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Concentration in Banking Markets: **Regulatory Numerology or Useful Merger Guideline?**

by Charles D. Salley

Americans have long been convinced that competition in the marketplace is a good thing. Competition among numerous firms usually results in wider choice for the consumer, a high degree of innovation, and rewards to efficient operation. Monopoly, on the other hand, tends to restrict the variety of products, result in higher prices, and discourage innovative production techniques. That is why through the years the Congress has enacted much legislation designed to preserve competition.

More specifically, these antitrust laws are intended to encourage competitive markets even though competition might result in the closing of some firms. Since the theory of competition, however, assumes that it is the less efficient firms and those unresponsive to consumer demands that fail, their closing can be a gain to the community as a whole.

To enforce the antitrust laws, Government agencies have often used the number of firms as a convenient indication of the existing degree of market competition. A market is rarely perfectly competitive (an extremely large number of firms) or purely monopolistic, but generally lies somewhere between these extremes. Using the number of firms to characterize a market, then, one presumes that the fewer the firms, the less competitive the market and vice versa.

Concentration as a Measure of Competition

Upon further reflection, the number of firms is really only part of the market picture. There may be many firms; yet, a few large ones could exercise a great influence over the market. Therefore, one needs an index that measures the relationship between the number of firms and their share of the market.

The concentration ratio, or the market share of total assets, income, sales, or some other unit accounted for by one firm or a group of firms is used for this purpose. It attempts to gauge the dominance over the market, or lack of dominance, by a few firms. For example, if the three largest firms account

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for 90 percent of total output, one would presume that the market is less competitive, even though there might be a total of 80 firms, than if the three largest firms account for only 5 percent (see Table 1).

Because the concentration ratio gives a better picture of market structure than the number of firms, it has become a common proxy measure for the degree of competition in a market. Using this ratio in such a manner, one assumes that a handful of large firms, high concentration, and unaggressive competition occur simultaneously.¹ Many court decisions and regulatory agency rulings on mergers thus refer to "concentrated" markets. This is so frequent, in fact, that many observers have come to interpret the concentration ratio itself to be a hard, final criterion of competition.

This is hardly the case, though, because the concentration ratio, while superior to the number of firms as a measure of market structure, has several shortcomings as a measure of competition. The concentration ratio can only suggest that the fewness of large firms makes restrictive pricing and output decisions more possible than if there were many firms of equal size. It does not mean that the large firms are actually engaging in anti-competitive conduct. The existence of a few gigantic firms may simply reflect economies of large-scale operations in production technology, management, or distribution. Therefore, in this light, it would seem best not to regard the concentration ratio as an inflexible rule to regulate mergers but as a signal to a possible problem area warranting further investigation. This holds particularly for bank merger and holding company regulation where the concentration ratio can be especially misleading.

Conflicting Goals of Bank Regulation

The traditional regulatory policy of limiting the number of banks has produced many markets with little or no competition and with correspondingly high concentration ratios. At first blush this appears to be a questionable policy, but it is not when we recall that competition often results in the closing of numerous inefficient firms. Though highly desirable in most industries, perfect competition (as marked by unrestricted entry of new firms and failure of some existing firms) is unacceptable in banking because the local bank is usually more critical to a community than a single business. When a bank fails, the depositors and the businesses served by the bank get hurt as well as the stockholders.

¹The popular presumption is that with fewer firms, a collusive agreement is more easily reached. Economic theory suggests, however, that even without collusion, the fewness of competitors alone may alter their pricing and output decisions from those made under conditions where there are many competitors.

TABLE 1
The concentration ratio is a better measure of market structure than is the number of firms.

Firm	Market A (Share)		Market B (Share)
1	35%	} 75% ratio for three largest	15%
2	20%		15%
3	20%		15%
4	10%		15%
5	5%		15%
6	5%		15%
7	5%		10%
	100%		100%

Both markets have the same number of firms, but larger firms are more significant in Market A than in Market B.

Because the local economic base may not be big enough for all banks to operate profitably, bank failure can result if the number of banks in a community is not limited. Already possessing management experience and a minimum critical operating size, existing banks have additional advantages over new banks for which the risk of failure is, therefore, usually greater.²

On the one hand, then, the goal of banking efficiency seems to require encouragement of competition, while, on the other, the goal of banking stability seems to require restriction of competition. Both goals focus on the control of market entry of new banks via charter regulation and on the control of market exit of competing banks via merger regulation. Both goals hence affect the number of banks in a market and the level of deposit concentration. Thus, we shall see, a high concentration ratio in banking markets is ambiguous unless it is taken in the context of two very different market situations.

Two Market Patterns: Rural and Urban

If you closely examine the actual concentration of deposits held by the largest bank in counties within the Sixth District,³ you find that high levels of concentration occur most often in two distinct types of markets. High concentration ratios appear in rural markets with total deposits of \$45 million or less and in urban markets with deposits of \$100 million or more.

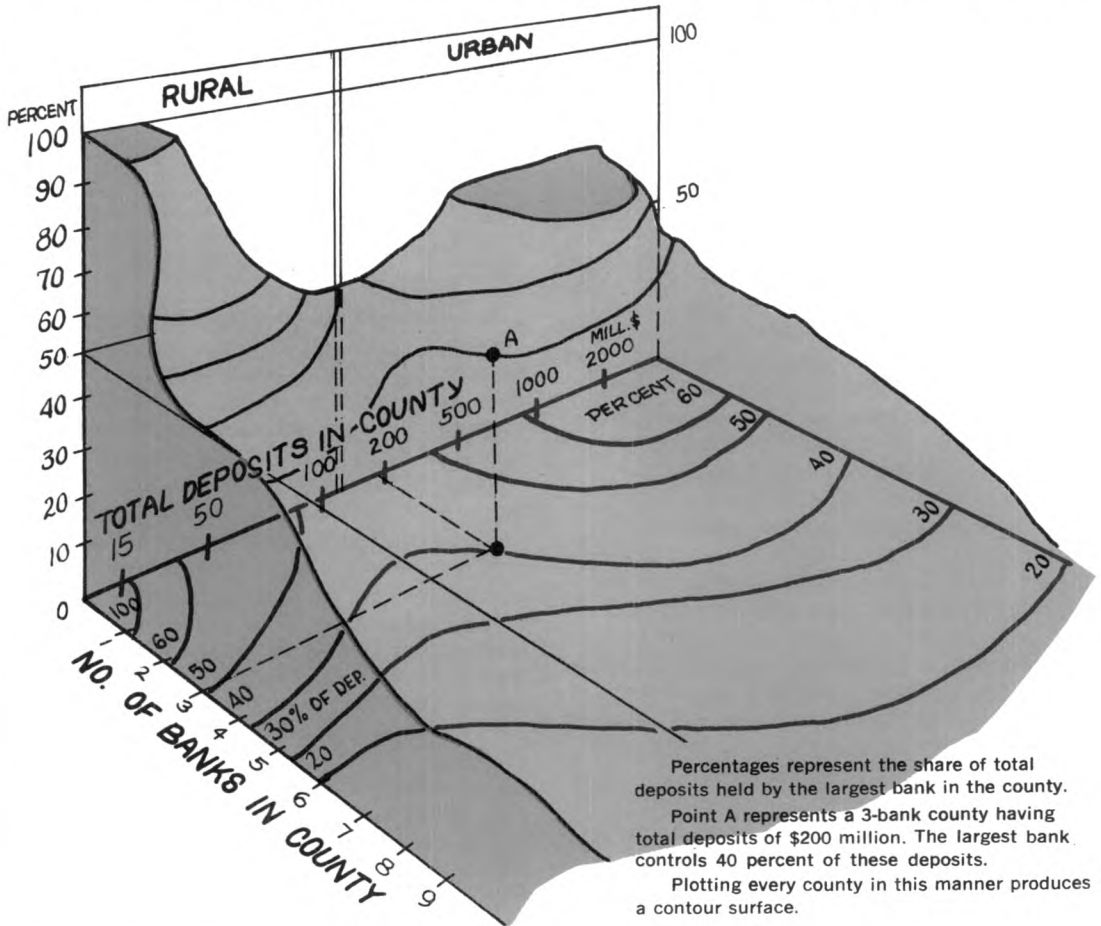
Chart I illustrates this finding with the use of 1970 concentration ratios of bank deposits held by

²On the other hand, there is an argument for free entry in banking, arising as a result of deposit insurance, close supervision of operations, and controlled liquidation by the banking agencies. Placing emphasis on supervision, rather than restricting entry, might make it possible to protect the public interest from the consequences of bank failure and also to retain the competitive benefits of easier entry. See D. A. Alhadeff, "A Reconsideration of Restrictions on Bank Entry," *Quarterly Journal of Economics*, May 1962.

³The Sixth Federal Reserve District consists of Alabama, Florida, Georgia, and portions of Louisiana, Mississippi, and Tennessee.

Chart I

A Three-Dimensional Diagram of Concentration in 376 Counties of the Sixth Federal Reserve District, 1970.



Note: Best-fit curve for 1970 is presented rather than actual data.

the largest bank in each of the 376 District counties having banking offices. We have plotted on this three-dimensional diagram the number of banks in the county, the total deposits, and the percent share of these deposits (or concentration) held by the largest bank. Plotting every county in the District in this manner produces an array of such points. And connecting these points into a continuous surface gives us the contour that visualizes the degree of concentration.

In a nutshell, this diagram shows that, in the Sixth Federal Reserve District at least, the highest level of concentration tends to occur in the smallest rural markets and in distinctly urban markets. This finding fits the different regulatory emphasis given to two distinct market situations. In rural markets, including the numerous one-bank communities, the regulatory concern is for stability rather than

competition. It allows a new competing bank to enter only if the community's demand for banking services is great enough for the existing bank(s), as well as for the new bank, to survive. On the other hand, in urban markets, where deposits are concentrated in several large organizations, the regulatory emphasis is on encouraging competition, especially by preventing the disappearance of existing smaller competitors through merger.

Without qualification, the statement that low deposit concentration and unrestricted competition in banking markets are desirable per se is therefore quite meaningless. Measures of concentration clearly have little significance in rural markets where banking stability is paramount. However, concentration may be a useful, though inconclusive, indicator of the competitive situation in urban markets where competition is a regulatory concern.

