

# monthly review

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Federal Reserve Bank of Atlanta - 1973

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# Prices and Unused Capacity

by **Frederick R. Strobel**

Why have prices increased so dramatically over the past year? There have been several reasons. Among them are an overheated economy creating an excess demand for goods and services at home, increased foreign demands for American products, lower-than-expected crop yields creating food shortages, and a lack of unused capacity in American industry. This article focuses on one aspect of inflationary pressures, namely, the reactions of prices to different levels of capacity utilization.

## Capacity, Costs and Prices

According to economic theory, unit costs accelerate when unused industrial capacity shrinks to low levels (or, putting it another way, when utilization climbs to high levels). This theory is often called the law of diminishing returns or the law of increasing costs.

Why should this be true? Figure 1 shows a cost curve for a hypothetical manufacturing firm. The minimum point on the curve shows that at an output of 1,000 units per week, costs per unit are minimized. The curve is computed from both fixed costs (such as overhead) and variable costs (such as labor and materials per unit). Output at less than this level would tend to have a higher cost per unit because the fixed costs cannot be spread among as many units. Greater output would have a higher cost because the variable costs rise faster than fixed costs decrease at higher operating levels. One such variable cost, labor, may rise because overtime work or newly hired, inexperienced workers may cause output per man-hour to fall, thereby increasing unit costs. These higher unit costs tend to be translated into higher prices.

Another reason prices may increase could be that the firm's owner, observing the extremely high level of activity in his business, translates this into a measure of consumer demand. As an astute businessman, he raises his price and his profits. Thus, price increases at high capacity utilization levels can be attributable to both demand and cost factors.

According to economic theory, then, the low point on a firm's cost curve (1,000 units in our hypothetical firm) is the point of full capacity utilization. In other words, operating beyond that point would cause higher per unit costs, which would in turn be reflected in the price of the product.

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The operating levels at which costs turn up differ from firm to firm and, for that matter, from industry to industry. In our hypothetical firm, the low point on a cost curve might be operation at 90 percent of capacity, leaving 10 percent unused; for another firm, the low point on the cost curve may be reached at 92 percent of capacity. Theoretically, the low point on the cost curve is full capacity utilization in an economic sense because it is at that point where the lowest unit cost is obtained. While it is possible in a physical sense to go beyond this point of operation, the result will be higher unit costs, leading to higher selling prices.

In short, economic theory holds that a drop in unused capacity generally leads to higher prices and a rise in unused capacity will tend to reduce price pressures. Is this conclusion borne out by the facts? Several questions may be asked. How precise are the relationships? Do consumer as well as wholesale prices increase as unused capacity shrinks? One could further ask how much prices react and how long the process takes.

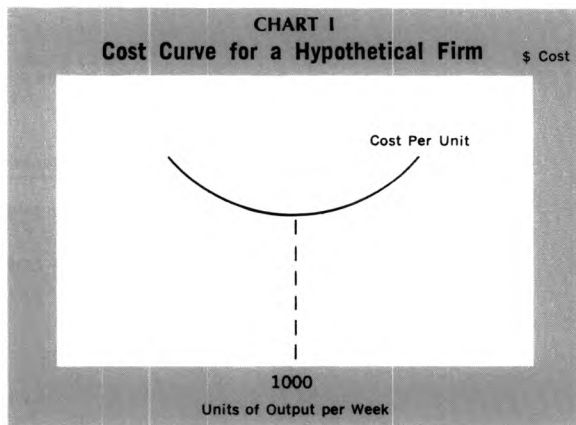
In an attempt to answer some of these questions, the Federal Reserve Bank of Atlanta recently undertook a study testing the responsiveness of prices, measured by the Wholesale Price Index and the GNP deflator, to levels of unused capacity derived from the Wharton Indexes of Capacity utilization.<sup>1</sup>

Econometric techniques involving regression analysis were used to relate price changes to levels of unused capacity. The results were equations which quantify these average relationships. The study focused on annual data from 1954 to 1971. Since unused capacity is not the only determinant of price changes, other variables, such as changes in the unemployment rate, average weekly earnings, and previous year price changes, were also tested against prices.

