

# monthly review

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# Member Bank Borrowing: Process and Experience

by Arnold A. Dill

Commercial banks are required by law to maintain reserves equal to some percent of their deposit liabilities. Banks that are members of the Federal Reserve keep the bulk of these reserves as deposits at their Federal Reserve Bank and the rest in vault cash. Depending on state law, nonmember bank reserves may be variously defined to include assets such as vault cash, deposits at other commercial banks, and U. S., state, and municipal obligations.

Like other depositors, banks increase their reserve accounts by depositing currency or checks written on other banks. These accounts decrease when checks drawn on them clear or when banks withdraw currency. All banks are subject to substantial reserve losses because a large part of their liabilities may be withdrawn on demand.

Some reserve losses, such as those resulting from seasonal deposit drains or loan increases, are more or less predictable; others are not. To offset these reserve declines, banks may liquidate some assets. At times, however, banks may find it impossible to sell assets without heavy loss; or they may not have enough readily salable assets or they may be unable to sell them in time to meet reserve requirements. In such circumstances, banks may find it advantageous or necessary to secure reserves by borrowing.

Both member and nonmember banks borrow reserves from other commercial banks. In addition, member banks may borrow directly from their Federal Reserve Bank. This article describes how member banks borrow from the Federal Reserve Bank of Atlanta and what their borrowing experience has been between 1968 and 1972.

## Regulation A

Extending credit to member banks to accommodate commerce, industry, and agriculture is a principal Federal Reserve Bank function. The Board

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of Governors' Regulation A describes the general principles guiding Reserve Bank lending.<sup>1</sup> Under this Regulation, as revised effective April 19, 1973, Federal Reserve credit may be extended under three broad categories: short-term adjustment, seasonal, and emergency.

Adjustment credit may be extended on a short-term basis to a member bank to such extent as may be appropriate to assist in meeting temporary requirements for funds or to cushion more persistent outflows of funds pending an orderly adjustment of the member bank's assets and liabilities.

Federal Reserve credit is available for longer periods to assist a member bank that lacks reasonably reliable access to national money markets in meeting seasonal needs for funds arising from a combination of expected patterns of movement in its deposits and loans. Such credit will ordinarily be limited to the amount by which the member bank's seasonal needs exceed 5 percent of its average total deposits in the preceding calendar year and will be available if (1) the member bank has arranged in advance for such credit for the full period, as far as possible, for which the credit is expected to be required, and (2) the Reserve Bank is satisfied that the member bank's qualifying need for funds is seasonal and will persist for at least eight consecutive weeks.

The Fed also stands ready to extend credit to members in unusual or emergency circumstances and to make credit available in emergency situations to other financial institutions, corporations, partnerships, and individuals on the security of Government obligations.

### **Collateral Requirements and Administration**

All loans extended by Reserve Banks must be secured by acceptable collateral. Section 13 of the Federal Reserve Act permits Reserve Banks to make loans at the discount rate when secured by Treasury obligations or "eligible paper." Loans secured by other collateral are made under Section 10(b) of the Act and carry an interest rate at least one-half percent above the discount rate. Securities used for collateral must be available at Reserve Banks or their Branches or at approved custodian banks—some 40 large commercial banks in the United States.

Eligible paper refers to a broad category of financial instruments maturing in 90 days or less and to much agricultural paper maturing in nine months or less. It includes most promissory notes signed by financially sound borrowers and arising out of typical industrial, commercial, and agri-

cultural borrowing needs.<sup>2</sup> Paper may be ineligible by virtue of maturity, type of asset, or purpose of loan. However, paper not eligible under Section 13 of the Act may be acceptable as collateral under Section 10(b).

Collateral is accepted or rejected and classified on the basis of financial information on the member bank's borrowing customers. If a member anticipates a possible need to pledge paper as loan collateral, it usually supplies the Reserve Bank with financial information on customers whose paper it might pledge. This enables the Reserve Bank to analyze in advance the customer's condition and inform the member of the acceptability and classification of paper signed by the customer. The Federal Reserve Bank of Atlanta maintains about 1,800 credit files on customers of members for use in analyzing collateral.

As a precaution, many banks that anticipate a need to borrow in the near future transfer Treasury obligations or other paper to the Reserve Bank as potential loan collateral. The large majority of District members find it most convenient to secure borrowing with Treasury obligations. Members usually keep such obligations at the Fiscal Agency Departments of Reserve Banks where they can be easily pledged as advance collateral.

Of advances made to District banks between 1968 and 1972, 73 percent was secured by Treasury obligations, 18 percent by eligible paper, and 9 percent by other 10(b) collateral. Of the dollar amount of loans, however, only 53 percent was secured by Treasury obligations and 44 percent by eligible paper.

Eligible paper secured a larger percent of the dollar volume than number of loans because large urban banks, which account for the bulk of borrowing volume, often find it necessary to use this collateral. Urban banks often do not have enough unpledged Treasury obligations to secure their borrowing needs and find it convenient to transport eligible paper to the Reserve Bank. The percent of the dollar volume secured by eligible paper was especially high in 1968 and 1969. At that time, urban banks generated large amounts of this paper in making business loans and had few unpledged Treasury obligations.

### **How Banks Go About Borrowing**

A member bank's Board of Directors authorizes its officers to borrow by signing a *Borrowing Resolution*. At most banks, the officers then sign a *Continuing Lending Agreement* under which they agree to repay loan principal and interest and abide by collateral requirements. Once this

<sup>1</sup>These principles arise out of statutory requirements of the Federal Reserve Act, especially paragraph eight, section four, of the Act.

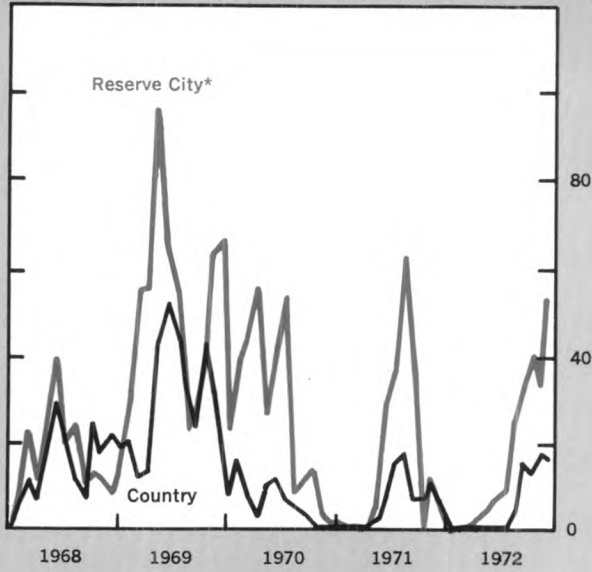
<sup>2</sup>For a detailed description of what constitutes eligible paper, see Federal Reserve Board Regulation A, Section 201.5, revised effective April 19, 1973.

# The Borrowing

SIXT

Borrowing from the F.R.B. of Atlanta is volatile . . .

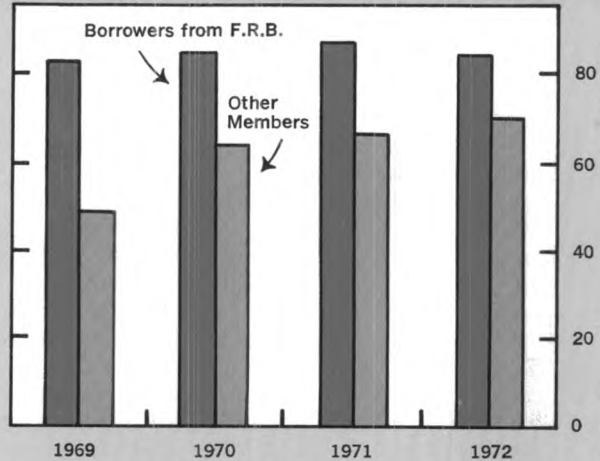
Mo. avg.,  
Mil \$



\*There are a total of 20 reserve city banks located in Atlanta, Birmingham, Miami, Jacksonville, Nashville, and New Orleans. There are over 500 country banks in the District.

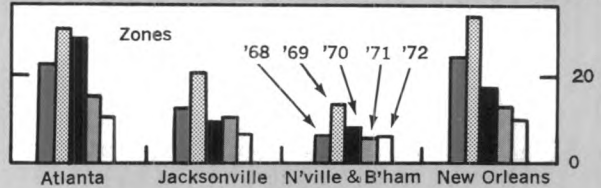
Most borrowers from the F.R.B. also borrow Fed funds.