In other words, 80-percent concentration by the largest bank in a rural market with \$8 million in total deposits should not surprise anyone. But 50 percent concentration by the largest bank in an urban market with \$400 million in deposits should raise the interest of a regulatory authority appraising a proposed merger or holding company acquisition in this market. Thus, the dual purpose of banking regulation tends to confine the usefulness of concentration ratios to the larger banking markets.

Accurate Measure of Concentration in Urban Banking Markets

We can now recognize the usefulness of concentration ratios in meeting only one of banking market regulation's two goals—banking efficiency. Even so, concentration ratios are not foolproof measures of competitive market structure. Even in urban areas, the simple concentration ratio fails to take account of the size discrepancy among the leading banks themselves. For example, all that a concentration ratio of 75 percent for a city's three largest banks tells is that the "big three" together control 75 percent of all bank deposits in the area. Now the 75 percent ratio might represent three banks whose market shares are 60 percent, 10 percent, and 5 percent, respectively; or perhaps each of the three banks holds 25 percent each. The observer would anticipate a stronger market influence from the largest bank in the earlier example; yet, the simple concentration ratio does not call this to his attention.

Therefore, to remedy this particular shortcoming, some persons prefer another measure of concentration known as the Herfindahl Index. This computation does take into account the size distribution among the larger banks.⁴ (The maximum index value for a market controlled entirely by a monopoly bank would be 100 percent x 100 percent or 1.0000.)

The Herfindahl Indices for the two illustrations, each with 75 percent concentration, would be .3725 and .1875, respectively. Thus, whereas the simple concentration ratio indicates that both markets are equally concentrated, the Herfindahl Index conveys more accurately that the second market is much less concentrated than the first (Table 2).

We, therefore, computed a Herfindahl Index of concentration for 1960 and 1970 for each of the

TABLE 2
Markets can have the same concentration ratio but a different size distribution.

Firm	Market A (Share)	75% concentration ratio	Market B (Share)
1	60%	}	25%
2	10%		25%
3	5%		25%
4	5%		5%
5	5%		5%
6	5%		5%
7	5%		5%

.3725 Herfindahl Index for three largest firms

.1875 Herfindahl Index for three largest firms

The Herfindahl Index distinguishes between the size distribution of different firms.

Sixth District's county banking markets that had more than one bank. These computations also confirmed what we found from the simple concentration ratios of the largest bank: The concentration of bank deposits is generally highest in the smallest counties with only a few banks and again in the larger metropolitan areas (see Appendix and Chart II on following page).

Changes in Concentration

So far, we have dwelled on the degree of concentration in rural and urban banking markets, but have not said whether this concentration has increased or not. Therefore, to shed light on this question, we have used several methods to compare concentration in 1960 with 1970 in each county. One such comparison, using the Herfindahl Index for 1970, represents a simple comparative static measure. (A higher value for 1970 indicates that larger banks have increased their market shares during the ten-year period.) The other comparison represents a dynamic measure of the change in deposit concentration. That measure compares the 1960 percentile shares of each bank in a given county with the 1970 market shares through regression analysis.⁵ (A coefficient greater than one generally indicates that the large banks have grown at the expense of the other banks and, hence, there has been an increase in concentration. A coefficient less than one indicates that the smaller banks have won larger shares from the large banks, and, hence, concentration has decreased.)

⁴The Index is the sum of the squared market shares rather than a simple sum of the percentile shares (which is the way we arrived at the concentration ratio).

The actual calculation is $HI = \sum_{i=1}^n X_i^2$, where X_i is

the percentile share of the i th firm. See I. M. Grossack, "Towards an Integration of Static and Dynamic Measures of Industry Concentration," *Review of Economics and Statistics*, August 1965.

⁵A simple regression of the individual 1970 shares on the 1960 shares gives a biased picture, since there is a tendency for the growth rates of banks that are largest at the outset to be less than the average rate for the market. (This may be simply a characteristic of the arithmetic of percentages, not necessarily some rule of bank behavior.) Therefore, we calculated the geometric mean of the regression of 1970 on 1960 shares and the reciprocal of the regression of 1960 on 1970 shares. Specifically, the dynamic concentration measure is the geometric mean of $\sum xy / \sum x^2$ and $\sum y^2 / \sum xy$ where x is the deviation from the mean share in 1960 and y is the deviation from the mean share in 1970. See S. J. Prais, "The Statistical Conditions for a Change in Concentration," *Review of Economics and Statistics*, August 1958.

Even a scanning of the fifth column (concentration coefficient) in the Appendix shows that in the large majority of counties there has been a general *decrease* in concentration during the period 1960-70. The few instances of increased concentration seem to have taken place primarily in some smaller markets whose total deposits during the period grew from \$7 million to about \$35 million.

Market Share Stability

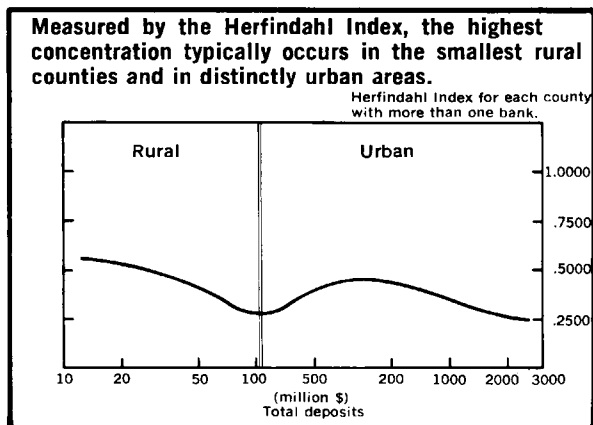
We have seen that the Herfindahl Index and the dynamic coefficient are better measures of concentration than the simple concentration ratio. Recall now that a change in concentration, however measured, is a measure only of market structure; the associated change in competition is *merely presumed*. Thus, while we know that banking markets in the Sixth District have generally become less concentrated, we do not know whether they have become more competitive.

Here is where still another aid—useful in trying to make this judgmental leap from concentration to competition—comes in. Suppose that new or smaller banks have gained a growing share of a particular market. If that has happened, it may be indicative of increased competition, perhaps even aggressive competition. But if the leading banks have maintained their relative positions over many years, it may be indicative of little aggressive competition. Thus, the stability of market shares is an indication of the intensity of competition among banks in a market.

A convenient measure of market share stability is the correlation coefficient of the market shares in two different years, say 1960 and 1970. If the shares of the competitors have not changed—i.e., the largest bank in 1960 is still the largest in 1970, and the smallest bank is still the smallest—the correlation of the shares is perfect and the correlation coefficient is 1.000. Conversely, if the smaller banks have been aggressive and have gained such an increased share that they are now the largest banks, there will be little correlation between the 1960 and 1970 shares and the coefficient will be low, say, .300. The coefficient will be low even when the largest bank has lost its lead position to the second largest. It is also possible, however, that the small banks could have gained such a large share that the concentration level has remained high. In such an event, the concentration measure by itself is not an accurate proxy for the degree of competition. The low correlation of market shares indicates—despite the high concentration—that the level of competition was very great during the ten-year period between 1960 and 1970.

Thus, by using the dynamic measure of concentration and the correlation coefficient of market shares, it is possible to get an improved indication of the degree of competition in a market. The joint

Chart II



Note: Best-fit curve for 1970 is presented rather than actual data.

measure is still a structural one, but the judgmental leap from competitive structure to competition is on firmer ground.

If the concentration coefficient is *greater than one* and the share correlation coefficient is *high*, the large banks have maintained their leadership and even increased their shares. If the concentration coefficient is *less than one* and the share correlation coefficient is *low*, the smaller banks have aggressively gained shares at the expense of the larger banks or from mergers with other small banks. Judging from the figures in the Appendix, the latter describes what has typically happened in Sixth District banking markets. In other words, *the larger banks have lost some of their dominant positions in the face of new challenges from smaller competitors.*

Conclusion

In their concern to encourage competition in the growing urban banking markets, the regulators of bank mergers and holding company acquisitions are likely to invoke one or more of various measures of market structure. Because these measures are only approximations to the actual degree of competition in individual markets, bankers can be sure that their proposed mergers will not be approved or denied simply on the basis of concentration arithmetic, however sophisticated. Nonetheless, bankers can be equally sure that high levels of concentration in urban markets will incur the scrutiny of the American concern for competitive markets. While measures of concentration by themselves are imperfect as guidelines for mergers, they are extremely useful in signaling a possible problem area warranting a closer look. ■