### Test Results: Price Levels and Unused Capacity

The general price level reacted significantly to different levels of unused capacity over the 1954-1971 period. Table 1 shows prices, measured by percent changes in the GNP deflator for the private

<sup>1</sup>The Wharton Indexes of Capacity Utilization developed by Klein and Summers state industrial operating rates as a percentage of available capacity. Capacity is defined as the maximum sustainable level of output the industry can attain within a very short time if the demand for its product were not a constraining factor, when the industry is operating its existing stock of capital at its customary level of intensity. For most industries the output measure used is the Federal Reserve Index of Industrial Production. For purposes of this study, these operating rates were subtracted from 100 to yield an index of unused capacity, which is similar to an unemployment rate in the labor market. The sources of the data are Robert Summers, "Capacity Utilization Influences Price Level, Investment," *Wharton Quarterly*, spring 1969, and *Wharton Quarterly*, summer 1972, Wharton School of Finance and Commerce, University of Pennsylvania.



economy, were affected by unused capacity in the private economy (derived from the Wharton "overall" capacity utilization measure which includes manufacturing, mining, utilities, services, and construction<sup>2</sup>).

As shown in Equation 1, price movements in the private economy over the period were equal to a constant value, 2.83 percent less 20 percent of a two-year average level of unused capacity, plus 74 percent of the price changes in the previous year. The inverse relationship between prices and unused capacity is indicated by the minus sign, which says that the price level is reduced more if unused capacity grows, such as in a recession or business slowdown and prices tend to be reduced less, i.e., prices increase, when unused capacity shrinks, such as in a boom.

The price measure tested in Equation 1 was the GNP deflator for the total private economy, whose movements closely parallel the Consumer Price Index.<sup>3</sup> The unused capacity variable which proved most statistically significant was a two-year moving average<sup>4</sup> of the overall index. This implies that current year prices are affected by unused capacity levels in both the current and previous year. These findings thus agree with economic theory, namely, decreases in unused capacity are a factor in increasing price pressures.

More specifically, we found price changes measured by both the GNP deflator and the Wholesale Price Index in durable goods manufacturing reacting to changes in the level of unused capacity. Again, the relationship is inverse. Also, nondurable goods manufacturing prices as measured by the GNP deflator react to varying unused capacity levels.

<sup>2</sup>This is index "I" in the *Wharton Quarterly*, spring 1969.

<sup>3</sup>In fact, 85 percent of the annual percent change in the CPI can be explained by movements in the private GNP deflator over the 1954-1971 period. The equation is:

$$\% \Delta \text{CPI} = - .698 + 1.143 \% \Delta \text{GNP D}, \bar{R}^2 = .853$$

(-2.033) (9.966)

<sup>4</sup>i.e., the 1971 unused capacity figure would be calculated as follows: (1970 UC + 1971 UC) ÷ 2

**TABLE 1**  
**Price Changes and Unused Capacity**  
**Regression Results Using Annual Data**  
**1954 to 1971**

Prices	Constant	Unused Capacity Variable	Other Variables	
Total Private Economy (1) GP =	2.83	- .20UC	+ .74GP <sub>-1</sub>	
Durable Goods Manufacturing (2) WP =	1.34	- .12UC	+ .59WP <sub>-1</sub>	+ .35E
(3) GP =	2.81	- .13UC	+ .52GP <sub>-1</sub>	
Nondurable Goods Manufacturing (4) GP =	2.61	- .22UC	+ .51GP <sub>-1</sub>	- .40UR <sub>-1</sub>
Services (5) GP =	- 1.06		+ .68GP <sub>-1</sub>	+ .51E
Construction (6) GP =	- 1.60			+ .89E

**Where**

GP = Price changes expressed in terms of annual percent change of GNP Deflator for named industry.  
 WP = Annual percent change, wholesale price index.  
 UC = Unused capacity as a percent of total capacity for named industry, two-year moving average.  
 UR<sub>-1</sub> = Change in unemployment rate, non-durable goods industries, in previous year.  
 E = Annual percent change, average weekly earnings, for named industry.  
 GP<sub>-1</sub>, WP<sub>-1</sub> = Price changes in previous year (%).

Note: See appendix for a more detailed description of procedure and tests of statistical significance

In a similar manner, the services and construction industries were tested. However, neither unused capacity in the current year, the previous year, or a two-year moving average of both years significantly affected prices, as measured by the GNP deflator in these industries.

By how much did prices change because of changes in unused capacity? Unused capacity in the entire economy averaged 10.1 percent over the 1954-1971 period. More importantly, the total private index of unused capacity changed, on the average, 1.87 percentage points per year in either a plus or minus direction, and 20 percent of such changes tend to be reflected in prices (see [1] in Table 1). Thus, the average annual price effect of changes in unused capacity would be to raise or lower the general price level by .374 percent (1.87 times .20).