% that borrowed Fed Funds



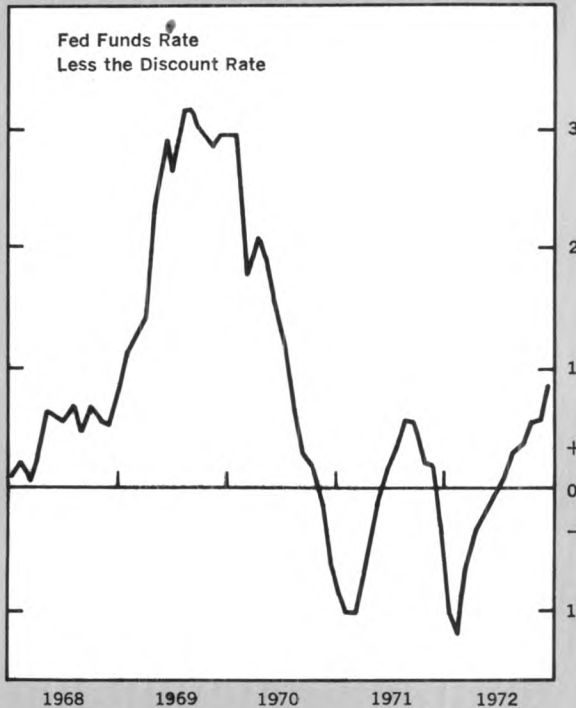
Banks in the Atlanta and New Orleans zones are the most inclined to borrow from the F.R.B,

% that borrowed



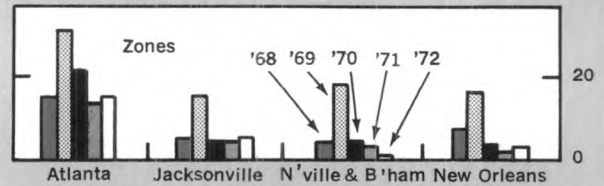
And increases when the Fed funds rate exceeds the discount rate.

Percent



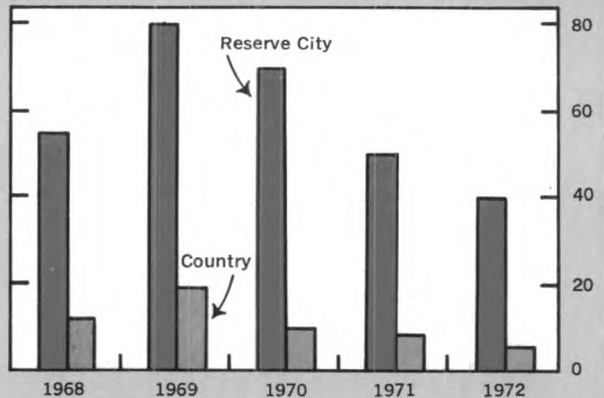
But Georgia banks account for the bulk of the dollar total.

Million \$



Reserve city banks are more inclined to borrow . . .

% that borrowed

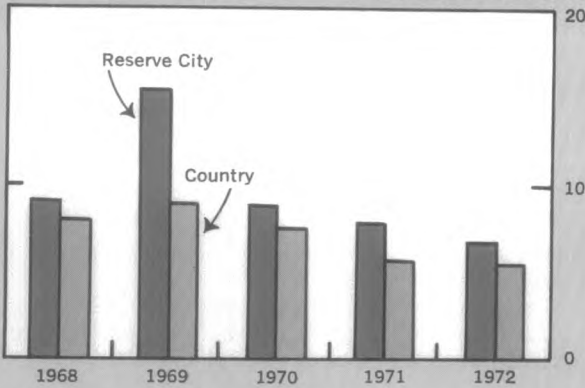


# Experience, 1968-72

## STRICT

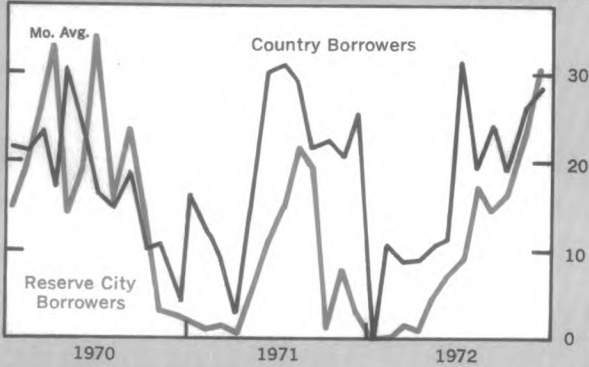
And are more often in debt than country banks,

Avg. no. of wks. in which borrowers were indebted



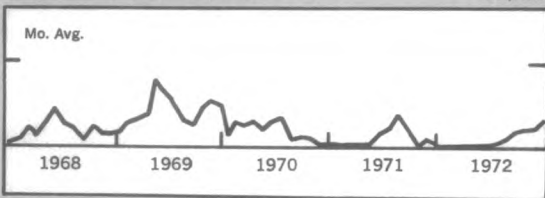
But country banks usually borrow a higher percent of required reserves.

Borr. as % of Req. Reserves



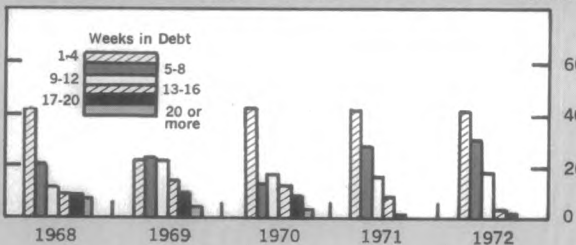
However, only a small portion of reserves is ever borrowed . . .

Borr. as % of Req. Reserves

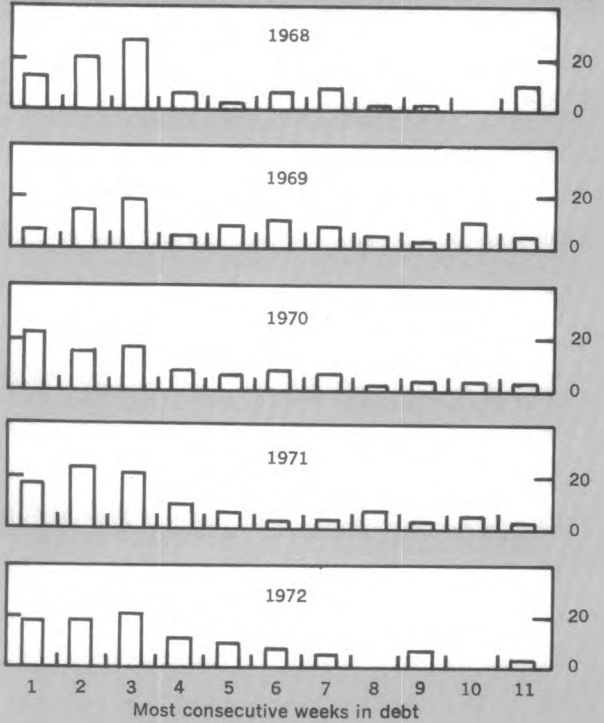


And a majority of borrowers (except in 1969) were indebted for eight weeks or less . . .

% of borrowers

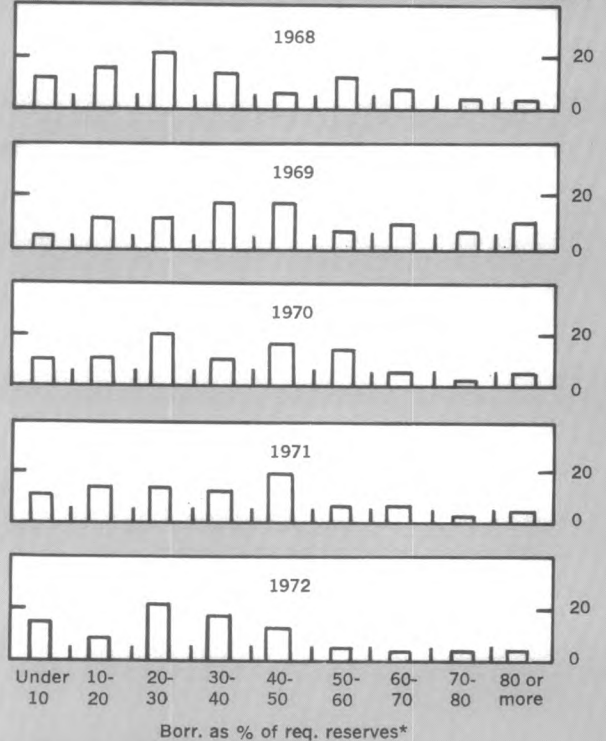


And three consecutive weeks or less . . . % of borrowers



And borrowed a maximum of 40% of required reserves.

% of borrowers



\*Highest Wkly. Avg. During Year

agreement is signed and on file, the Reserve Bank will usually not require that a formal promissory note and application be submitted with each request for a loan. Loans made under a *Continuing Lending Agreement* or on a promissory note signed by a member are called advances. Although Reserve Banks can also rediscount eligible paper, this form of borrowing is inconvenient for both bankers and Reserve Banks and has not been used in many years.