APPENDIX

Static and Dynamic Measures of Deposit Concentration

Sixth District Commercial Banks

State and County	Total Deposits 1970 (\$ Mil.)	Herfindahl Index		Coefficients		State and County	Total Deposits 1970 (\$ Mil.)	Herfindahl Index		Coefficients	
		1960	1970	Share Stability ¹	Concentration ²			1960	1970	Share Stability ¹	Concentration ²
ALABAMA											
Hale	10.2	0.5806	0.5207	1.000	0.506	Gulf	12.6	0.5493	0.5542	1.000	1.048
Bibb	12.4	0.5128	0.3581	0.855	0.372	Taylor	13.5	0.5213	0.5041	0.990	0.443
Sumter	15.1	0.5018	0.5048	0.000	1.633	Hendry	13.6	1.0000	0.5948	1.000	0.435
Clay	15.2	0.5204	0.5466	1.000	1.511	Madison	15.2	0.5615	0.5103	1.000	0.407
Crenshaw	16.1	0.4033	0.3702	1.000	0.726	Walton	15.4	0.5457	0.5704	1.002	1.243
Bullock	16.3	0.5002	0.5009	0.000	2.236	Hardee	18.6	0.6562	0.5849	1.000	0.737
Macon	16.3	0.3703	0.4475	0.985	1.758	Clay	25.4	0.4166	0.3749	0.801	0.707
Conecuh	16.4	0.3387	0.3574	0.702	2.113	Suwanee	27.8	0.4098	0.4249	0.989	1.095
Blount	16.4	0.5153	0.5002	0.778	0.114	Osceola	28.6	0.5000	0.3724	0.782	0.484
Wilcox	16.8	0.2763	0.3661	0.727	2.101	Hernando	29.8	1.0000	0.5599	1.000	0.346
Perry	17.6	0.4916	0.4953	0.992	1.012	Citrus	33.4	0.6202	0.4339	0.984	0.705
Choctaw	18.3	1.0000	0.5166	1.000	0.182	Putnam	34.4	0.4299	0.4686	0.994	1.183
Lamar	19.0	0.3740	0.3507	0.917	0.654	Columbia	34.6	0.4249	0.4511	0.996	1.134
Fayette	19.3	0.4349	0.4317	0.993	0.985	Jackson	36.1	0.3388	0.3388	0.984	0.999
Lawrence	20.0	0.5245	0.5033	1.000	0.361	Gadsden	38.0	0.3548	0.3329	0.341	0.889
Saint Clair	20.6	0.2771	0.2446	0.513	0.761	Santa Rosa	38.9	0.4347	0.2667	0.704	0.302
Autauga	21.4	0.6918	0.5996	1.000	0.721	Saint Johns	50.1	0.4227	0.3934	0.995	0.911
Randolph	22.4	0.2661	0.2549	0.551	0.553	Charlotte	50.7	1.0000	0.5004	0.000	0.028
Pickens	23.4	0.2775	0.2053	0.818	0.262	Monroe	62.4	0.3466	0.2614	0.807	0.342
Chilton	24.1	0.3129	0.2903	1.000	0.799	Saint Lucie	65.0	0.4791	0.4168	0.934	0.757
Chambers	24.7	0.5821	0.3857	0.943	0.459	Highlands	66.7	0.4482	0.2849	0.885	0.419
Monroe	24.9	0.2399	0.2418	0.904	1.025	Indian River	69.9	0.6588	0.4597	1.000	0.623
Marion	26.7	0.3444	0.2897	0.918	0.788	Martin	72.4	0.8671	0.3920	0.894	0.480
DeKalb	28.3	0.4459	0.2560	0.864	0.477	Seminole	76.8	0.4155	0.2380	0.902	0.420
Cherokee	28.5	0.4078	0.4077	0.989	0.999	Okaloosa	78.7	0.2245	0.1654	0.746	0.636
Henry	28.6	0.5086	0.4306	0.902	0.745	Bay	99.3	0.5045	0.3184	0.972	0.624
Russell	29.5	0.6217	0.3122	0.578	0.409	Pasco	113.3	0.3050	0.2464	0.661	0.760
Cullman	29.6	0.4501	0.4301	0.998	0.910	Marion	115.7	0.3059	0.2160	0.970	0.670
Colbert	30.3	0.7803	0.4205	0.988	0.442	Collier	118.4	0.3994	0.3654	0.928	0.910
Butler	30.5	0.5344	0.4452	0.942	0.746	Alachua	123.4	0.2720	0.2312	0.948	0.864
Shelby	30.6	0.2738	0.2592	0.980	0.626	Lake	148.6	0.1325	0.1200	0.848	0.786
Franklin	31.6	0.2792	0.2155	0.279	0.444	Leon	173.2	0.2909	0.2235	0.969	0.770
Geneva	33.3	0.2159	0.2119	0.957	0.865	Escambia	199.9	0.2182	0.1433	0.901	0.606
Marengo	34.8	0.2062	0.2263	0.951	1.228	Manatee	216.0	0.3323	0.1979	0.931	0.593
Elmore	35.5	0.3227	0.3091	0.962	0.903	Brevard	248.2	0.1545	0.0765	0.885	0.457
Dale	38.1	0.5251	0.3349	0.902	0.555	Lee	273.1	0.4644	0.2216	0.938	0.560
Clarke	39.0	0.3737	0.2617	0.833	0.309	Volusia	301.3	0.1687	0.0907	0.917	0.536
Jackson	39.9	0.3171	0.3760	0.999	1.370	Sarasota	379.8	0.2408	0.1426	0.948	0.614
Pike	44.7	0.3674	0.3466	0.948	0.908	Polk	425.2	0.1201	0.0983	0.919	0.831
Barbour	47.1	0.2126	0.1751	0.695	0.680	Orange	774.6	0.2257	0.2230	0.965	0.992
Tallapoosa	48.1	0.3125	0.2929	0.991	0.908	Palm Beach	864.0	0.1193	0.0556	0.779	0.506
Coffee	53.4	0.3681	0.3320	0.955	0.886	Hillsborough	1,003.6	0.2363	0.1889	0.992	0.861
Walker	54.0	0.4287	0.3370	0.992	0.824	Duval	1,266.5	0.2664	0.2115	0.993	0.857
Escambia	58.3	0.2250	0.2193	0.959	0.877	Pinellas	1,322.3	0.1002	0.0549	0.946	0.614
Baldwin	61.6	0.1829	0.1760	0.808	0.761	Broward	1,394.7	0.0974	0.0537	0.942	0.620
Talladega	66.1	0.1922	0.1910	0.956	0.974	Dade	3,258.4	0.1309	0.1037	0.985	0.874
Covington	67.9	0.2668	0.2259	0.951	0.769	GEORGIA					
Lee	74.7	0.2052	0.1818	0.982	0.789	Talbot	3.3	0.5980	0.7175	1.000	1.490
Marshall	75.4	0.1851	0.1546	0.841	0.702	Jones	4.1	0.5924	0.6683	0.999	1.350
Lauderdale	83.4	0.6734	0.5189	0.993	0.834	Atkinson	4.3	0.6936	0.5801	1.000	0.644
Dallas	92.8	0.2978	0.2722	0.972	0.859	Stewart	4.5	0.5067	0.5037	0.980	0.748
Etowah	107.9	0.2468	0.1875	0.385	0.751	Montgomery	5.6	1.0000	0.4329	0.896	0.387
Houston	112.4	0.3583	0.3405	0.999	0.958	Wilcox	5.7	0.3384	0.3129	0.967	0.842
Tuscaloosa	122.0	0.5313	0.4656	0.993	0.817	Madison	6.0	0.5003	0.5006	0.000	1.732
Calhoun	148.3	0.2529	0.2119	0.994	0.824	Pike	6.1	0.4089	0.4108	0.995	1.013
Madison	158.8	0.4988	0.3288	0.912	0.698	Oglethorpe	6.6	0.5231	0.5206	0.995	0.942
Morgan	297.9	0.6744	0.6248	0.996	0.947	Jasper	7.3	0.5031	0.5036	1.000	1.061
Montgomery	401.5	0.3996	0.3572	0.998	0.888	Hancock	7.8	1.0000	0.8652	1.000	0.855
Mobile	498.9	0.3862	0.3508	0.995	0.924	Paulding	8.3	1.0000	0.6023	1.000	0.452
Jefferson	1,349.6	0.4293	0.3019	0.963	0.790	Jefferson Davis	8.8	1.0000	0.5000	0.520	0.000
						Liberty	8.8	1.0000	0.8083	1.000	0.785
						Randolph	8.9	0.5362	0.5544	1.000	1.226
FLORIDA											
Levy	9.8	0.3867	0.3818	0.941	0.953						
Bradford	10.9	0.5583	0.5202	0.997	0.589						
Sumter	11.2	0.5016	0.5018	1.000	1.061						

¹ Correlation coefficients for 1960 and 1970 shares. Maximum value is 1.000.

² Geometric mean of the regression of 1970 on 1960 percentile shares of total deposits and the reciprocal of the regression of 1960 on 1970 shares. Coefficients greater than one indicate increase in market concentration.

Static and Dynamic Measures of Deposit Concentration

Sixth District Commercial Banks

State and County	Total Deposits 1970 (\$ Mil.)	Herfindahl Index		Coefficients		State and County	Total Deposits 1970 (\$ Mil.)	Herfindahl Index		Coefficients	
		1960	1970	Share Stability ¹	Concentration ²			1960	1970	Share Stability ¹	Concentration ²
Rankin	19.1	0.7612	1.0000	1.000	1.384	Macon	19.7	0.5939	0.5000	0.520	0.000
Wayne	19.1	1.0000	0.5630	1.001	0.355	Scott	20.5	0.4028	0.4145	0.940	1.080
Leake	20.5	0.6411	0.6342	0.998	0.989	Polk	21.2	0.5228	0.4534	0.987	0.796
Simpson	21.6	0.5003	0.5076	0.000	6.164	Jefferson	23.5	0.3846	0.3719	0.996	0.866
Pike	22.6	0.2837	0.3852	0.210	1.487	Claiborne	23.6	0.5398	0.5504	1.000	1.125
Neshoba	26.9	0.5207	0.5354	1.000	1.311	Cumberland	24.4	1.0000	0.5917	1.000	0.429
Pearl River	28.8	0.3550	0.3424	0.993	0.644	Smith	26.9	0.5168	0.5341	1.000	1.427
Scott	30.6	0.3188	0.3147	0.913	0.971	Cocke	27.2	0.5693	0.5114	1.000	0.405
Marion	30.7	0.5022	0.5004	1.111	0.426	Lawrence	28.6	0.5325	0.4126	0.988	0.759
Madison	31.3	0.4232	0.3849	0.999	0.758	Monroe	29.4	0.3949	0.4069	0.968	1.040
Copiah	35.2	0.2660	0.2661	0.888	1.003	Dickson	29.4	0.3575	0.3227	0.988	0.883
Lincoln	37.0	0.5955	0.5735	1.000	0.877	Wilson	31.4	0.7504	0.5131	0.992	0.656
Yazoo	40.3	0.5455	0.5277	1.000	0.781	Campbell	32.5	0.2409	0.2418	0.986	1.015
Newton	41.8	0.3681	0.3765	0.943	1.116	Carter	34.1	0.5107	0.5002	0.933	0.137
Warren	61.8	0.5043	0.5022	0.968	0.707	Marshall	34.6	0.3146	0.3293	0.998	1.062
Jackson	79.6	0.5420	0.4347	0.966	0.697	Franklin	36.6	0.3055	0.2521	0.876	0.784
Jones	82.5	0.4250	0.4270	0.975	1.011	Hawkins	39.3	0.6991	0.6168	1.001	0.766
Lauderdale	89.5	0.3596	0.3379	0.838	0.422	Loudon	40.4	0.3291	0.3025	0.946	0.814
Forrest	116.9	0.5613	0.4986	0.922	0.851	Coffee	41.7	0.2797	0.2694	0.942	0.812
Harrison	150.3	0.3401	0.4838	0.940	1.611	Lincoln	42.1	0.4222	0.4222	1.001	1.000
Hinds	862.9	0.4517	0.4276	0.999	0.962	Sevier	42.2	0.4001	0.3496	0.973	0.493
						Bedford	42.8	0.5069	0.5001	0.000	0.172
						Roane	43.5	0.3861	0.3719	0.967	0.854
						Giles	46.2	0.3782	0.3788	0.935	1.002
						Sumner	47.8	0.2462	0.1750	0.884	0.556
						Williamson	49.0	0.4532	0.4226	0.995	0.863
						McMinn	50.2	0.2643	0.2254	0.983	0.776
						Warren	51.0	0.4566	0.4726	0.999	1.038
						Rutherford	51.8	0.6149	0.5492	0.992	0.906
						Maury	57.8	0.3818	0.3789	0.986	0.989
						Putnam	59.6	0.4066	0.3542	0.961	0.815
						Hamblen	59.8	0.5053	0.3625	0.992	0.411
						Greene	60.1	0.4296	0.4293	0.919	0.997
						Bradley	76.8	0.3612	0.3385	0.950	0.428
						Montgomery	80.5	0.3426	0.3408	0.941	0.898
						Anderson	81.0	0.3342	0.2675	0.824	0.459
						Washington	134.9	0.3868	0.3616	0.986	0.903
						Sullivan	140.5	0.4043	0.5318	0.825	1.352
						Knox	548.6	0.3586	0.2872	0.986	0.792
						Hamilton	606.1	0.4193	0.4030	0.960	0.901
						Davidson	1,504.9	0.2948	0.3111	0.984	1.041

