422,265	373,368	− 6	+ 7	+ 13
Savannah	418,260	438,655	412,207	− 5	+ 1	+ 9
Alexandria	181,871	214,714	173,567	−15	+ 5	+ 8
Baton Rouge	965,664	1,023,424	1,031,773	− 4	− 4	+ 9
Lafayette	194,711	216,997	193,621	−10	+ 1	+ 11
Lake Charles	182,416	213,334	184,222	−14	− 1	+ 9
New Orleans	3,154,009	3,447,343	3,177,438r	− 9	− 1	+ 4
Biloxi—Gulfport	183,441	193,250	179,868	− 5	+ 2	+ 13
Jackson	984,978	1,012,512	1,025,511	− 3	− 4	+ 8
Chattanooga	882,787	951,357r	976,422	− 7	−10	+ 4
Knoxville	718,600	781,253	700,285	− 8	+ 3	+ 10
Nashville	2,520,684	2,599,000	2,259,196	− 3	+12	+ 18
OTHER CENTERS						
Anniston	87,234	94,333	85,565	− 8	+ 2	+ 10
Dothan	113,469	125,503	111,952	−10	+ 1	+ 14
Selma	54,849	59,808	53,078	− 8	+ 3	+ 11
Bartow	42,094	42,722	39,834	− 1	+ 6	+ 10
Bradenton	150,537	146,184	111,141	+ 3	+35	+ 24
Brevard County	247,431	251,754	246,924	− 2	+ 0	+ 8
Daytona Beach	144,111	145,014	118,246	− 1	+22	+ 25
Ft. Myers—N. Ft. Myers	172,253	202,637	179,079	−15	− 4	+ 10
Gainesville	166,660	180,352	150,462	− 8	+11	+ 18
Lakeland	217,198	249,715	203,405	−13	+ 7	+ 18
Monroe County	59,285	66,052	52,185	−10	+14	+ 17
Ocala	137,244	141,498	116,271	− 3	+18	+ 27
St. Augustine	29,492	30,831	27,435	− 4	+ 8	+ 18
St. Petersburg	715,793	793,558	659,414r	−10	+ 9	+ 16
Sarasota	251,322	253,853	224,139	− 1	+12	+ 22
Tampa	1,431,011	1,606,257	1,309,214	−11	+ 9	+ 12
Winter Haven	129,586	134,149	108,671	− 3	+19	+ 21
Athens	131,299	137,813	174,060	− 5	−25	− 18
Brunswick	73,593	76,009	70,952	− 3	+ 4	+ 17
Dalton	148,285	154,968	131,558	− 4	+13	+ 17
Elberton	18,818	18,781	16,148	+ 0	+17	+ 11
Gainesville	101,222	95,632	98,692	+ 6	+ 3	+ 4
Griffin	54,413	51,373	51,303	+ 6	+ 6	+ 5
LaGrange	31,068	31,987	33,459	− 3	− 7	+ 12
Newnan	37,505	44,761	35,697	−16	+ 5	+ 29
Rome	113,652	116,629	104,785	− 3	+ 8	+ 15
Valdosta	78,666	87,548	73,814	−10	+ 7	+ 18
Abbeville	15,479	14,164	13,652	+ 9	+13	+ 8
Bunkie	7,965	9,189	8,176	−13	− 3	+ 3
Hammond	57,533	56,046	54,033	+ 3	+ 6	+ 9
New Iberia	47,803	49,294	48,238	− 3	− 1	+ 4
Plaquemine	14,403	14,954	13,055	− 4	+10	+ 7
Thibodaux	29,414	32,033	31,953	− 8	− 8	+ 3
Hattiesburg	98,994	102,484	94,468	− 3	+ 5	+ 10
Laurel	60,209	60,989	57,239	− 1	+ 5	+ 10
Meridian	95,303	96,976	84,673	− 2	+13	+ 15
Natchez	44,655	47,873	52,531	− 7	−15	+ 6
Pascagoula—Moss Point	116,030	121,595	98,750	− 5	+17	+ 23
Vicksburg	56,114	59,357	55,099	− 5	+ 2	+ 0
Yazoo City	39,238	39,232	40,445	+ 0	− 3	+ 8
Bristol	115,233	126,950	117,437	− 9	− 2	+ 9
Johnson City	134,552	153,359	120,194	−12	+12	+ 21
Kingsport	209,470	254,531	195,312	−18	+ 7	+ 11
District Total	53,237,575	58,104,628r	50,759,649r	− 7	+ 7	+ 15
Alabama‡	6,431,299	6,667,725	5,834,460	− 4	+10	+ 21
Florida‡	19,120,949	20,654,812r	17,473,364r	− 7	+ 9	+ 19
Georgia‡	14,472,675	15,489,500r	13,334,175	− 7	+ 9	+ 15
Louisiana†*	5,670,674	6,145,531	5,725,431r	− 8	− 1	+ 6
Mississippi†*	2,264,309	2,420,684	2,241,875	− 6	+ 1	+ 12
Tennessee†*	6,277,669	6,726,376r	6,150,344	− 7	+ 2	+ 10

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

District Business Conditions





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

The growth of the Southeastern economy appears to be in full swing. Banks made a drive for loans; employment chipped out of the rough; consumer activity charged ahead; farm cash receipts rolled toward greener areas; and construction developments were better than par.

Consumer time and savings deposits rebounded in May at the medium- and small-size District banks, following a period of virtually no change in April. Larger banks issued increased amounts of money market CD's to corporations and state and local governments. Although interest rates charged on business loans at the large reporting banks remained in a downward course in early May, the demand for bank loans, in general, continued to pick up. As a result of this increase in lending, some of the larger banks reduced their holdings of U. S. Government securities and cut back on their purchases of other securities.

In April, the regional unemployment rate dipped to 4.3 percent of the civilian work force. A broadly based employment expansion in durable and nondurable manufacturing and in most nonmanufacturing industries also took place. After two months of employment losses in construction, an increase in these jobs and the return of striking workers in Tennessee's furniture and fixture industry added momentum to overall employment growth. Average factory hours also increased.

In April, consumer instalment credit outstanding at commercial banks kept up a strong expansionary pace. All major types of consumer loans increased, with nonautomotive consumer goods registering the largest gain. Auto sales sputtered in April, though sales in the first four months outpaced those in the same period one year ago.

Farm cash receipts in the first four months of 1972 were nearly 25 percent above the comparable 1971 level. Florida's improved citrus income accounted for more than half of the District's gain. Prices received by farmers in April held steady at 8 percent above the year-ago level. Sharp declines in poultry prices were offset by much higher tobacco and vegetable prices. Preliminary data indicate that livestock prices at the farm level turned up again in May. The volume of farm credit was substantially greater than the year-ago level. Crop conditions were generally good, although wet, cool weather delayed planting and early growth of cotton and soybean crops.

Construction activity increased in April. The value of construction contract awards for the month was 33 percent above awards recorded one year ago. Residential contracts, centered in the single-family sector, continued to provide the impetus for construction expansion. Deposit inflows at home mortgage lending institutions slowed somewhat in April. There has been little change from month to month in nonresidential contract awards during the past year.

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