A request for an advance can be submitted to the Head Office of the Atlanta Reserve Bank or one of its four Branch offices. Requests are generally received by wire or phone, and collateral instructions and the desired amount and maturity of the advance are recorded<sup>3</sup>; if the request is received at a Branch, the information is phoned or wired to the Head Office. The Reserve Bank then checks whether the requesting bank has a Borrowing Resolution on file and that the proposed collateral is available and acceptable. Before advancing funds, the Reserve Bank reviews the soundness of the prospective borrower's condition, his borrowing record, and his recent Fed funds position. Federal Reserve credit is normally not available to banks that are simultaneously supplying reserves to the money market by selling Fed funds.

Because the Federal Reserve Bank of Atlanta has such information at hand and is familiar with the condition and collateral of many banks, it usually approves routine requests quickly. Once approved, an "advice-of-credit" form is typed and delivered to the Data Processing Department where the borrower's reserve account is credited. A confirmation copy of the advice is sent to the borrowing bank and the collateral or a receipt for the collateral is attached to a copy of the advice and filed. At maturity, an "advice-of-debit" form is used to charge the borrower's reserve account for principal and interest.

From time to time, the Reserve Bank may have questions about the propriety of a loan request. For example, it may wonder if the frequency or degree of a bank's borrowing is consistent with Regulation A. In such a case, it confers with the bank about its borrowing record and the purpose and need for additional accommodation.

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<sup>3</sup>Although advances can be extended for as long as four months under Section 10(b) of the Federal Reserve Act, currently the Atlanta Reserve Bank restricts the maturity of an advance to a reserve city bank or to a country bank with deposits in excess of \$100 million to the reserve period during which the bank becomes indebted. The maturity of an advance to a country bank with deposits of less than \$100 million is limited to 15 days.

After weighing all factors, the Reserve Bank decides if an additional advance is justified.

### **The Borrowing Experience, 1968 - 72**

Borrowing activity itself has varied a great deal from year to year and from bank to bank. Borrowings peaked during the tight money year 1969 and bottomed in 1972, a year of relatively easy money market conditions (see charts). In 1969, some 118 members used this Bank's borrowing facilities compared with only 44 during 1972.

Although borrowing supplied on average only 2.1 percent of total District required reserves over the entire period, it supplied over 8 percent at times during the 1969 credit squeeze. When credit demands eased after mid-1970, borrowing activity declined and was near zero during several months of both 1971 and 1972.

Except in 1969, during each year from 1968 to 1972 a majority of borrowers was indebted no more than three consecutive weeks and no more than eight weeks in all and in an amount of 40 percent or less of required reserves during any one week.

A larger portion of reserve city banks (20 large banks in urban centers) borrowed than country banks. Reserve city borrowers were also in debt slightly more often. On the other hand, country banks borrowed more relative to their required reserves during most of the period for which data are available (1970-72).

This borrowing experience reflects money market conditions, bank behavior, institutional arrangements, and Reserve Bank lending administration from 1968 to 1972.

### **The Next Five Years**

What about the future? Will recent changes in Regulation A and other factors determining borrowing produce important changes in borrowing during the next five years? They probably will. Also, the Federal Reserve can be expected to continue redesigning its borrowing mechanism, among other ways by introducing specific quantity and frequency limitations on part of a member's borrowing. Such a change, like the new seasonal lending agreement, would formalize lending standards and assure uniformity of borrowing administration among individual banks and Federal Reserve Districts. Nevertheless, borrowing regulations will always remain flexible enough to enable Reserve Banks to serve the individual needs of their members. ■

# Controlling Money With Bank Reserves

by William N. Cox, III

"The Fed *somehow* does *something* to bank reserves, which *somehow* makes the banks do *something* to bank deposits, which *somehow* have *something* to do with the money stock."

A vague statement. But an accurate statement, perhaps, of the vagueness with which many citizens view the mechanics of Federal Reserve operations. Yet the mechanics of what happens and why are important, because no one can really understand or criticize Fed policy unless he has a common-sense grasp of how it operates.

The purpose of this article, therefore, is expository: to see, first, how the Federal Reserve's operations on bank reserves serve to control the total of deposits held at commercial banks, and to see, second, how control of those total deposits relates to control of the money stock. Our purpose is to fill in those "somethings" and "somehows."

## Controlling "Widget" Production

To understand what sort of system the Fed uses to control total bank deposits, let's use a hypothetical product and call it a widget. All we have to imagine about widgets is that thousands of widgetmakers produce and sell millions of them every year and make a profit doing it.

Suppose, now, that for some reason the Federal government wanted to control widget production at a rate of 500,000 per month. Quite aside from whether this would be a good idea or not, how could such control be accomplished? There are lots of ways, perhaps, but our interest is in one that would work like this: First, the government would print Widget Production Permits. Each would say:

*This permit entitles the holder to produce five widgets per month. Production of widgets without this permission is expressly prohibited.*

Then the government would distribute 100,000 permits among widget producers. If each permit allowed the production of five widgets a month, then the 100,000 permits would impose a monthly production ceiling of 500,000 widgets.

Would the permit system work to control widget production? Three conditions would have to be satisfied. First, nobody but the government could issue the permits. (Successful counterfeiting, for instance, would beat the system.) Second, the government would have to be able to enforce the 5-to-1 ratio between widgets produced and permits held. (If a widgetmaker were able to produce without permits, the scheme would limit authorized production but leave actual production unaffected.)

Third, the government would have to depend on competition for profits among the widgetmakers to ensure that actual production did not fall short of the 500,000 ceiling. (If widgetmakers found it profitable to produce only

200,000 widgets a month, then the permit system would merely impose a meaningless ceiling on production without *controlling* it.)

Apparently, then, such a permit system would work to control total widget production only if the government could control the number of permits, only if the prescribed ratio between permits and production could be enforced, and only if competition for profits impelled widgetmakers to produce up to the permit-set ceiling.

The widget-control scheme parallels the system employed by the Federal Reserve to control total bank deposits. Bank deposits are our widgets, commercial banks are our widgetmakers, and bank reserves are our Widget Production Permits. We can verify that the system should work by checking the banking analogies of the three requirements for effective control.

Bank reserves themselves, for the most part, are checking-account balances held by commercial banks at their regional Federal Reserve Banks. Since the Fed keeps the books, there is no way to counterfeit our "permits." So for now, at least, we can assume the first requirement is satisfied. The second requirement for workability, enforcement of the ratio between the reserves held by the banks and the deposits their customers hold with them, is assured by traditional surveillance and examination of banks' activities. Since these first two conditions are met, the Fed's system should impose a ceiling on the total amount of bank deposits. In fact, it does.<sup>1</sup>

As to the third question, whether limiting the total of deposits is tantamount to controlling that total, it does appear that competition for profits among commercial banks operates to keep the actual deposit total very close to its limit. In practice then, setting a ceiling on total deposits operates to control the total.<sup>2</sup>

Basically, then, the Fed can limit the total of bank deposits (1) by limiting the amount of customer deposits an individual bank can hold for each dollar of reserves held by the bank, and (2) by controlling the total amount of reserves available to banks for permitting the deposits.

<sup>1</sup>Until the 1930's, reserves were not viewed as a deposit-control tool. When the Federal Reserve was established in 1914, reserve balances at the Fed were intended to provide each bank with a backup stock of funds. Much like the savings an individual might put aside for a rainy day, these deposits at the Fed were "reserved" for unforeseen contingencies.

<sup>2</sup>Commercial banks add to the overall amount of bank deposits when they make loans, which they do by accepting a borrower's promise to repay and simultaneously crediting additional funds to the borrower's checking account. Normally, a bank will continue to make additional loans and add to the overall level of deposits as long as the interest the borrower pays on the loan exceeds the bank's costs in making it. Costs would include whatever interest the bank itself would have to pay for funds it borrows, plus allowances for administrative overhead and for assuming the risks of lending.

***"Bank reserves themselves, for the most part, are checking-account balances held by commercial banks at their regional Federal Reserve Banks."***

Competition among the banks themselves normally keeps total deposits close to the reserve-set limit, so that the power to limit is, in practice, the power to control the national deposit level.

### Seven Important Features

Now let us abandon the widget and extend our discussion to several important features of the deposit-control system. The seven features described below have been selected to flesh out our description of the tools and framework through which Fed policy exerts its influence.

First, notice that the system we described permits the Fed virtually no control over the distribution of deposits *among* commercial banks. Reserves only serve to control the total. Banks compete with each other, subject to supervisory ground rules, to divide the total among themselves.