TENNESSEE

Grundey	5.3	0.5402	0.5002	1.071	0.071
Perry	6.7	0.5780	0.5759	1.000	0.986
Morgan	8.8	0.5174	0.5362	0.996	1.442
Trousdale	8.9	0.5178	0.5390	1.004	1.480
Unicoi	9.3	1.0000	0.7162	1.000	0.658
Lewis	10.0	0.5290	0.5141	0.995	0.700
Cheatham	10.2	0.6783	0.7485	1.000	1.180
Stewart	10.4	0.3875	0.4251	0.996	1.129
Wayne	13.0	0.4685	0.4246	0.980	0.822
Jackson	13.1	1.0000	0.6066	1.000	0.462
Humphreys	14.2	0.6034	0.5143	1.000	0.373
Cannon	15.1	0.7000	0.5691	0.970	0.842
Robertson	16.0	0.8740	0.7837	0.999	0.913
Hickman	17.2	0.5875	0.5426	0.998	0.697
Marion	17.8	0.5477	0.4328	0.997	0.681
DeKalb	19.0	0.4056	0.2890	0.812	0.501
Overton	19.2	1.0000	0.5938	1.000	0.433
Rhea	19.6	0.6031	0.4445	0.988	0.642

NOW AVAILABLE

Federal Reserve Policy-Making and Its Problems

A review of the principal tools of monetary policy, the problems faced by those who formulate policy, and the actions taken by monetary authorities during the past several years. Published in 1964, this collection of articles has been updated and revised. It is now available with these limits: single copies to individuals; 10 copies to banking and educational institutions. Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

Tennessee's Economy Builds Up Momentum For Further Gains

by John M. Godfrey

As Tennessee's economy approaches the end of the second year of the current economic upturn, there are signs that the underlying economic strength has generated sufficient momentum to carry the economy forward for some time. The major evidence of this economic strength may be checked off:

Personal income is up strongly.

Employment is rising in all major categories.

Unemployment is on the wane.

Stronger business and consumer spending is apparent.

For nearly two years, there have been noticeable signs that economic activity was picking up steam in Tennessee. However, a number of weak areas were partially offsetting the expanding areas. In particular, a weakness in the manufacturing sector was preventing the state from experiencing a strong and balanced economic recovery.

This is no longer the case; manufacturing is turning out to be a strong performer that should carry the Tennessee economic show briskly forward. Throughout most of Tennessee, manufacturers are reporting that sales, output, and profits are up strongly. Increased orders, in turn, are having a favorable impact on employment conditions and are increasing the demands for new and expanded plant and equipment. As a result of the impressive rebound in manufacturing, incomes derived from the manufacturing activity are advancing strongly and increased consumer spending is but one result.

The basis for expected future gains in Tennessee's economy appears more clearly, however, when the economy's various sectors are examined in greater detail. Using the broadest measure of Tennessee's economic posture—personal income—we note that solid gains have now been established that provide the basis for expected future gains. For as a strong income momentum develops, it begins to feed on itself and can be expected to continue as a source of economic strength.

Personal income growth snapped back sharply in the first half of 1972, advancing at an annual rate of 13 percent. This performance contrasts sharply with only small gains during the latter half of the previous year, a period

Note: This is one of a series of articles in which economic developments in each of the Sixth District states are discussed.

when the wage-price freeze undoubtedly made a significant difference. Nevertheless, personal income did advance slightly more during 1971 (up 9 percent) than during 1970 when the business downturn held the growth in personal income to 8 percent.

In contrast to the previous two years, the private sector of the economy is now providing the strongest income gains. Income from the manufacturing sector has advanced at an annual rate of 15 percent. Other areas of particular income strength are in construction, trade, transportation, communications, and public utilities. And what makes the strong gains even more important to Tennesseans is that a larger proportion is "real." The pace of inflation has slowed so that the additional income buys more goods and services.

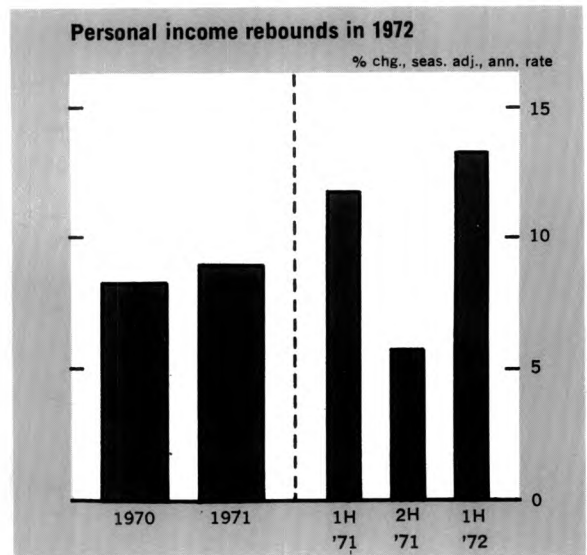
Incomes have advanced, in part, because more business firms have experienced rising sales, leading to increased output and employment. That businesses are now seeking to hire more workers is evidenced by increased help-wanted advertising; and, as a result, total employment is now rising strongly. In the last twelve months, more than 54,000 employees were added to Tennessee's payrolls. In contrast, only about one-half of that number was added in the preceding twelve months.

Manufacturing Employment: A Source of Strength

These signs of greater strength in employment suggest that the Tennessee economy is now solidly on its feet. Employment in the manufacturing industries is now a special "plus" and has been rising at a 2.3-percent annual rate over the last few months. This trend began last year as manufacturing rose somewhat less than 2 percent, following a nearly 3-percent decline in 1970.

Measured by nearly all available economic indicators, the durable goods sector has shown the greatest strength. For example, the boom in residential construction and new family formations is having a favorable impact on the lumber, furniture, and home fixture producers. Increased output is also showing up in the machinery industry, primarily agricultural equipment and consumer electrical products. In Nashville, completion of defense contracts for helicopters and military transport aircraft wings is being offset by increasing orders for rapid-transit car bodies and civilian aircraft. Not all durable manufacturing, however, has been uninterrupted. There was a short-lived labor-management dispute at a major aluminum producer in the early summer.

Employment in nondurable goods manufacturing is also recovering, although not as vigorously. Textile and apparel manufacturers are expanding their output and once again new plants are opening in Tennessee. Two areas that felt the brunt of



earlier defense cutbacks—chemicals and ordnance—are no longer experiencing layoffs. This is important to such localities as the Tri-Cities area where previous cutbacks were severe.

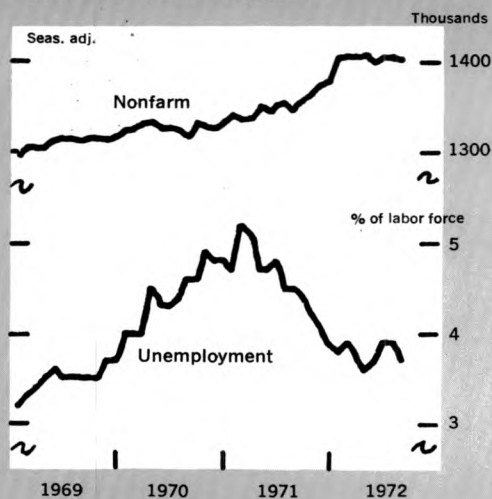
The strong gains in manufacturing incomes are not just the result of increased employment. Average weekly manufacturing earnings are up over 7 percent from last year because hourly wages advanced 5.6 percent and the average workweek increased from 40.1 to 40.7 hours. The longer workweek has meant increased overtime pay, a big help in fattening pay envelopes. (Reflecting the greater strength in durable goods manufacturing, all of these income variables were nearly twice as strong in durable goods as in nondurable goods.)

Nonmanufacturing Employment: The Growth Sector

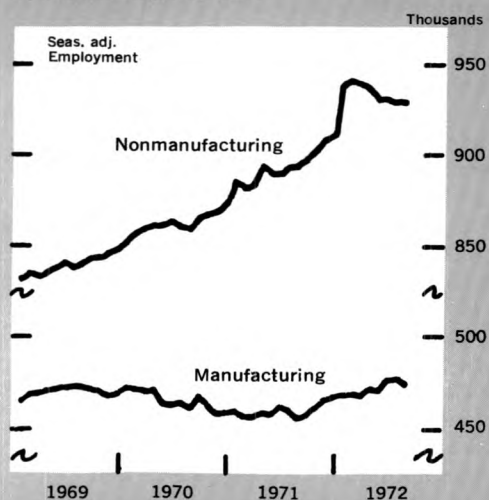
Employment in nonmanufacturing has advanced at better than a 9-percent annual rate and is an additional boost to the Tennessee economy. Growth in this sector is not unexpected since, during the recent recession, nonmanufacturing employment declined for only two months before it began increasing again. So, based on the evidence of previous years, this should be the "growth" employment area of the future.

All levels of government employment continue to advance. And as the Federal, state, and local governments respond to the public's increasing demands for new and increased governmental services, we can expect this favorable impact on employment to continue. Most Federal and state spending has an indirect impact on employment, appearing as increased defense orders, highway contracts, and the funding of educational programs.

Employment picture brightens



Manufacturing recovers



At the local level, increased teaching and supportive staffs account for a large part of recent employment gains.