These are only average changes, however. In some years, unused capacity changed dramatically. In 1958, a recession year, average unused capacity rose 5.2 percent.<sup>5</sup> This change tended to reduce price pressures by over one percent even though prices in 1958 rose by 2.6 percent. In 1966 as the economy heated up, average unused capacity shrank by 3.1 percent, tending to increase prices by about .6 percent. The average price effects of changes in unused capacity are shown in Table 2. Durable goods wholesale prices were affected most by changes in unused capacity, and the durables GNP deflator ranked a close

second. The deflator for nondurable goods manufacturing showed the smallest significant price change of the sectors tested.

### Other Variables Determining Prices

The primary thrust of this study was to determine the price effects of unused capacity, which price measures are affected, and how long the process takes. Price-determining variables in addition to unused capacity were also introduced into the equations. The most common of these to show statistical significance was lagged prices (price changes in the year prior to that being measured). In Equation 1, which measures price changes in the total private economy, 74 percent of the previous year's price changes were, on the average, reflected in the current year's prices. The positive sign indicates that price changes were in the same direction. Thus, with prices rising about 6 percent in 1973, we could expect, if the experience of the 1954-71 period were to continue, at least an upward price movement of 4.44 percent (.74 X 6.0%) in 1974. This would be attributable solely to price movements in 1973, exclusive of unused capacity changes or of any other price-affecting variables.<sup>6</sup> Likewise, in durable goods manufacturing, over 50 percent of the previous-year price changes in the Wholesale Price Index and the GNP

<sup>6</sup>Of course, this does not take into account unused capacity levels in prior time periods, such as 1972, which would affect 1973 prices.

<sup>5</sup>Two-year moving average

deflator were reflected in the respective current year's indexes. Prices of nondurable goods manufacturing and services reacted in a similar fashion. Only current-year prices in the construction industry failed to show a relationship to the previous year prices.

There are several possible explanations for this tendency of price increases to carry over from one year to the next. One is that price increases, which lead to losses in purchasing power, often stimulate wage, rent, and tax increases, which, in turn, may induce further price increases. This chain of events is often called the wage-price spiral. Another possible explanation is frequently labeled the "price expectations" phenomenon. Often, during an inflationary period, individuals and businesses expect inflation to continue. Prices are automatically raised, whether or not justified by cost considerations. Expecting price increases, buyers might then step up their purchases, further adding fuel to the fire.

Average weekly earnings also turned out to be an important influence on prices but more prominently so in those industries where unused capacity is not a significant determinant of prices, i.e., services and construction. Compared with manufacturing, services and construction are generally less capital-intensive. Thus wages in services and construction should be more prominent in determining prices than in manufacturing since they make up a greater proportion of the value of the end product in the former.

Finally, lagged prices were also a significant variable in the services industry. On the average, current prices of services rose by at least 68 per cent of their previous year's increase.

manufacturing sectors and in the economy as a whole. Moreover, this relationship is inverse in that decreases in unused capacity generally cause price increases.

The similarity of price-capacity response in manufacturing and the total economy can possibly be explained by the close relationship between industrial activity and changes in overall economic activity.<sup>7</sup> Prices in the service and construction sectors, on the other hand, do not react to the level of unused capacity.

We also found that, over the 1954-1971 time period, changes in unused capacity on the average tended to change prices from 0.30 percent to 0.44 percent per year. Further, the full effect of changes in unused capacity on prices has a considerable lag, since unused capacity had a significant effect on prices when it was expressed as a two-year moving average.

What policy implications can be drawn from this behavior of prices with respect to unused capacity? First, one objective of a stimulative monetary policy is to promote investment, thereby increasing capacity and facilitating higher output with reduced inflationary pressures. A similar motive, namely to promote long run non-inflationary growth was the rationale behind the introduction of the investment tax credit.<sup>8</sup> The results of this study lend support to these objectives. Investment stimulation would be especially appropriate during periods of slow economic growth. And in an over-heated economy, one customary policy objective is to moderate investment spending. Restrictive monetary policy and/or suspension or reduction of the investment tax credit are the usual prescriptions. The results of our study would seem to indicate that such policies make good

### Summary and Policy Implications

We have found level of unused capacity to be a significant element in determining prices in the

<sup>7</sup>The simple correlation coefficient for percent changes in industrial production with percent changes in real Gross National Product (private sector) for the 1954-71 period was .958.