Second, we can see that the reserve system, by enabling the Fed to control the level of total deposits, automatically empowers the Fed to *change* that level as an act of policy. The Fed can move to increase or decrease the deposit limits on the banking system by acting to increase or diminish the reserve account balances commercial banks hold at the Fed. (The process is trickier than it looks, however, as we shall shortly see.) To decide what policy actions to take and what changes to make in the amount of reserves available, top Fed officials meet each month as the Federal Open Market Committee, the Fed's forum for monetary policy.

Third, let us ask just *how* the Fed acts to increase or decrease the supply of reserves available to commercial banks. Reserves, remember, are deposit balances held by commercial banks at the 12 regional Federal Reserve Banks. To increase the total amount of these reserve balances, all the Fed has to do is . . . buy something. Buy anything, in fact, as long as payment is made with a check drawn on a Federal Reserve Bank. What happens, in effect, is that the seller deposits the Fed's check with his commercial bank, and his bank deposits it with the Fed for credit to its reserve account. To decrease the reserve total, on the other hand, all the Fed has to do is sell something, as long as the Fed takes payment for what it sells by reducing its reserve account obligation to a commercial bank.

Buy what? Sell what? Anything, in theory, just as



long as the payment is eventually credited to or deducted from a commercial bank's reserve account at the Fed. When the Fed buys a computer or pays an economist, for example, total bank reserves increase. More realistically, though, the only market large and efficient enough to handle the Fed's purchases and sales is the "open market" for government securities.<sup>3</sup>

A fourth feature is that the limitation on total deposits can also be changed without open-market purchases or sales by the Fed. Instead of changing the amount of reserves available to the banks, the Fed can simply change the amount of deposits each dollar of reserves will permit. This is what happens when the Fed changes reserve requirement ratios. If the ratio is initially 6-to-1, then each dollar of reserve balances permits the issue of six dollars in deposits. But if the ratio is changed to 7-to-1, each reserve dollar permits seven deposit dollars, thereby raising the total deposit limit to seven-sixths of the former level.<sup>4</sup> In practice, the Fed does not change reserve-to-deposit ratios very often, preferring the alternative of changing the amount of reserves with open market operations.

A fifth feature of the reserve-control system is that banks can borrow reserves directly and temporarily from the Fed. This takes place through the so-called discount window. Banks whose applications are approved pay the discount rate, a Fed-set interest rate which has also come to be viewed by the public as a gauge of the Fed's determination to hold down or encourage up bank deposit levels.<sup>5</sup>

Another means of giving banks temporary flexibility in meeting their reserve requirements was inaugurated in 1968: Since then banks have been allowed to carry forward up to 2 percent of their reserve excesses or deficiencies into the subsequent reserve-computation period.

Sixth, we can note that banks normally try to hold a few extra reserves at the Fed in excess of the amounts required by the deposit levels they report. Banks often lend their excess balances to other banks overnight in the market for Federal Reserve balances—the Fed funds market, for short. Banks looking for reserves bid among each other for use of other banks' excess reserve balances, and

the interest rate that emerges from each day's bidding is called the Federal funds rate. This rate is a sensitive reflection of how much pressure, if any, there is between the banks' determination to expand their deposits and profits, on the one hand, and the Fed's determination to limit such expansion, on the other.

Seventh and finally, it is important to realize that banks use reserve balances to settle debts among themselves. Traffic is heavy, since commercial banks are constantly taking credit for checks deposited with them and crediting other banks for checks written by their own customers. Banks also consummate their Federal funds transactions by asking the Fed to transfer reserves. A commercial bank's reserve balance is almost continuously changing in reflection of debits and credits resulting from thousands of banking transactions. This complicates the banker's job of keeping enough reserve balances at the Fed to permit the deposits held at his bank and explains why the discount window and the Fed funds market are often useful.

### Some Frustrating Complications

The Fed's system for using bank reserves to control total bank deposits, though simple in concept, encounters some frustrating complications in practice. This section discusses four of them.

The first follows from the facts that all bank deposits are not the same and that all deposits do not carry the same deposit-to-reserve ratio. Commercial banks issue deposits with diverse charac-

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***"The Fed's system for using bank reserves to control total bank deposits, though simple in concept, encounters some frustrating complications in practice."***

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teristics: checking-account balances available on demand and paying no interest, interest-bearing savings account balances, and fixed-maturity certificates of deposit, for example. All of these deposit forms are bank liabilities and each, as it happens, is subject to a numerically different deposit-to-reserve ratio. Current regulations, moreover, require larger banks to hold more reserves per dollar of deposits than smaller banks.<sup>6</sup> So all deposits are not the same, and the same reserve ratio does not apply to all deposits.

This proliferation of deposit types and reserve-to-deposit ratios complicates the reserve-control

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<sup>3</sup>The open market is where already-issued government securities are traded by investors, hence the term "open market operations." See "What Are Open Market Operations?", Harry Brandt, this **Review**, May 1960 (revised March 1972). Reprinted in **Federal Reserve Policymaking and Its Problems**, 2nd ed., Number VII (Readings in Southern Finance, Atlanta, Federal Reserve Bank of Atlanta, November 1972), p. 30.

<sup>4</sup>The ratios are often expressed, equivalently, as percentage reserve requirements. A 10-to-1 ratio implies a 10-percent reserve requirement; a 5-to-1 ratio implies a 20-percent reserve requirement, etc.

<sup>5</sup>See "The Discount Rate: Problems and Remedies," this **Review**, June 1972. Also, "Member Bank Borrowing: Process and Experience," Arnold A. Dill, this **Review**, April 1973.

<sup>6</sup>To further complicate matters, there are other "nondeposit liabilities" of banks which must also be backed by reserves, as, for example, Eurodollar liabilities.

***“Increasingly in the 1970’s, however, Fed attention has focused not on total deposits but instead on the money stock. As a result, the Fed has experimented with various methods of tailoring the existing reserve system to its new problem of controlling the stock of money.”***

system. If the Fed wants the banks to issue more demand deposits and decides to supply additional reserve balances through open market operations to permit the additional demand deposits, for example, then Fed policymakers have to guess how many of the additional reserves will be used by the banks for additional demand deposits, and how many will be used for additions of other deposit types. (We shall return to this example in the next section.)

A second, somewhat different complication is that various hard-to-predict events operate on their own to increase or decrease the total amount of reserves available. It is almost as if a tribe of gremlins were capriciously stealing and replacing each bank’s stock of reserves, shifting the reserve total up and down in the process.

One reason this happens is that banks can count the currency and coin they hold in their vaults as reserves. Putting the details aside, the result is that total reserves change every time a bank customer deposits currency or cashes a check at a teller’s window. Essentially the same result occurs every time the U. S. Treasury or a foreign central bank shifts deposits between a commercial bank and a Federal Reserve Bank.

The biggest gremlin of all, though, arises from what bankers call Fed float. Banks use the Fed to clear checks, as we said, crediting the reserve account of a bank which submits a check with a delay estimated to equal the time it will take to collect the check (by deducting reserves from another bank). When the estimate is poor, so that the deduction and the credit fail to coincide, Fed float results. This Fed float varies from day to day, as when a snowstorm delays the physical shipment of checks from a major city, thereby delaying the collection of those checks in other cities. As it varies, so does the total of reserves available.

We call gremlins like these market factors. The Fed works hard to predict how these factors will shift and tries to offset their effects by buying or selling government securities. (This, in fact, is what impels the Fed to engage in a large dollar volume of open market operations almost every day. If the problem were simply to add a few reserves every month to allow for gradual growth in the

economy’s need for deposits, then the Fed could probably get by with a single security purchase each week.)

A third operational complication surfaces when one considers that thousands of banks hold reserve balances at the Fed. It is a big job just to add up how many deposits each bank holds in each reserve-ratio category. With the banks’ cooperation, an elaborate deposit tabulation and accounting system has been built and is constantly being improved. Even with this, though, a bank itself is often unsure of its deposit totals until the following day or thereafter. This is perhaps the main reason why reserve balances and deposit totals are matched up on a weekly average basis rather than daily.<sup>7</sup>

A final complication, here at least, is that only four out of ten commercial banks are members of the Federal Reserve System. Only about 40 percent of U. S. banks, therefore, are subject to the direct influence of the Fed’s reserve system. (Nonmember banks must conform to alternative reserve requirements established by state laws.) Fortunately, however, member banks account for about 80 percent of U. S. bank deposits.

These are some of the headaches—there are many others—which the Fed encounters as it tries to use the bank reserve system to limit total bank deposits. Although the scheme is conceptually so simple it seems as though it would have to work, perhaps in practice the surprising thing is that it works at all.

### **Bank Reserves, the Money Stock, and RPD’s**

With some complications, then, the reserve system we have discussed enables Fed policymakers to exert control over total bank deposits. Increasingly in the 1970’s, however, Fed attention has focused not on total deposits but instead on the money stock.<sup>8</sup> As a result, the Fed has experimented with various methods of tailoring the existing reserve system to its new problem of controlling the stock of money.