Service jobs are one of the fastest growing areas in the Tennessee economy and the record of the last few months is no exception. Showing significant growth in the recording business, Nashville continues to live up to its title as "Music City, U.S.A." The recreation, tourist, and convention businesses are also providing considerable stimulus to the economy. Increasingly popular activities such as skiing got off to a slow start last winter because of the poor weather conditions. This had a negative impact not only on the resort areas, but also on nearby lodging and eating facilities that are beginning to develop into important year-round businesses. This summer, however, overflow crowds visited Tennessee's famed national parks and a new country music theme park, Opryland. Furthermore, such traditional attractions as the Annual Walking Horse Celebration report record attendance at their events. As a result of all this increased activity, new motel and hotel facilities are going up and more are being planned in order to house the tourists and convention visitors in the state.

The Booming Construction Industry

Construction activity is booming, providing another strong stimulus to the state's economy. So far this year, the total volume of construction awards is running nearly 25 percent more than for the same period last year. Home building is leading the way and is being aided by the Section 235 housing programs. But despite the market strength in a few metropolitan areas such as Chattanooga,

most of the increase in new homes took place outside of the large metropolitan areas.

With a strong demand for new housing, home building is being aided by the ready availability of mortgage credit in Tennessee. Savings and loan associations in the state report strong deposit inflows and sharply higher mortgage originations. Banks are similarly situated and are extending a significant amount of credit for single and multi-family residential units.

Other sectors of construction activity are now picking up strength and can be expected to offset any leveling-off that may occur in home building. Nonresidential building has turned around, although gains so far this year are only slight. Still, this does represent a reversal of 1971 when nonresidential building actually declined 25 percent. Some areas, such as the facelifting in the central business district of Nashville, represent work on major construction projects that were announced earlier but are still under construction. Nonbuilding construction is also advancing as new contracts are let for roads, bridges, and water and sewer treatment plants.

Increased construction activity has led to renewed strength in building-trade employment. Total construction jobs are running better than 8 percent above a year ago. Despite this increase, however, total construction employment is still below the peak registered during the previous building boom in 1968-1969.

Other areas of Tennessee's economy look promising for the future. The trade sector is continually adding new employees because of the growth in new distribution centers, wholesale warehouses, retail stores and shopping centers.

In the past year, the trade sector has grown by nearly 13,000 persons and general retail merchandising has accounted for a large part of the growth. Finance, insurance, and real estate provided over 3,000 new jobs last year.

Tennessee is also becoming an important national center in the fields of electrical power and atomic energy generation and research. As headquarters for the TVA, Tennessee has benefited from the operation of extensive TVA electrical power facilities and the construction of additional power-generating capacity. The TVA employs over 15,000 persons in the state and has its major employment impact in the Knoxville, Chattanooga, and Clarksville areas.

Prospects for expansion at the Atomic Energy Commission's Oak Ridge facilities were enhanced recently by the announcement of plans to construct a \$300-million nuclear fuel plant. By 1975 employment at this facility is expected to reach 1,200. This summer plans were announced by the AEC and TVA to construct a \$500-million nuclear breeder reactor near Oak Ridge. The extensive scientific resources at Oak Ridge played an important part in the selection of the Oak Ridge site.

Reducing Unemployment

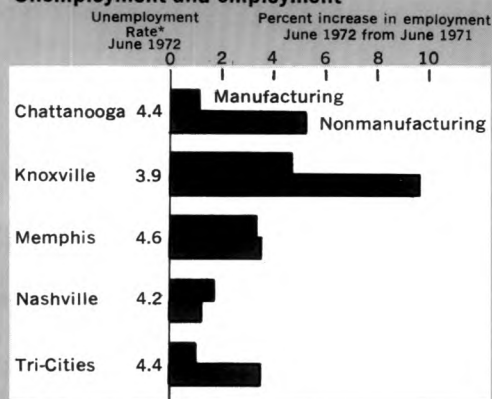
Expansion in the economy has caused continued drops in the number of persons becoming unemployed in Tennessee. Through the first half of 1972, the unemployment rate averaged 3.8 percent. This is a considerable improvement over the 4.2-percent rate of late 1971 and 4.8-percent rate of early 1971. Translated into the number of jobless workers, this means a decline of roughly 20,000 unemployed persons from the average of 85,000 persons reached during early 1971. However, since manufacturing and construction were hardest hit by layoffs during the recession, they still account for the bulk of insured unemployment in Tennessee.

Consumer Optimism Is Showing

From all indications, Tennessee consumers are in a spending mood, and this is not surprising after having noted the solid gains in the economy during the last year. The important evidence of better times for the consumer has already been mentioned: Incomes are rising and more persons are finding jobs. These favorable conditions should help dispel negative factors that have caused the consumer to hold back on his spending.

Rising sales tax receipts indicate that general buying is on the upswing throughout the state. Retail sales, based upon selected department stores, are running 14 to 24 percent above last year. Big ticket items such as autos are also posting solid gains. Consumer spending is getting an added boost this fall now that the increased

Unemployment and employment



*Not seasonally adjusted

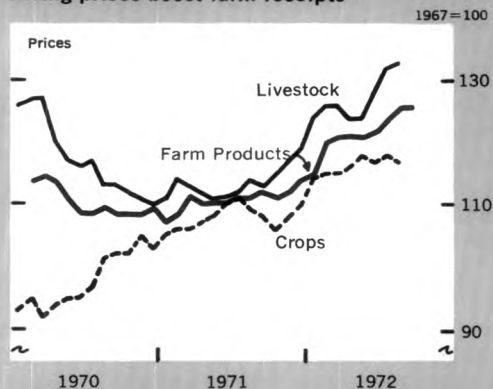
Social Security checks have been mailed and will get a further boost early next year when taxpayers file for their overwithholding tax refunds.

With consumer spending on the rise, it is not surprising to find that increasing use is being made of consumer credit. During the last year, member banks in the District portion (eastern two-thirds) of Tennessee increased their volume of instalment auto loans by nearly 20 percent. Home improvement loans picked up this spring as did most other types of instalment and noninstalment bank loans. However, over the last 12 months, the use of bank credit cards advanced more slowly than instalment credit in general. Bank instalment credit used to purchase mobile homes rose over 50 percent, the most rapidly growing area of consumer borrowing.

Farming is Looking Up

Tennessee farming appears to be in good shape this year. The value of Tennessee's farmlands and buildings is estimated to have reached \$4.7

Rising prices boost farm receipts



Tennessee Member Bank Data

(Percent Change, June 1972 from June 1971)

DISTRICT PORTION OF STATE

Deposits		Loans		Securities	
Demand	+ 7.4%	Business	+ 11.4%	U. S. Government	+ 1.7%
Savings	+ 8.8%	Consumer	+ 17.1%	U. S. Agency	+ 50.3%
"Other" Time	+ 39.3%	Farm	+ 15.7%	Municipal	+ 25.2%
		Real Estate	+ 16.6%		

TRADE AND BANKING AREAS

	Deposits			Loans	Investments
	Total	Other Demand*	Time		
Chattanooga	+ 6.7	+ 0.8	+ 20.2	+ 18.3	+ 12.7
Knoxville	+ 8.8	+ 0.3	+ 16.3	+ 16.9	+ 3.2
Nashville	+ 14.3	+ 1.8	+ 28.0	+ 19.0	+ 21.8
Tri-Cities	+ 7.6	+ 3.8	+ 12.7	+ 15.0	+ 12.6

*Demand deposits other than those of banks.

billion—an all-time high—up 11 percent from the previous year. One factor tending to push up land values was the purchase of farmlands for future use in nonfarm purposes, in particular, land purchased for use as rural residences and subdivisions. Last year, the state lost nearly 2,000 farms, and about 100,000 acres of farmland were removed from agricultural use.

Production and price conditions also appear bright for the farmer this year. Plantings of such major crops as wheat, cotton, soybeans and tobacco were increased by 6 percent to 11 percent this year. Only in corn did plantings decline, cutting this crop back 20 percent to the lowest crop on record. Most crop prices are up an average of nearly 8 percent this year and reflect a strong domestic and foreign demand for agricultural products. Livestock prices are up even more than crop prices, nearly 18 percent. Especially strong prices for cattle and hogs raised the livestock price index. The prices of poultry, eggs, and dairy products, however, are virtually unchanged from a year ago.

During the first eight months of this year, agricultural employment was up over a similar period last year. The number of farm workers increased about 800 over that reported during the previous year. Responsible for reversing this trend was an increase of 1,000 family workers. Hired help declined slightly.

Strong Gains in Bank Deposits and Credit

Member banks in the District portion of the State have experienced strong deposit gains over the past 12 months, and this growth has enabled them to increase their lending and purchases of securities.

Interest-bearing deposits increased by more than 25 percent and accounted for most of the deposit gain. This is one indication that individuals and businesses seem to have sufficient funds to save considerable amounts. In the Nashville area, time deposit gains were stronger than in the rest of the state and rose by 28 percent. Nearly one-half of this increase was accounted for by businesses and state and local governments increasing their holdings of money market CD's. (Last year's increase in the sales tax rates helped generate a surplus at the state level that is being held in the State's banks at interest.) Banks in Chattanooga also had large time deposit increases. Throughout the State, demand deposits advanced 7 percent. Passbook savings accounts were virtually unchanged after allowing for the interest earned.

Because of these strong increases in deposits, Tennessee banks were able to expand total credit some \$543 million from mid-1971 to mid-1972. Total loans advanced over 16 percent, the strongest gains being in Chattanooga and Nashville. As was noted earlier, real estate and consumer loans were strong and accounted for over one-half of the lending advance. Loans to nonbank financial institutions advanced by more than one third, but business and agricultural loans lagged behind the pace of total lending.

The other major source of bank credit—securities—rose nearly 20 percent last year. Holdings of municipal obligations advanced 25 percent or \$128 million and U. S. Government agency issues were up \$49 million, a 50-percent rise. Tennessee banks added to their holdings of U. S. Treasury obligations in the latter half of 1971, but liquidated many of these holdings this year. ■

Bank Announcements

September 29, 1972

**FIRST AMERICAN BANK OF
HERNANDO COUNTY**

Brooksville, Florida

Opened for business as a par-remitting nonmember. Officers: J. H. Kimbrough, president; J. R. Henderson, executive vice president. Capital, \$400,000; surplus and other capital funds, \$400,000.