<sup>8</sup>See Walter W. Heller, *New Dimensions in Political Economy*, especially pp. 80-81 (New York, W. W. Norton and Co., 1967).

**TABLE 2**  
**Average Price Effect of Unused Capacity Changes**  
**1954-71**

	Average Absolute Change in Unused Capacity - 2 yrs. Average	X	Coefficient	=	Average Price Effects
Total Private Economy, GNP Deflator	1.87 %	X	.20	=	.374 %
Manufacturing, Durables - Wholesale Prices	3.37 %	X	.13	=	.438 %
Manufacturing, Durables - GNP Deflator	3.37 %	X	.12	=	.404 %
Manufacturing, Nondurables - GNP Deflator	1.37 %	X	.22	=	.301 %

short-run measures for dampening inflationary pressures. In the short run, the price effects of changes in unused capacity are relatively small (i.e., less than 1/2 of one percent) when compared with the possible inflationary effects of excess aggregate demand, which might be fueled by an overheated investment sector.

The tendency of price increases in most sectors of the economy to carry over from one year to the next also has implications for economic policy. Based on our study, in the total economy almost three quarters of the previous

years' price increases have tended to be reflected in the current year's price increases over the 1954-71 period. The lesson is clear. Inflation, once it begins, is very difficult to bring under control quickly, especially within one year.

Finally, our statistical findings suggest that in attempting to reduce inflationary pressures, policies designed at increasing manufacturing capacity and consequently lowering price pressures in that sector are likely to be more effective than policies aimed at increasing productive capacity in the services and construction sectors.✱

## APPENDIX

The primary purpose of this study was to investigate the relationship between price changes and the level of capacity utilization. Using regression techniques, percent changes in the GNP deflator and percent changes in the wholesale price index were related to the Wharton Indexes of Capacity Utilization. The Wharton Indexes, stated in operating rates as a percentage of available capacity, were subtracted from one to yield an index of unused capacity. Price measures chosen related to the end products of the particular industry in which the unused capacity measure was also available. For example, the GNP deflator for durable goods industries was regressed on unused capacity in durable goods industries.

While some quarterly testing was initially tried, experimentation with annual data over the 1954 to 1971 period proved more fruitful.<sup>1</sup> Working with annual data, tests were first conducted using simple linear and logarithmic regressions of wholesale and GNP price

<sup>1</sup>Quarterly estimates of the price-capacity utilization relationship over the 1953 to 1965 period were developed by Otto Eckstein and Gary Fromm. See "The Price Equation," *American Economic Review*, December 1968, pp. 1159-1183.

changes (current year) on unused capacity, for the current year, unused capacity lagged one year and unused capacity computed as a two-year moving average by sector. The two-year moving average measure of unused capacity generally yielded the most significant statistical results using linear relationships. This was true for the regressions involving the total economy and for durable and nondurable goods manufacturing. The main purpose of the study was to focus on the price effects of unused capacity and not to fully explain other price-determining variables. Additional variables were introduced to raise the degree of explanation ( $\bar{R}^2$ ) and to improve the overall statistical quality of the equations. Other variables which were consistently tested were lagged prices, either measured by the GNP deflator or the Wholesale Price Index, average weekly earnings in the current time period, the change in the unemployment rate in the current period, and the change in the unemployment rate lagged one year. Prices and average weekly earnings were always stated in terms of annual percentage changes.

The following table provides additional detail to that presented in Table 1 of the text.

### REGRESSION RESULTS ANNUAL DATA 1954-1971

Dependent Variable: Price Change — %	Constant Value	Independent Variable Coefficients				$\bar{R}^2$	Durbin Watson Statistic
		Unused Capacity— 2-Yr. Moving Average	Price % Change (Previous Yr.)	Average Weekly Earnings % Change	Change in Unemployment Rate		
1. Total Private Economy— GNP Deflator	2.825 (6.799)	-.197 (-6.427)	+ .739 (9.811)			.918	2.016
2a. Durable Goods Manufacturing Wholesale Prices-Durables	1.341 (1.473)	-.119 (-2.890)	+ .585 (4.223)	+ .353 (3.613)		.752	2.162
2b. Durable Goods Manufacturing GNP Deflator—Durables	2.184 (3.665)	-.130 (-2.865)	+ .523 (3.362)			.533	2.082
3. Non-Durable Goods—Manufacturing GNP Deflator—Non-Durables	2.610 (2.859)	-.216 (-2.184)	+ .513 (3.135)		-.397 (-2.083) *	.672	2.105
4. Services—GNP Deflator	-1.057 (-3.291)		+ .677 (8.089)	+ .509 (6.958)		.931	2.312
5. Construction—GNP Deflator	-1.597 (-2.134)			+ .896 (4.687)		.758	1.539

\*Change in unemployment rate, nondurable goods industries, previous year (t-1).