The money stock, in each of several definitions, includes some types of bank deposits but not others. Demand deposits of private customers are always included in the money stock, for example; negotiable certificates of deposit are never included. Looking at the other side of the same coin, this means that the total of deposits, the total subject to reserve control, includes some types of deposits

<sup>7</sup>The reserve statement period is a seven-day week, Thursday through Wednesday, over which banks must hold enough reserve balances, on average, to meet the requirements implied by their deposit levels reported two weeks previously.

<sup>8</sup>The main objective of Fed policy is economic stabilization. The Federal Open Market Committee has increasingly adopted the view that appropriate control of the money stock is the best way to pursue that objective. For a discussion of the issues involved, see “The Money Supply Controversy,” this **Review**, June 1969.

not included in the money stock.<sup>9</sup>

The basic problem is how to use reserves to control a particular part of total deposits (i.e., those classified as money) while ignoring the remainder of total deposits (i.e., those not classified as money).

We alluded to this problem in an earlier example: If the Fed decides to supply additional reserve balances with the intent of permitting growth in money-type deposits, there is nothing to prevent the banks from using the reserves to increase nonmoney-type deposits. Conversely, if deposits of the nonmoney type increase, banks must find reserves to permit the increase, perhaps even at the expense of an undesired decline in money deposits.

The situation resembles a family which classifies its expenses as either necessity expenditures or luxury expenditures. If the family's total expenditures stay at their limit of spendable income, then an increase (or decrease) in necessity expenditures must be accompanied by a decrease (or increase) in luxury expenditures. We could say that the spendable income limit resembles the limit imposed by the quantity of reserves available to the banks, luxury expenditures correspond to the money-type deposits whose levels the Fed wants to control, and necessity expenditures correspond to the other nonmoney deposits. (There is nothing necessitous or luxurious about either group of deposits, however.)

The Fed has an advantage the family may not have: The spendable income in its case (i.e., available reserve balances) can be adjusted through open market operations. If the family enjoyed this advantage and if, like the Fed, it wished to control its luxury expenditures while taking care of whatever necessities came along, then the family would be able to adjust its income to control the "income available to support luxury expenditures." If the family wished to hold this latter component of income constant, for instance, it would have to make total spendable income adjustments exactly in tandem with movements in necessity expenditures, thereby maintaining a constant sub-budget for luxuries.<sup>10</sup>

Just as the family might focus on "income available to support luxury expenditures," the Fed focuses on "reserves available to support private deposits," or RPD's. The Fed subtracts, from the total of reserves available to the banks, those

reserves required to permit (nonmoney) deposits of the Treasury and the (nonmoney) interbank deposits banks hold with each other, along with an allowance for excess or unused reserves. The reserves these nonmoney deposits use up correspond to the family's necessity expenditures. RPD's, then, are essentially what reserves remain to support money deposits after the reserves being used for other purposes have been subtracted.

By focusing their attention on RPD's, Fed policymakers try to push aside the other reserve-bearing bank liabilities and focus their attention on the private demand deposit component of the money stock at member banks. RPD's provide one way of tailoring the Fed's control over bank reserves to control those deposits defined as money for the purpose of generating desirable behavior in the overall money stock. This procedure is basically the one adopted on an experimental basis in 1972. Conceptually, we can see how it ought to work. Whether it works in practice is still a matter for debate.

The importance of RPD's, in any case, should not be exaggerated. Their use is only experimental.

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***"RPD's provide one way of tailoring the Fed's control over bank reserves to control those deposits defined as money, for the purpose of generating desirable behavior in the overall money stock."***

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It is a means of trying to regulate the money stock but not an end in itself. The money stock, furthermore, is far from being the sole objective of monetary policy. RPD's do not equal Federal Reserve policy, but they do reflect an ingenious new approach to an important aspect of policy.

### A Brief Summary

The reader who has stuck with us should now have a feel for how reserves are used as the basic tool of monetary policy. We have seen how reserves can effectively limit total deposits. We have seen how this limitation approximates control but says nothing about the distribution of deposits among banks. We have seen how the Fed's open market operations and reserve requirement changes work and how the Federal funds market and the discount window fit into the larger scheme. We have also explored the nature of some of the practical complications faced by the Fed as it attempts to employ the basic deposit-limitation scheme. Finally, we tried to bridge the gap between the money stock and reserves, explaining why the concept of RPD's has emerged in the 1970's. ■

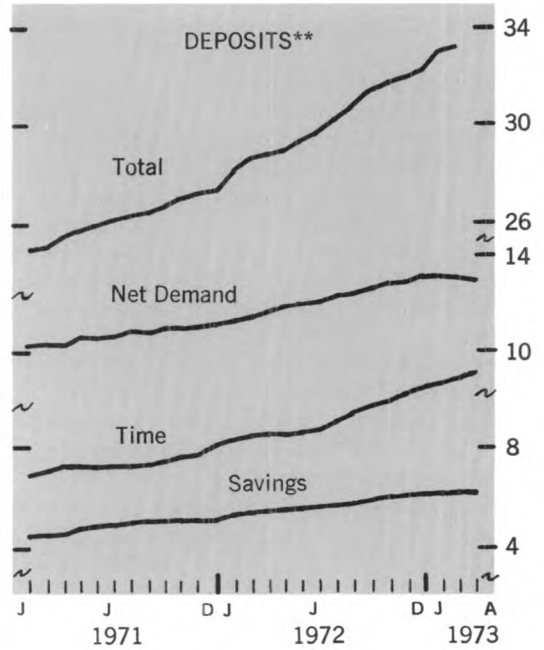
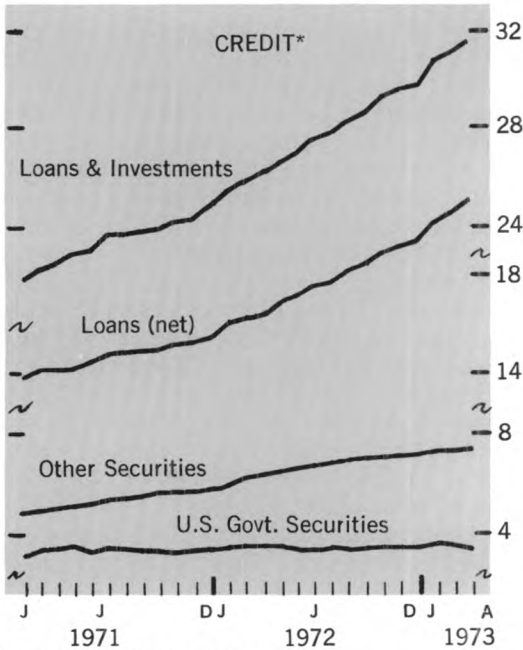
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<sup>9</sup>The money stock also includes one nondeposit item: currency and coin in the hands of the nonbank public. In practice, this currency component of money is much smaller and less volatile than the deposit components, so that the problem of controlling money is largely the problem of controlling the deposit components of money.

<sup>10</sup>This might be realistic where a family sent a son or daughter to college and agreed to pay for rent, tuition, and books plus a fixed allowance for incidentals.

## BANKING STATISTICS

Billion \$



LATEST MONTH PLOTTED: MARCH

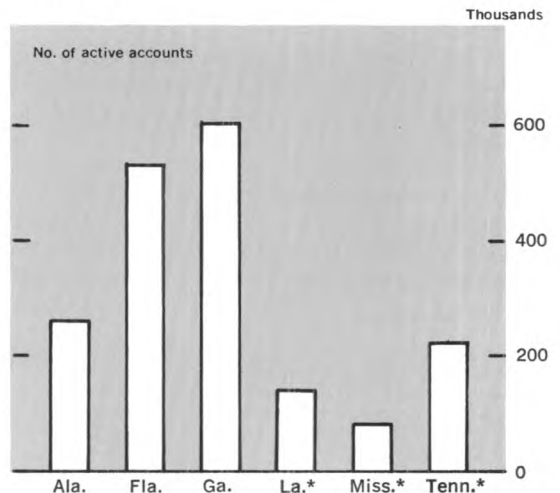
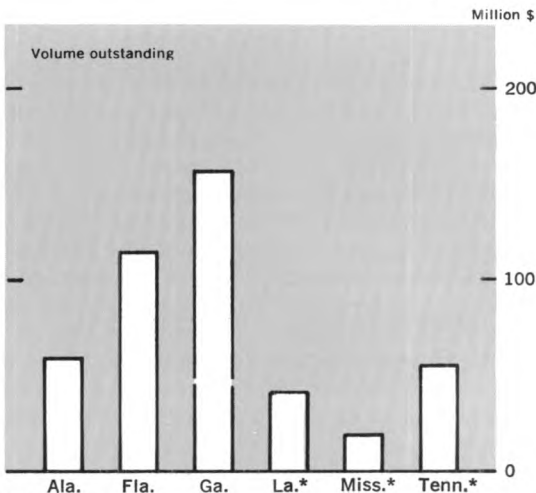
\* Figures are for the last Wednesday of each month.