October 2, 1972

CITIZENS BANK OF DUNLAP

Dunlap, Tennessee

Opened for business as a par-remitting nonmember. Officers: Glenn Barker, president; Elmer D. Studer, chairman; Harry C. Phillips, executive vice president and chief operations officer. Capital, \$200,000; surplus and other capital funds, \$300,000.

October 9, 1972

BANK OF COWETA

Newnan, Georgia

Opened for business as a par-remitting nonmember. Officers: W. Scott Wilson, president. Capital, \$500,000; surplus and other capital funds, \$500,000.

October 11, 1972

BANK OF PENSACOLA

Pensacola, Florida

Opened for business as a par-remitting nonmember. Officers: Robert D. Blake, Jr., chairman of the board; Donald R. Mair, president; E. Allen Brown, executive vice president and cashier. Capital, \$350,000; surplus and other capital funds, \$175,000.

October 17, 1972

**BARNETT BANK OF BRANDON,
NATIONAL ASSOCIATION**

Brandon, Florida

Opened for business. Officers: J. C. Emerson, president; Richard H. Eatman, vice president and cashier; Hugh C. Lyon, vice president. Capital, \$500,000; surplus and other capital funds, \$500,000.

October 20, 1972

**CHASE MANHATTAN INTERNATIONAL
BANKING CORPORATION**

Miami, Florida

Opened for business as an Edge Act Corporation. Officers: J. M. Schneiderman, president; M. A. Santiago, vice president. Capital, \$2,500,000.

October 25, 1972

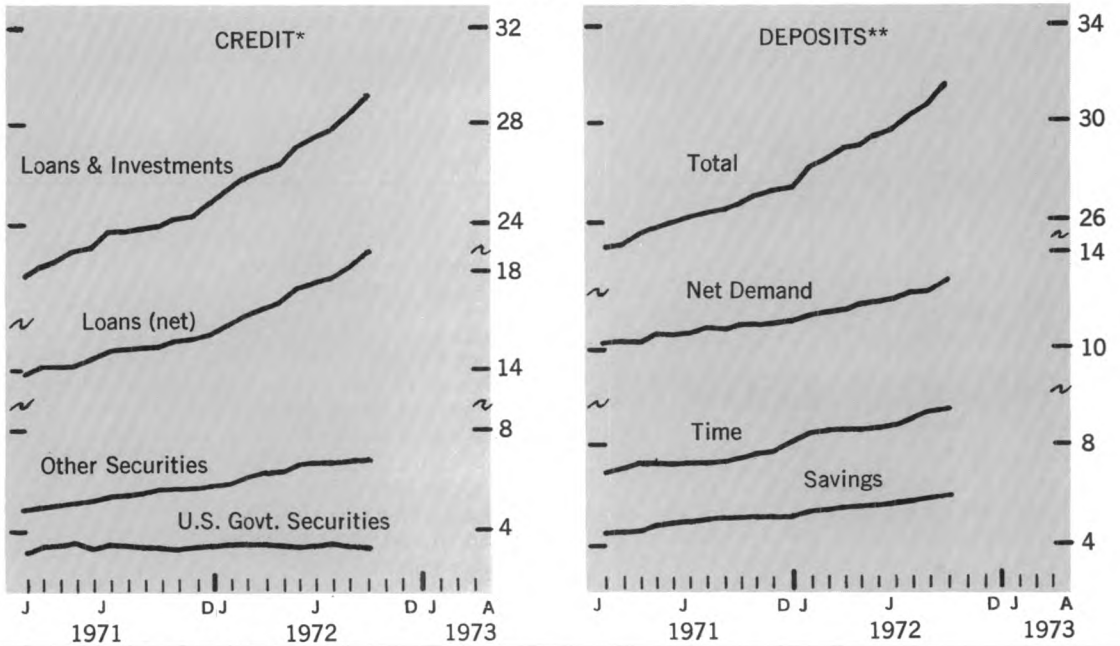
EXCHANGE NATIONAL BANK OF HOLIDAY

Holiday, Florida

Opened for business. Officers: H. E. Long, chairman and president; W. L. Newton, Jr., vice president; Mrs. Cheryl L. Berry, cashier. Capital, \$500,000; surplus and other capital funds, \$500,000.

BANKING STATISTICS

Billion \$



LATEST MONTH PLOTTED: SEPTEMBER

* Figures are for the last Wednesday of each month.

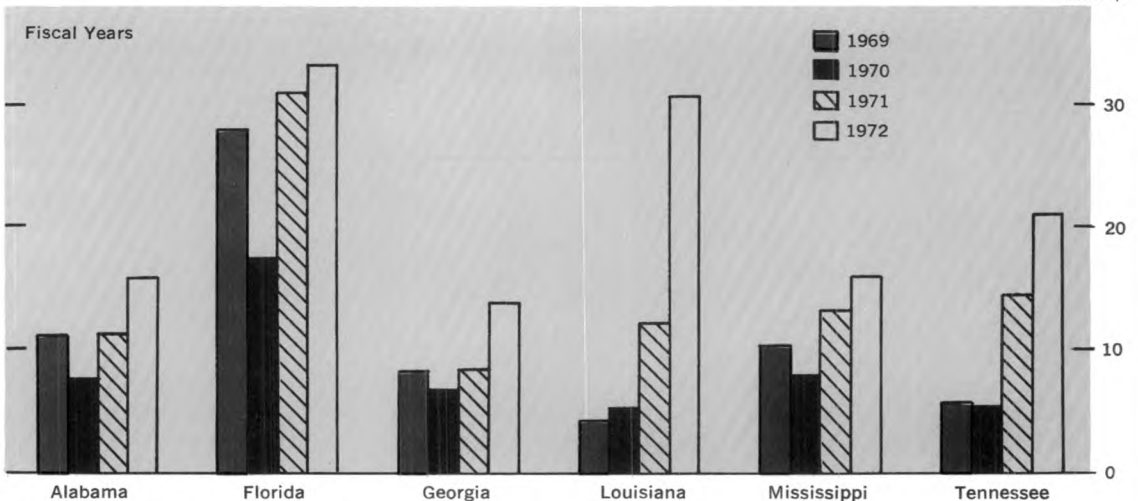
** Daily average figures

SIXTH DISTRICT

BANKING NOTES

SBA GUARANTEED BANK CREDIT

Million \$



Note: Includes all banks participating with SBA.

Southeastern banks have turned increasingly to the loan guarantee programs of the Small Business Administration (SBA) in order to better serve the credit needs of small businesses. In the six District states, commercial banks extended \$130 million in SBA-guaranteed bank loans (up 44 percent over the previous year) to more than 1,900 small business firms (up 32 percent) in the fiscal year ended this June 1972. And so far this fiscal year the volume of lending has increased at an equally rapid rate. For the most part, this represented credit that would not have been available without SBA assistance, since it guarantees credit only to those firms previously unable to obtain credit on reasonable terms.

Between mid-1968 and mid-1972, banks in the District states have extended SBA-guaranteed credit to some 5,400 small businesses for a total of \$337 million. And there has been considerable growth in the use of SBA loan guarantees over the last several years. In fiscal 1969 some 1,100 SBA-guaranteed loans were made; last year more than 1,900 such loans were put on the books. In terms of dollar volume, the growth has been even greater: from \$67 million to 130 million.

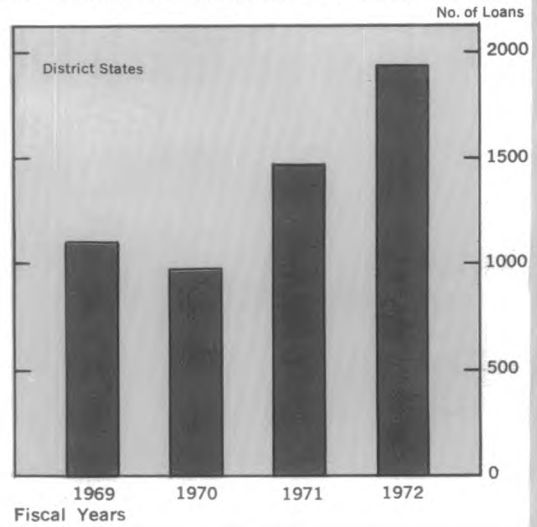
The participation rate among District banks is fairly high. Over one half of the commercial banks in each of the six states are involved with SBA loans and in some states up to four fifths are active.

Banks in Florida and Louisiana seem to make the greatest use of the SBA loan guarantees. Last fiscal year banks in these two states accounted for more than half of the number of loans in the District states and nearly half of the loan dollar volume. Florida banks have been active for a long time, while increased participation by Louisiana banks developed more recently.

Most businesses in the District, as in the rest of the country, are "small" rather than large. Therefore, most business loans made by District banks are "small" loans made to small businesses, and much of this credit represents short-term financing. Term lending (intermediate- or long-term financing) is still not a major activity of District banks. Although term lending has been increasing in recent years, many banks are still reluctant to extend term credit, especially to small firms that may present more than usual credit risks. However, the SBA loan guarantee protects the bank against loss for up to 90 percent of the loan principal plus the accrued interest. Therefore, the SBA loan guarantees are important because they allow banks to help fill a credit gap for small businesses.

By using the SBA guarantee, banks can extend credit to almost any independently-owned "small business." Trade, service, manufacturing, and construction firms are all eligible for SBA-guaranteed credit and account for most of the total volume.

NUMBER OF SBA GUARANTEED BANK LOANS



Businesses may use SBA credit to purchase buildings, equipment, supplies, and working capital needs. Both new and established businesses are eligible to apply for this credit.

The SBA has two programs for extending credit to small businesses that allow banks to offer longer maturities and lower interest charges and to require less supporting collateral. The *Regular Business Loan Program* accounts for over 95 percent of the dollar volume of SBA loan guarantees with District banks and is generally used for financially sounder business firms. The guarantee will cover up to 90 percent of the loan or up to \$350,000, whichever is less. However, loans have averaged considerably less in the District states, only \$72,000. The current maximum rate of interest charged is 8½ percent. The maturity of the loan depends upon its use: for working capital, up to five years; for other uses, generally not over ten years.

The *Economic Opportunity Loan Program* allows banks to extend credit under less stringent conditions, primarily in financing firms owned by minorities and other disadvantaged persons. Credit standards are more relaxed, and major stress is placed on projected ability to repay the loan. The SBA will guarantee up to 90 percent of a \$50,000 loan. (Before July 1972, the ceiling was \$25,000.) The average size of a loan in this District is considerably smaller, \$14,000. The maturity may run for up to 15 years and interest charges are allowed up to 8½ percent.