Note: "t" values are in parentheses.

## Sources of Data

Unused capacity derived from the following Wharton Indexes of Capacity Utilization:

- "Overall Index of Rate of Utilization of Capacity" (I)
- "Index of Rate of Utilization in the Durable Goods Part of the Manufacturing Sector" ( $I_d^m$ )
- "Index of Rate of Utilization in the Non-Durable Goods Part of the Manufacturing Sector" ( $I_{nd}^m$ )
- "Index of Rate of Utilization of Service Capacity" ( $I^s$ )
- "Index of Rate of Utilization of Capacity in the Contract Construction Sector" ( $I^c$ )

Source: *Wharton Quarterly*, spring 1969 and summer 1972

Price changes computed in annual percentage rates from the following:

- Total GNP Deflator: Implicit Price Deflator for Gross National Product for Private Sector

- Durables: Implicit Price Deflator, GNP by Major Type of Product, Durable Goods Output
- Nondurables: Implicit Price Deflator, GNP by Major Type of Product, Nondurable Goods Output
- Services: Implicit Price Deflator, GNP by Major Type of Product, Services Component of GNP
- Construction: Implicit Price Deflator, GNP by Major Type of Product, Structures Component of GNP

Source: National Income and Products Accounts of the U.S., U.S. Department of Commerce, Bureau of Economic Analysis and

- Durables—Wholesale Price Index for Durable Goods
- Nondurables—Wholesale Price Index for Nondurable Goods

Source: Bureau of Labor Statistics, U.S. Department of Labor

## Bank Announcements

October 1, 1973

### PEOPLES BANK OF MISSISSIPPI, NATIONAL ASSOCIATION

*Union, Mississippi*

Converted to a national bank.

October 2, 1973

### NASSAU COUNTY STATE BANK

*Callahan, Florida*

Opened for business as a par-remitting nonmember. Officers: Charles R. Outler, Jr., president; W. K. Cook, vice president; Cynthia C. Shuman, cashier. Capital, \$350,000; surplus and other funds, \$250,250.

October 9, 1973

### AMERICAN SECURITY BANK OF MARTIN COUNTY

*Stuart, Florida*

Opened for business as a par-remitting nonmember. Officers: D. S. Hudson, Jr., chairman; David B. Irons, president; J. M. Brown, vice president; Dale M. Hudson, vice president; C. P. McLeod, cashier. Capital, \$400,000; surplus and other funds, \$600,000.

October 9, 1973

### COMMUNITY BANK OF HOMESTEAD

*Homestead, Florida*

Opened for business as a par-remitting nonmember. Officers: Robert E. Talley, president; Mrs. Virginia L. Gibson, vice president and cashier. Capital, \$1,140,000; surplus and other funds, \$760,000.

October 9, 1973

### PORT ST. LUCIE BANK

*Port St. Lucie, Florida*

Opened for business as a par-remitting nonmember. Officers: William Harvey Kyle, chairman; C. A. Bramley, Jr., president; Frederick T. Johnston, vice president; Frank L. Tallant, cashier. Capital, \$500,000; surplus and other funds, \$500,000.

October 9, 1973

### ST. MARY BANK & TRUST COMPANY

*Franklin, Louisiana*

Began to remit at par.

October 11, 1973

### BANK OF ANNISTON

*Anniston, Alabama*

Opened for business as a par-remitting nonmember. Officers: L. Denton Cole, Jr., president; Floyd Hamil, vice president; Jerry W. West, cashier. Capital, \$780,000; surplus and other funds, \$780,000.

October 12, 1973

### POPULAR BANK OF HIALEAH

*Hialeah, Florida*

Opened for business as a par-remitting nonmember. Officers: Rafael Corona, president; Orlando Baro, vice president; Rolando Mollinero, cashier. Capital, \$600,000; surplus and other funds, \$400,000.

October 15, 1973

### CONTINENTAL BANK

*Harvey, Louisiana*

Opened for business as a par-remitting nonmember.

October 16, 1973

### BANK OF ORMOND BY-THE-SEA

*Ormond Beach, Florida*

Opened for business as a par-remitting nonmember. Officers: Edward I. Williams, president; Ronald R. Gross, vice president and cashier. Capital, \$500,000; surplus and other funds, \$499,500.