\*\* Daily average figures

## SIXTH DISTRICT BANKING NOTES

# Bank Credit Card Use Expands

### BANK CREDIT CARDS



\*District portion

Note: Figures cover all member banks as of end of December 1972.

Consumers are making more use of the bank credit card plans offered by District member banks in making retail purchases. During the last five years, credit card instalment loans outstanding have increased rapidly at District member banks, from \$34 million in 1967 to \$443 million at the end of December 1972. The latter figure marks a 5.4-percent advance over 1971.

Consequently, credit extended on bank cards is becoming an increasingly large part of bank consumer instalment debt. As recently as five years ago, consumer credit extended via bank cards in this District comprised slightly less than one percent of total member bank consumer instalment credit. Now, however, this proportion has advanced to nearly 10 percent.

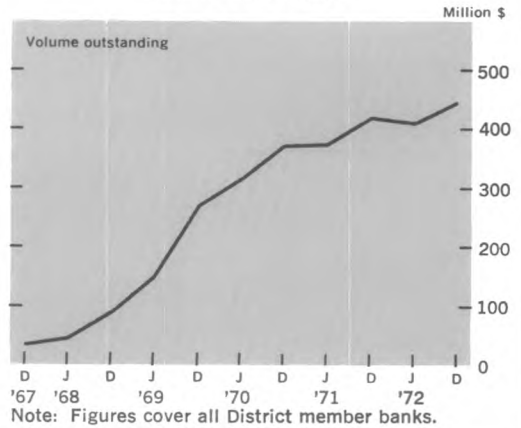
The increased use of bank credit cards reflects, in part, the greater number of banks offering them. Nearly 55 percent of the District's member banks now offer one or more credit card plans to their customers. This is a large number if we consider that the bank credit card concept is only about 16 years old in the Southeast. Southeastern member banks began to offer cards to their customers in 1958, but by 1967, only 20 District banks offered credit card plans. Not until the latter part of the decade did District member banks enter the credit card business on anything approaching a large scale. In 1968, 83 member banks began offering some form of credit card plan. In 1969, another 141 banks started and since then an additional 70 banks have done so. On the other hand, 28 member banks have discontinued issuing them.

Participation in credit card plans in this District, as elsewhere, seems to vary directly with bank size. Larger banks are more active in the credit card business than smaller ones. Ninety percent of those District banks with deposits in excess of \$100 million issue credit cards, but only about one-fourth of the banks with deposits under \$5 million do. Of banks with deposits of \$25 million to \$100 million, nearly two-thirds participate with some form of credit card.

The majority offering credit cards do so on an agency basis, enabling small- and medium-size banks to share in the credit card boom. Agency banks do not extend credit themselves but offer another bank's plan to their own customers. The licensing bank then handles all credit card transactions.

Most member banks offering credit cards are affiliated with either the Interbank or BankAmericard plan. There are 193 banks that use the Inter-

### Bank Credit Cards



bank plan and 144 banks that offer the BankAmericard plan. The remainder offer their own credit card or the card of another bank. Twenty offer more than one credit card plan.

In all, member banks have established nearly 3.2 million bank credit card accounts. At this time, however, only about 1.8 million of these accounts have balances outstanding. Ranking first in the District, member banks in Georgia had 603,000 active accounts at the end of 1972 with a total of \$157 million in credit outstanding. Florida member banks had 531,000 active accounts and \$115 million in credit outstanding.

Larger banks that issue cards themselves and license other banks to issue them account for most of the cards and credit balances outstanding. Nearly one-half of total active accounts are at banks with deposits in excess of \$500 million; these banks comprise somewhat more than two-fifths of credit card balances outstanding.

Charge-offs caused by customers defaulting on payments are a source of expense for banks issuing credit cards. Also, banks must contend with unauthorized and improper card use because card owners are limited to a \$50 maximum liability. During 1972, member banks had gross charge-offs totaling \$14,091,000. Recoveries offset part of this amount as banks collected \$4,095,000 in bad debts previously charged off.