JOHN M. GODFREY

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

	Latest 1972	Month Ago	One Month Ago	Two Months Ago	One Year Ago		Latest 1972	Month Ago	One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT						Unemployment Rate (Percent of Work Force) Sept. 4.8 4.8 5.0 5.3 Avg. Weekly Hrs. in Mfg. (Hrs.) Sept. 41.0 41.2 40.9 40.6					
INCOME AND SPENDING						FINANCE AND BANKING					
Manufacturing Payrolls	Sept.	149	147	147	134	Member Bank Loans	Sept.	183	180	178	153
Farm Cash Receipts	Aug.	138	167	135	127	Member Bank Deposits	Sept.	168	165	165	143
Crops	Aug.	140	191	151	144	Bank Debits**	Sept.	181	182r	168	151
Livestock	Aug.	142	158	138	121	FLORIDA					
Instalment Credit at Banks* (Mil. \$)						INCOME					
New Loans	Sept.	444	445	447	404	Manufacturing Payrolls	Sept.	145	147	147	139
Repayments	Sept.	388	381	416	361	Farm Cash Receipts	Aug.	140	213	159	135
EMPLOYMENT AND PRODUCTION						EMPLOYMENT					
Nonfarm Employment	Sept.	117	116	116	113	Nonfarm Employment	Sept.	128	128	128	123
Manufacturing	Sept.	109	109	108	106	Manufacturing	Sept.	113	112	111	109
Nondurable Goods	Sept.	109	108	108	107	Nonmanufacturing	Sept.	131	131	131	125
Food	Sept.	102	102	102	101	Construction	Sept.	135	133	132	128
Textiles	Sept.	105	104	105	103	Farm Employment	Sept.	106	100	104	99
Apparel	Sept.	106	106	107	107	Unemployment Rate (Percent of Work Force) Sept. 3.3 3.3 3.4 4.0 Avg. Weekly Hrs. in Mfg. (Hrs.) Sept. 41.3 41.2 41.7 40.6					
Paper	Sept.	110	110	111	110	FINANCE AND BANKING					
Printing and Publishing	Sept.	116	116	115	114	Member Bank Loans	Sept.	213	208	201	171
Chemicals	Sept.	105	104	104	104	Member Bank Deposits	Sept.	197	193	191	168
Durable Goods	Sept.	110	110	108	105	Bank Debits**	Sept.	227	230	222	190
Lbr., Wood Prods., Furn. & Fix.	Sept.	104	103	103	100	GEORGIA					
Stone, Clay, and Glass	Sept.	112	111	110	107	INCOME					
Primary Metals	Sept.	109	108	108	103	Manufacturing Payrolls	Sept.	146	142	142	133
Fabricated Metals	Sept.	119	118	117	116	Farm Cash Receipts	Aug.	115	133	117	113
Machinery	Sept.	127	128	125	117	EMPLOYMENT					
Transportation Equipment	Sept.	102	104	101	103	Nonfarm Employment	Sept.	116	115	115	113
Nonmanufacturing	Sept.	120	119	119	115	Manufacturing	Sept.	105	105	104	104
Construction	Sept.	111	109	109	108	Nonmanufacturing	Sept.	121	120	119	117
Transportation	Sept.	116	116	116	113	Construction	Sept.	110	108	109	108
Trade	Sept.	119	119	119	116	Farm Employment	Sept.	84	82	78	83
Fin., ins., and real est.	Sept.	126	126	125	121	Unemployment Rate (Percent of Work Force) Sept. 3.9 3.9 4.1 4.1 Avg. Weekly Hrs. in Mfg. (Hrs.) Sept. 41.1 40.2 40.7 40.4					
Services	Sept.	124	124	124	120	FINANCE AND BANKING					
Federal Government	Sept.	99	98	98	100	Member Bank Loans	Sept.	190	184	181	152
State and Local Government	Sept.	128	126	126	119	Member Bank Deposits	Sept.	157	151	152	133
Farm Employment	Sept.	84	82	86	82	Bank Debits**	Sept.	209	206	201	175
Unemployment Rate (Percent of Work Force) Sept. 4.1 4.2 4.3 4.7						LOUISIANA					
Insured Unemployment (Percent of Gov. Emp.) Sept. 2.1 2.2 2.4 2.8						INCOME					
Avg. Weekly Hrs. in Mfg. (Hrs.) Sept. 41.2 40.9 41.1 40.4						Manufacturing Payrolls Sept. 140 139 137 122					
Construction Contracts* Sept. 218 228 189 200						Farm Cash Receipts Aug. 173 166 122 167					
Residential Sept. 320 309 251 218						EMPLOYMENT					
All Other Sept. 119 150 127 182						Nonfarm Employment Sept. 107 106 107 104					
Electric Power Production** June 179 174 173 170						Manufacturing Sept. 102 102 101 100					
Cotton Consumption** Aug. 80 86 86 89						Nonmanufacturing Sept. 108 107 108 105					
Petrol. Prod. in Coastal La. and Miss.** Oct. 129 126 125 128						Construction Sept. 85 84 85 83					
Manufacturing Production July 275 277 271 256						Farm Employment Sept. 76 73 83 71					
Nondurable Goods July 235 237 233 220						Unemployment Rate (Percent of Work Force) Sept. 6.3 6.5 6.3 6.9 Avg. Weekly Hrs. in Mfg. (Hrs.) Sept. 42.3 42.6 42.3 40.9					
Food July 185 187 185 176						FINANCE AND BANKING					
Textiles July 269 272 267 250						Member Bank Loans* Sept. 167 166 161 142					
Apparel July 281 290 286 275						Member Bank Deposits* Sept. 158 157 156 143					
Paper July 220 218 215 200						Bank Debits** Sept. 163 165 153 153					
Printing and Publishing July 161 163 163 164						MISSISSIPPI					
Chemicals July 295 298 297 251						INCOME					
Durable Goods July 323 325 317 299						Manufacturing Payrolls Sept. 169 167 170 141					
Lumber and Wood July 198 197 192 185						Farm Cash Receipts Aug. 161 206 156 143					
Furniture and Fixtures July 188 187 184 179						EMPLOYMENT					
Stone, Clay, and Glass July 182 182 179 164						Nonfarm Employment Sept. 115 115 115 111					
Primary Metals July 214 208 205 201						Manufacturing Sept. 121 121 121 112					
Fabricated Metals July 266 268 270 246						Nonmanufacturing Sept. 112 112 112 111					
Nonelectrical Machinery July 450 428 409 431						Construction Sept. 92 91 93 98					
Electrical Machinery July 710 720 707 612						Farm Employment Sept. 83 77 91 81					
Transportation Equipment July 405 423 407 391											
FINANCE AND BANKING											
Loans*											
All Member Banks Sept. 193 189 184 158											
Large Banks Sept. 179 175 170 146											
Deposits*											
All Member Banks Sept. 174 171 169 149											
Large Banks Sept. 154 150 150 133											
Bank Debits** Sept. 199 198 190 170											
ALABAMA											
INCOME											
Manufacturing Payrolls Sept. 148 148 144 131											
Farm Cash Receipts Aug. 157 176 145 136											
EMPLOYMENT											
Nonfarm Employment Sept. 109 109 108 107											
Manufacturing Sept. 108 108 107 107											
Nonmanufacturing Sept. 109 108 109 108											
Construction Sept. 99 96 96 103											
Farm Employment Sept. 72 76 75 74											

	Latest Month 1972	One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)	Sept. 3.9	4.2	4.2	4.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept. 40.7	40.6	41.1	40.5
FINANCE AND BANKING				
Member Bank Loans*	Sept. 198	189	180	162
Member Bank Deposits*	Sept. 173	172	167	144
Bank Debits**	Sept. 163	187	181	155
TENNESSEE				
INCOME				
Manufacturing Payrolls	Sept. 154	150	149	137
Farm Cash Receipts	Aug. 148	152	156	116

EMPLOYMENT

	Latest Month 1972	One Month Ago	Two Months Ago	One Year Ago
Nonfarm Employment	Sept. 116	115	115	111
Manufacturing	Sept. 110	109	109	105
Nonmanufacturing	Sept. 120	119	119	115
Construction	Sept. 117	117	116	108
Farm Employment	Sept. 91	88	88	91
Unemployment Rate (Percent of Work Force)	Sept. 3.5	3.7	3.9	4.4
Avg. Weekly Hrs. in Mfg. (Hrs.)	Sept. 41.2	40.8	40.8	40.1

FINANCE AND BANKING

Member Bank Loans*	Sept. 190	185	180	160
Member Bank Deposits*	Sept. 167	165	163	141
Bank Debits**	Sept. 177	166	161	155

*For Sixth District area only; other totals for entire six states **Daily average basis †Preliminary data ‡Revised N.A. Not available

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

Sources: Manufacturing production estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U.S. Dept. of Labor and cooperating state agencies; cotton consumption, U.S. Bureau of Census; construction contracts, F. W. Dodge Div., McGraw-Hill Information Systems Co.; petrol. prod., U.S. Bureau of Mines; industrial use of elec. power, Fed. Power Comm.; farm cash receipts and farm emp., U.S.D.A. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.