**JOHN M. GODFREY**

# Sixth District Statistics

## Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

	Latest	Month	One Month Ago	Two Months Ago	One Year Ago		Latest	Month	One Month Ago	Two Months Ago	One Year Ago
<b>SIXTH DISTRICT</b>						<b>Unemployment Rate</b> (Percent of Work Force) . . . . . Feb. 4.2 4.3 4.4 5.2 Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . . Feb. 41.7 41.5 40.9 41.1					
<b>INCOME AND SPENDING</b>						<b>FINANCE AND BANKING</b>					
Manufacturing Payrolls . . . . .	Feb.	156	151	155	142	Member Bank Loans . . . . .	Feb.	200	196	197	166
Farm Cash Receipts . . . . .	Jan.	168	144	148	142	Member Bank Deposits . . . . .	Feb.	180	177	174	152
Crops . . . . .	Jan.	189	159	164	175	Bank Debits** . . . . .	Feb.	194	192	179	168
Livestock . . . . .	Jan.	166	154	164	132	<b>FLORIDA</b>					
Instalment Credit at Banks* (Mil. \$)						<b>INCOME</b>					
New Loans . . . . .	Feb.	477	481	461	425	Manufacturing Payrolls . . . . .	Feb.	150	147	146	136
Repayments . . . . .	Feb.	404	429	370	363	Farm Cash Receipts . . . . .	Jan.	135	145	177	134
<b>EMPLOYMENT AND PRODUCTION</b>						<b>EMPLOYMENT</b>					
Nonfarm Employment . . . . .	Feb.	124	124	123	119	Nonfarm Employment . . . . .	Feb.	138	136	136	129
Manufacturing . . . . .	Feb.	114	114	113	109	Manufacturing . . . . .	Feb.	117	117	117	111
Nondurable Goods . . . . .	Feb.	112	112	112	109	Nonmanufacturing . . . . .	Feb.	142	140	140	133
Food . . . . .	Feb.	104	104	102	103	Construction . . . . .	Feb.	171	171	170	150
Textiles . . . . .	Feb.	110	110	109	106	Farm Employment . . . . .	Feb.	93	96	95	90
Apparel . . . . .	Feb.	110	111	111	108	Unemployment Rate					
Paper . . . . .	Feb.	110	110	112	108	(Percent of Work Force) . . . . .	Feb.	3.0	3.2	N.A.	N.A.
Printing and Publishing . . . . .	Feb.	122	122	122	117	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Feb.	41.7	41.0	41.2	41.4
Chemicals . . . . .	Feb.	105	105	106	103	<b>FINANCE AND BANKING</b>					
Durable Goods . . . . .	Feb.	116	116	116	108	Member Bank Loans . . . . .	Feb.	248	239	233	190
Lbr., Wood Prods., Furn. & Fix.	Feb.	112	112	111	105	Member Bank Deposits . . . . .	Feb.	213	210	203	181
Stone, Clay, and Glass . . . . .	Feb.	121	121	119	113	Bank Debits** . . . . .	Feb.	247	242	240	206
Primary Metals . . . . .	Feb.	112	112	111	105	<b>GEORGIA</b>					
Fabricated Metals . . . . .	Feb.	126	124	124	116	<b>INCOME</b>					
Machinery . . . . .	Feb.	137	137	138	123	Manufacturing Payrolls . . . . .	Feb.	155	148	159	141
Transportation Equipment . . . . .	Feb.	109	108	109	106	Farm Cash Receipts . . . . .	Jan.	171	154	130	129
Nonmanufacturing . . . . .	Feb.	128	128	126	122	<b>EMPLOYMENT</b>					
Construction . . . . .	Feb.	132	133	131	124	Nonfarm Employment . . . . .	Feb.	122	122	121	119
Transportation . . . . .	Feb.	121	121	120	116	Manufacturing . . . . .	Feb.	109	109	109	107
Trade . . . . .	Feb.	124	123	123	118	Nonmanufacturing . . . . .	Feb.	128	128	126	125
Fin., ins., and real est. . . . .	Feb.	134	133	133	127	Construction . . . . .	Feb.	126	127	127	126
Services . . . . .	Feb.	133	133	133	127	Farm Employment . . . . .	Feb.	95	93	94	91
Federal Government . . . . .	Feb.	102	102	102	103	Unemployment Rate					
State and Local Government . . . . .	Feb.	130	130	128	124	(Percent of Work Force) . . . . .	Feb.	3.6	3.6	3.7	3.7
Farm Employment . . . . .	Feb.	92	91	87	91	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Feb.	40.3	38.9	41.4	40.6
Unemployment Rate						<b>FINANCE AND BANKING</b>					
(Percent of Work Force) . . . . .	Feb.	3.6	3.8	N.A.	N.A.	Member Bank Loans . . . . .	Feb.	210	209	197	164
Insured Unemployment						Member Bank Deposits . . . . .	Feb.	170	168	163	142
(Percent of Cov. Emp.) . . . . .	Feb.	1.8	1.9	1.9	2.5	Bank Debits** . . . . .	Feb.	226	235	230	179
Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Feb.	41.1	39.8	41.2	41.1	<b>LOUISIANA</b>					
Construction Contracts* . . . . .	Feb.	249	253	250	206	<b>INCOME</b>					
Residential . . . . .	Feb.	288	332	331	263	Manufacturing Payrolls . . . . .	Feb.	141	137	143	132
All Other . . . . .	Feb.	211	175	170	151	Farm Cash Receipts . . . . .	Jan.	151	148	160	119
Electric Power Production** . . . . .	Oct.	186	186	182	168	<b>EMPLOYMENT</b>					
Cotton Consumption** . . . . .	Jan.	83	83	77	88	Nonfarm Employment . . . . .	Feb.	115	115	112	111
Petroleum Products . . . . .	Mar.	116	116	119	118	Manufacturing . . . . .	Feb.	106	106	104	102
Manufacturing Production						Nonmanufacturing . . . . .	Feb.	116	116	114	113
Nondurable Goods . . . . .	Dec.	236	235	234	222	Construction . . . . .	Feb.	103	103	98	100
Food . . . . .	Dec.	187	184	184	177	Farm Employment . . . . .	Feb.	87	78	82	83
Textiles . . . . .	Dec.	279	278	276	257	Unemployment Rate					
Apparel . . . . .	Dec.	274	275	272	267	(Percent of Work Force) . . . . .	Feb.	5.3	5.7	5.9	6.1
Paper . . . . .	Dec.	221	222	221	204	Avg. Weekly Hrs. in Mfg. (Hrs.) . . . . .	Feb.	41.7	39.7	43.3	42.6
Printing and Publishing . . . . .	Dec.	158	159	158	161	<b>FINANCE AND BANKING</b>					
Chemicals . . . . .	Dec.	303	304	303	282	Member Bank Loans* . . . . .	Feb.	191	189	180	149
Durable Goods . . . . .	Dec.	338	337	337	300	Member Bank Deposits* . . . . .	Feb.	167	169	160	151
Lumber and Wood . . . . .	Dec.	197	198	198	189	Bank Debits*/** . . . . .	Feb.	175	202	171	143
Furniture and Fixtures . . . . .	Dec.	187	188	188	181	<b>MISSISSIPPI</b>					
Stone, Clay, and Glass . . . . .	Dec.	195	190	194	174	<b>INCOME</b>					
Primary Metals . . . . .	Dec.	221	219	222	198	Manufacturing Payrolls . . . . .	Feb.	174	161	171	157
Fabricated Metals . . . . .	Dec.	288	282	279	251	Farm Cash Receipts . . . . .	Jan.	260	187	127	208
Nonelectrical Machinery . . . . .	Dec.	414	433	439	394	<b>EMPLOYMENT</b>					
Electrical Machinery . . . . .	Dec.	753	764	740	635	Nonfarm Employment . . . . .	Feb.	122	122	119	117
Transportation Equipment . . . . .	Dec.	444	435	440	392	Manufacturing . . . . .	Feb.	127	126	125	120
<b>FINANCE AND BANKING</b>						<b>Nonmanufacturing . . . . .</b>					
Loans* . . . . .						Construction . . . . .	Feb.	119	120	119	115
All Member Banks . . . . .	Feb.	218	213	207	170	Farm Employment . . . . .	Feb.	88	86	78	92
Large Banks . . . . .	Feb.	202	198	192	155	<b>ALABAMA</b>					
Deposits* . . . . .						<b>INCOME</b>					
All Member Banks . . . . .	Feb.	187	185	179	160	Manufacturing Payrolls . . . . .	Feb.	157	156	153	140
Large Banks . . . . .	Feb.	163	162	159	142	Farm Cash Receipts . . . . .	Jan.	195	155	145	182
Bank Debits*/** . . . . .	Feb.	214	219	209	177	<b>EMPLOYMENT</b>					
<b>ALABAMA</b>						<b>Nonfarm Employment . . . . .</b>					
<b>INCOME</b>						<b>Manufacturing . . . . .</b>					
Manufacturing Payrolls . . . . .	Feb.	157	156	153	140	Nonmanufacturing . . . . .	Feb.	115	115	114	111
Farm Cash Receipts . . . . .	Jan.	195	155	145	182	Construction . . . . .	Feb.	111	113	116	109
<b>EMPLOYMENT</b>						<b>Farm Employment . . . . .</b>					
Nonfarm Employment . . . . .	Feb.	114	114	114	110						
Manufacturing . . . . .	Feb.	113	113	112	108						
Nonmanufacturing . . . . .	Feb.	115	115	114	111						
Construction . . . . .	Feb.	111	113	116	109						
Farm Employment . . . . .	Feb.	81	85	82	88						

	Latest Month	One Month Ago	Two Months Ago	One Year Ago		Latest Month	One Month Ago	Two Months Ago	One Year Ago	
Unemployment Rate (Percent of Work Force)	Feb. 3.8	3.9	4.3	4.2	EMPLOYMENT					
Avg. Weekly Hrs. in Mfg. (Hrs.)	Feb. 40.9	38.1	40.8	40.8		Nonfarm Employment	Feb. 124	124	122	116
FINANCE AND BANKING						Manufacturing	Feb. 115	115	116	109
Member Bank Loans*	Feb. 214	212	206	170	Nonmanufacturing	Feb. 129	128	126	120	
Member Bank Deposits*	Feb. 182	180	176	159	Construction	Feb. 125	129	123	118	
Bank Debits**	Feb. 199	194	191	177	Farm Employment	Feb. 98	97	86	92	
TENNESSEE						Unemployment Rate (Percent of Work Force)	Feb. 2.9	3.2	3.3	3.7
INCOME						Avg. Weekly Hrs. in Mfg. (Hrs.)	Feb. 41.0	39.5	40.7	40.9
Manufacturing Payrolls	Feb. 162	157	160	143	FINANCE AND BANKING					
Farm Cash Receipts	Jan. 156	110	206	133	Member Bank Loans*	Feb. 210	208	201	163	
					Member Bank Deposits*	Feb. 181	179	171	154	
					Bank Debits**	Feb. 180	188	175	158	

\*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.

All employment and labor force data have been adjusted to new bench marks.

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

# Debits to Demand Deposit Accounts

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

	Percent Change				Percent Change					
	Feb. 1973	Jan. 1973	Feb. 1972	Year to date 2 mos. from 1973	Feb. 1973	Jan. 1973	Feb. 1972	Year to date 2 mos. from 1973		
<b>STANDARD METROPOLITAN STATISTICAL AREAS</b>										
Birmingham	3,155,114	3,463,148	2,669,711	- 9 +18 +17						
Gadsden	85,175	98,715	72,655	-17 +17 +21						
Huntsville	256,526	306,761	235,483	-14 + 9 +15						
Mobile	841,136	1,016,862	762,241	-17 +10 +17						
Montgomery	503,394	608,096	449,549	-17 +12 +18						
Tuscaloosa	164,226	186,934	137,039	-12 +20 +19						
Bartow-Lakeland-Winter Haven	654,076	777,425	554,412	-16 +18 +24	Dothan	123,636	149,192	118,341	-17 + 4 +16	
Daytona Beach	303,242	388,195	248,282	-22 +22 +25	Selma	66,567	84,362	53,331	-21 +25 +35	
Fl. Lauderdale-Hollywood	1,664,152	2,046,210	1,528,836	-19 + 9 +17	Bradenton	164,568	201,274	132,144	-18 +25 +39	
Ft. Myers	332,746	355,433	221,744	- 6 +50 +46	Monroe County	66,456	79,114	62,673	-16 +16 +25	
Gainesville	209,325	226,061	178,405	- 7 +17 +19	Ocala	157,673	185,380	129,999	-15 +21 +27	
Jacksonville	3,175,292	3,708,643	2,722,849	-14 +17 +31	St. Augustine	22,536	28,277	26,536	-20 +15 -11	
Melbourne-Titusville	334,192	459,112	320,076	-37 + 4 +26	St. Petersburg	866,983	1,071,370	671,548	-19 +29 +37	
Cocoa	334,192	459,112	320,076	-37 + 4 +26	Tampa	1,560,694	1,807,213	1,405,103	-14 +11 +17	
Miami	5,505,920	6,784,200	4,799,464	-19 +15 +21	Athens	136,233	161,541	121,137	-16 +12 +20	
Orlando	1,394,807	1,456,569	1,083,271	- 4 +29 +29	Brunswick	81,183	91,909	70,720	-12 +15 +15	
Pensacola	380,629	423,123	348,994	-10 + 9 +12	Dalton	172,886	174,997	137,195	- 1 +26 +20	
Sarasota	396,209	503,977	313,741	-21 +26 +37	Elberton	15,701	21,315	15,920	-26 - 1 +15	
Tallahassee	784,594	840,952	533,281	- 7 +47 +52	Gainesville	109,924	134,109	95,573	-18 +15 +25	
Tampa-St. Pete	3,437,509	4,049,988	2,910,496	-15 +18 +26	Griffin	57,124	69,831	48,680	-18 +17 +25	
W. Palm Beach	1,034,811	1,357,384	837,589	-24 +24 +37	LaGrange	33,510	36,869	29,004	- 9 +16 +15	
Albany	160,260	199,880	139,753	-20 +15 +22	Newnan	45,231	57,380	37,019	-21 +22 +34	
Atlanta	11,792,624	13,589,470	9,046,327	-13 +30 +37	Rome	115,693	142,926	103,715	-19 +12 +19	
Augusta	409,816	473,547	402,999	-13 + 2 +12	Valdosta	79,400	104,046	76,149	-24 + 4 +11	
Columbus	338,671	419,374	343,635	-19 - 1 + 9	Abbeville	13,255	17,713	14,926	-25 -11 - 3	
Macon	426,755	499,470	390,611	-15 + 9 +13	Bunkie	10,369	12,474	7,380	-17 +41 +39	
Savannah	444,648	559,786	395,673	-21 +12 +23	Hammond	73,222	70,978	50,581	+ 3 +45 +31	
Alexandria	224,923	238,496	173,651	- 6 +30 +24	New Iberia	49,056	68,193	44,761	-28 +10 +19	
Baton Rouge	969,663	1,197,197	947,905	-19 + 2 +11	Plaquemine	20,402	27,772	13,924	-27 +47 +52	
Lafayette	226,663	263,469	191,654	-14 +18 +23	Thibodaux	30,375	43,207	30,110	-30 + 1 + 3	
Lake Charles	206,399	235,152	188,514	-12 + 9 +11	Hattiesburg	109,472	115,590	96,242	- 5 +14 +17	
New Orleans	3,762,373	5,743,787	2,944,718	-34 +28 +54	Laurel	81,562	70,395	65,668	+16 +24 +27	
Biloxi-Gulfport	195,618	217,675	191,928	-10 + 2 + 3	Meridian	102,458	120,953	89,620	-15 +14 +21	
Jackson	1,184,843	1,268,713	1,098,629	- 7 + 8 +16	Natchez	45,337	54,735	47,633	-17 - 5 + 3	
Chattanooga	1,021,245	1,157,708	944,962	-12 + 8 +10	Pascagoula	157,074	160,787	119,377	- 2 +32 +40	
Knoxville	739,889	890,595	638,182	-17 +16 +23	Moss Point	78,207	75,224	52,243	-17 +24 +34	
Nashville	2,712,201	3,266,594	2,325,610	-17 +17 +27	Vicksburg	64,934	44,756	32,803	-25 + 2 + 9	
OTHER CENTERS					Yazoo City	33,451	119,470	136,797	105,731	-13 +13 +17
Anniston	93,769	106,977	88,044	-12 + 7 +13	Johnson City	136,716	160,079	125,481	-15 + 9 +18	
					Kingsport	214,185	241,689	185,105	-11 +16 +18	
					District Total	61,355,397	73,395,410	51,515,034r	-14 +19 +27	
					Alabama	7,054,754	8,170,263	6,151,908	-14 +15 +17	
					Florida	21,783,810	25,920,693	18,279,889r	-16 +19 +27	
					Georgia	16,719,205	19,527,210	13,423,170	-13 +25 +31	
					Louisiana <sup>1</sup>	6,454,813	8,954,567	5,376,027	-28 +20 +37	
					Mississippi <sup>1</sup>	2,621,373	2,840,518	2,347,463	- 8 +12 +18	
					Tennessee <sup>1</sup>	6,721,442	7,982,159	5,936,577	-16 +13 +21	

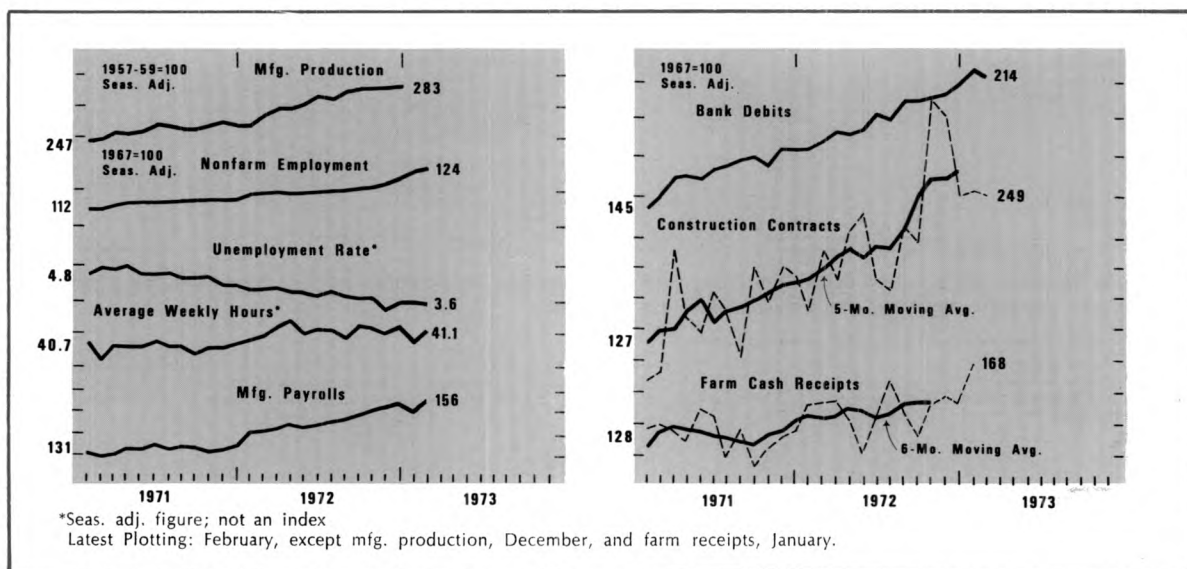
<sup>1</sup> District portion only

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



Signs of continued brisk growth in the District's economy included: a declining rate of unemployment and tightening labor markets, robust consumer spending and borrowing, strong demands for bank loans, booming farm income, and sustained strength in construction activity.

February's unemployment rate dropped to 3.6 percent, verifying reports of tight labor market conditions. Labor demand continued to strengthen, as reflected by a 40-percent increase from a year ago in the number of help-wanted ads in large Southeastern newspapers. Employment and production gains have been particularly strong in durable goods manufacturing, and outright labor shortages have been reported by apparel and textile manufacturers. February's manufacturing workweek and payrolls rebounded from January's storm-related decline.

Consumer borrowing increased substantially again in February. Gains were posted in all categories of consumer instalment credit outstanding, with auto loans showing the largest advance. Credit growth reflected the strength in retail activity. Both department store sales in major metropolitan areas and unit sales of domestically produced autos showed strong gains from the high levels of a year ago.

District member banks have become increasingly dependent upon borrowed reserves and short-term time deposits in order to meet current loan requests. Net Federal funds purchases have increased, discount activity has risen sharply, and sales of "money market" CD's have continued strong. Lending at both large and small size banks has remained

quite brisk. A 6 1/2-percent prime rate had been posted by most large banks by the end of March.

Prices of farm products continued to climb in February. All items in the livestock group, with the exception of broilers, registered sharp price increases from January's levels. Soybean and orange prices showed the largest gains in the crop sector. Preliminary data for March indicate that livestock prices have continued to surge upward. In January, farm cash receipts were 12 percent above the comparable 1972 level. A large farm credit agency has posted higher interest rates on both short- and long-term loans as a result of the recent rise in the cost of funds obtained in the money market. Loan volume was reported to be about one-fourth higher than the year-ago level. The March survey of prospective plantings shows that District farmers plan hefty increases in acreages of corn, rice, soybeans, and tobacco, but acreages of cotton and small grains will be sharply curtailed.

Construction activity continued to show only small changes. In February, for the second month in a row, the value of construction contract awards changed little. Moderate declines in residential awards were offset by an apparent general upswing in the nonresidential sector. Thrift institutions report a further slowing of deposit inflows in early 1973.

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