Debits to Demand Deposit Accounts

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

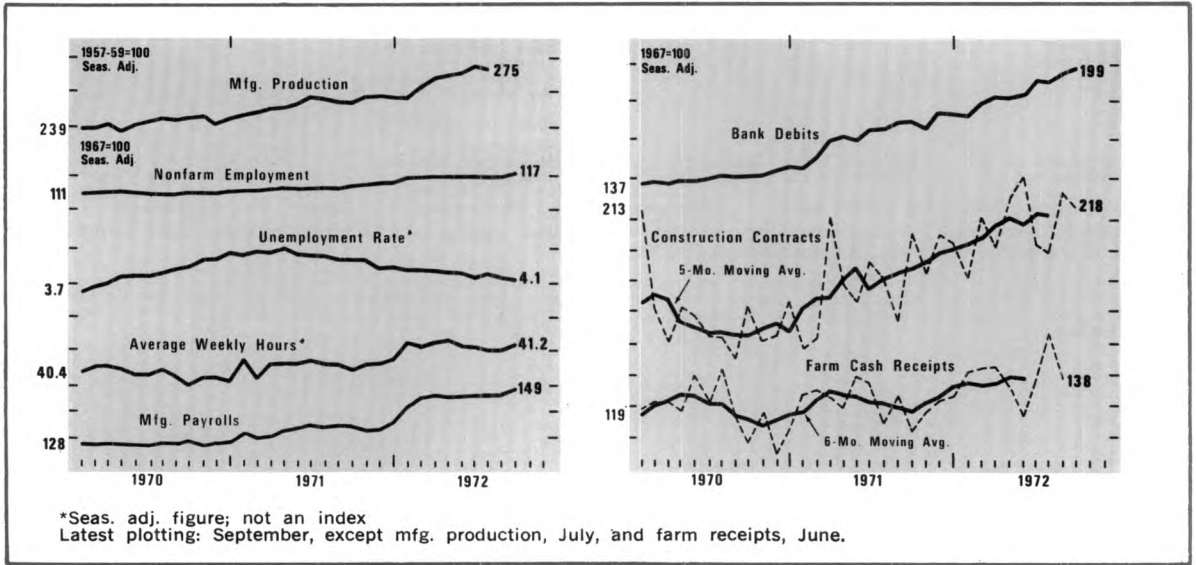
	Percent Change						Percent Change					
	Sept. 1972		Aug. 1972		Sept. 1971		Sept. 1972		Aug. 1972		Sept. 1971	
	From	Year to date 9 mos. 1972	From	Year to date 9 mos. 1972	From	Year to date 9 mos. 1972	From	Year to date 9 mos. 1972	From	Year to date 9 mos. 1972	From	Year to date 9 mos. 1972
STANDARD METROPOLITAN STATISTICAL AREAS												
Birmingham	2,946,912	3,201,483	2,368,856	- 8	+24	+ 27						
Gadsden	86,094	88,237	82,562	- 2	+ 4	+ 3						
Huntsville	261,306	268,523	235,136	- 3	+11	+ 9						
Mobile	878,565	950,581	774,917	- 8	+13	+18						
Montgomery	496,033	519,216	457,515	- 4	+ 8	+ 8						
Tuscaloosa	168,911	175,061	150,344	- 4	+12	+ 10						
Bartow-Lakeland-												
Winter Haven	537,024	667,167	456,362	-20	+18	+ 21						
Daytona Beach	342,110	314,710	205,509	+ 9	+66	+ 31						
Ft. Lauderdale-												
Hollywood	1,438,348	1,678,377	1,149,590	-14	+25	+ 23						
Ft. Myers	223,965	222,438	193,715	+ 1	+16	+ 8						
Gainesville	194,598	211,960	174,172	- 8	+12	+ 17						
Jacksonville	3,017,220	3,349,064	2,856,196	-10	+ 6	+ 25						
Melbourne-												
Titusville												
Cocoa	335,656	329,566	297,735	+ 2	+13	+ 15						
Miami	4,914,849	5,050,907	4,149,616	- 3	+18	+ 12						
Orlando	1,179,575	1,241,730	999,924	- 5	+18	+ 25						
Pensacola	356,157	387,239	332,223	- 8	+ 7	+ 14						
Sarasota	341,505	335,326	244,384	+ 2	+40	+ 26						
Tallahassee	546,053	661,239	412,959	-17	+32	+ 86						
Tampa-St. Pete	2,823,042	3,046,998	2,510,458	- 7	+12	+ 20						
W. Palm Beach	817,312	838,063	698,317	- 2	+17	+ 15						
Albany	162,943	164,120	148,413	- 1	+10	+ 16						
Atlanta	10,902,473	11,411,781	9,310,682	- 4	+17	+ 18						
Augusta	420,688	465,465 ^r	370,901	-10	+13	+ 14						
Columbus	390,459	394,343	356,387	- 1	+10	+ 11						
Macon	437,722	459,512	402,998	- 5	+ 9	+ 14						
Savannah	420,133	459,806	382,397	- 9	+10	+ 11						
Alexandria	201,833	211,771	171,116	- 5	+18	+ 14						
Baton Rouge	1,002,584	1,152,734	1,016,313	-13	- 1	+ 11						
Lafayette	229,605	236,121	203,934	- 3	+13	+ 15						
Lake Charles	190,117	192,670	192,365	- 1	+ 1	+ 8						
New Orleans	3,473,298	3,697,893	3,342,804 ^r	- 6	+ 4	+ 7						
Biloxi-Gulfport	215,613	250,517	188,186	-14	+15	+ 16						
Jackson	1,076,601	1,235,388	960,763	-13	+12	+ 13						
Chattanooga	964,233	942,207	1,004,214	+ 2	- 4	+ 1						
Knoxville	745,035	748,320	702,783	- 0	+ 6	+ 8						
Nashville	2,736,730	2,701,498	2,247,395	+ 1	+22	+ 20						
OTHER CENTERS												
Anniston	93,706	101,173	90,575	- 7	+ 3	+ 10						
Dothan	141,601	131,118	122,623	+ 8	+15	+ 14						
Selma	64,232	65,927	54,165	- 3	+19	+ 14						
Bradenton	126,079	133,006	115,188	- 5	+ 9	+ 20						
Monroe County	52,954	58,901	46,366	-10	+14	+ 17						
Ocala	145,832	146,539	112,709	- 0	+29	+47 ^r						
St. Augustine	22,214	24,085	25,175	- 8	-12	- 7						
St. Petersburg	726,117	748,296	614,255	- 3	+18	+ 19						
Tampa	1,369,727	1,473,602	1,303,178	- 7	+ 5	+ 14						
Athens	150,850	147,083	170,248	+ 3	-11	- 16						
Brunswick	69,154	79,522	39,451	-13	+75	+ 21						
Dalton	151,198	155,695	143,135	- 3	+ 6	+ 16						
Elberton	17,190	17,459	16,034	-20	+ 7	+ 25						
Gainesville	105,929	111,872	99,727	- 5	+ 6	+ 5						
Griffin	56,575	58,822	53,476	- 4	+ 6	+ 9						
LaGrange	31,385	36,076	31,656	-13	- 1	- 1						
Newnan	49,988	50,388	37,083	- 1	+35	+ 32						
Rome	128,550	122,756	108,816	+ 5	+18	+ 14						
Valdosta	87,228	91,261	78,968	- 4	+10	+ 12						
Abbeville	15,448	14,723	15,564	+ 5	- 1	+ 6						
Bunkie	8,718	8,619	7,306	+ 1	+19	+ 7						
Hammond	58,099	63,004	53,653	- 8	+ 8	+ 12						
New Iberia	50,019	50,896	45,607	- 2	+10	+ 7						
Plaquemine	14,576	15,911	12,223	- 8	+19	+ 10						
Thibodaux	34,047	29,657	28,245	+15	+21	+ 17						
Hattiesburg	112,619	108,719	92,611	+ 4	+22	+ 17						
Laurel	62,295	63,364	48,439	- 2	+29	+ 17						
Meridian	112,006	105,997	82,524	+ 6	+36	+ 21						
Natchez	48,586	47,028	46,058	+ 3	+ 5	+ 9						
Pascagoula-												
Moss Point	135,940	149,799	88,416	- 9	+54	+ 33						
Vicksburg	57,297	56,034	58,576	- 2	- 2	+ 2						
Yazoo City	38,417	30,767	38,168	+25	+ 1	+ 1						
Bristol	119,099	128,702	118,443	- 7	+ 1	+ 8						
Johnson City	136,450	141,320	123,483	- 3	+12	+ 18						
Kingsport	212,975	227,504	188,272	+ 6	+13	+ 14						
District Total	57,007,601	60,201,432 ^r	49,989,042 ^r	- 5	+14	+ 16						
Alabama	6,884,239	7,289,735 ^r	5,879,819	- 6	+17	+ 19						
Florida	18,886,800	20,226,772	16,294,002	- 7	+15	+ 19						
Georgia	15,873,460	16,628,732 ^r	13,738,725	- 6	+16	+ 16						
Louisiana	6,126,864	6,569,380	5,849,463 ^r	- 7	+ 5	+ 9						
Mississippi	2,507,491	2,701,715	2,136,054	- 7	+17	+ 16						
Tennessee	6,728,897	6,785,098	6,090,979	- 1	+10	+ 11						

^r District portion only

^r Revised

Figures for some areas differ slightly from preliminary figures published in "Bank Debits and Deposit Turnover" by Board of Governors of the Federal Reserve System.

District Business Conditions



The Southeastern economy continued its strong upward thrust as the unemployment rate dropped, demand deposits surged, and residential contract awards increased. The agricultural sector remained strong. Only the consumer sector hesitated slightly in September.

Nonfarm employment gains continued to nudge the District unemployment rate downward. September's rate was 4.1 percent, with Florida, Georgia, Mississippi, and Tennessee having unemployment rates below 4 percent. Jobs increased in most industries; the sharpest advance occurred in construction employment. The average factory workweek lengthened in September after a slight decline the previous month.

Member banks reported exceptionally strong demand deposit growth throughout most of October. Time deposit gains, however, were unusually weak and were limited to small increases in large-denomination CD's by some of the larger banks. The strong demand for loans at member banks continued during October. To meet increasing loan requests, banks are reducing their holdings of Treasury and tax-exempt securities.

Savings inflows at thrift institutions remained large and mortgage rates rose slightly in some areas. In September residential construction activity, measured by contract awards, continued to outpace last year's record. Florida leads the region, but each state has shown at least a 30-percent increase in residential contracts over the first nine months of last year. Nonresidential awards declined from August to September.

Agricultural prices rose in September, reflecting rather sharp increases for grapefruit, rice, peanuts, eggs, and wheat. Abrupt declines in cotton and cottonseed prices were partially offsetting. Cooler weather and rainfall through most of the region revived fall pastures and benefited some late crops. However, October estimates of crop production projected a sharp drop from the earlier forecast of soybean and cotton production. Rice and peanut harvests are virtually complete, with the rice yield up from 1971's level but the peanut yield down. Farm cash receipts through August 1972 continued well above the level for the same months in 1971.

The increase in consumer instalment credit outstanding at commercial banks slowed in September, but was still relatively large. Total outstandings remained substantially higher than a year ago. The net gain was less than in six of the preceding eight months, as new extensions declined and repayments increased. Personal loans were weak, but gains were reported for all loan categories. September sales of domestically produced automobiles did not match last year's high levels. The decline was attributed to production delays and limited dealer inventories rather than to a loss of consumer confidence.

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