October 17, 1973

### BANK OF TAMARAC

*Tamarac, Florida*

Opened for business as a par-remitting nonmember. Officers: Roland W. Blaha, president; George W. Barnes, vice president and cashier. Capital, \$525,000; surplus and other funds, \$787,000.

(Continued on Page 196)

# Florida: Where Do We Grow From Here?

by William D. Toal

The year 1973 has been a good one for Florida's economy, but then what year hasn't? We are accustomed to measuring the pace of the Sunshine State's economy by comparison with economic activity in the nation or in other Southeastern states. Such comparisons, however, tell a monotonous tale since, more often than not, Florida outperforms the nation as well as any individual state. But these comparisons do yield at least one important implication, particularly in 1973; an economy cannot grow without limits. Florida's limits became readily apparent in 1973, as its economic activity slowed from the previous year.

While 1973 was a year of national shortages, in Florida these shortages have been more acute and long-range than in most other states. Because of the Sunshine State's fast growth rate in the past, shortages of men, materials, and natural resources force us to ask the question, "Where will Florida's economy grow from here?" Chances are it will continue to grow, though probably at a slower pace than over the past twenty years and in areas which previously have not been centers for growth.

Data available to statistics watchers verify that Florida's economy continued to grow rapidly this year, though somewhat slower than the torrid pace set in 1972. Toward the second half of 1973 there was evidence that a more moderate behavior in the construction sector and many shortages (most recently, the energy crisis) were beginning to affect the Sunshine State's economy.

The economic indicators show that 1973 incomes rose rapidly after a first quarter lull (see Chart I). Rising prices, particularly for farm commodities, were an important part of these income gains, but manufacturing payrolls also increased strongly in the second and third quarters. As a result of these large income gains, retail sales rose spectacularly in 1973. As in the nation, auto sales, evidenced by the number of new car registrations, were an important part of this sales rise in the first half of 1973. Gains in income and sales were not

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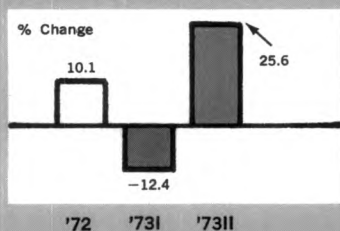
*Note: This is one of a series of articles in which economic developments in each of the Sixth District states are discussed.*



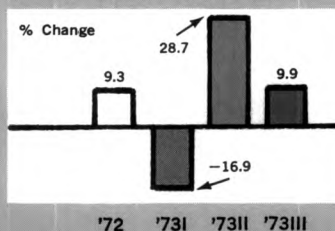
CHART I

# Florida's Economic Indicators

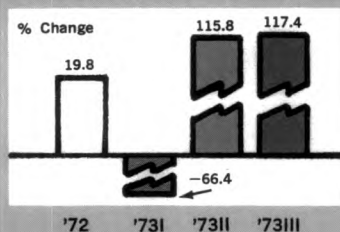
**Income: Skyrocketing**



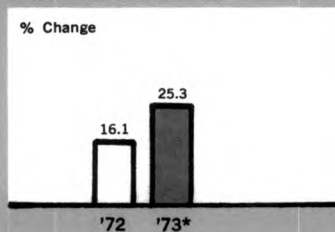
**Factory Payrolls: Rebounding**



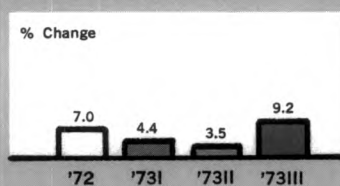
**Farm Cash Receipts: Zooming**



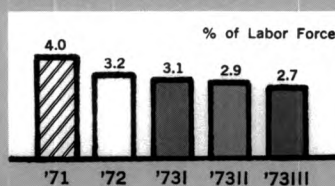
**Retail Sales: Booming**



**Nonfarm Jobs: Growing**

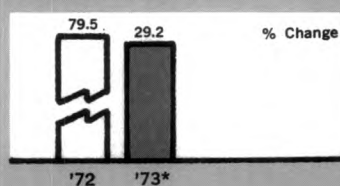


**Unemployment: Dropping**

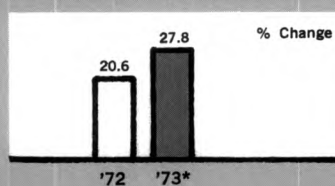


**Contract Construction**

**Residential: Slowing**

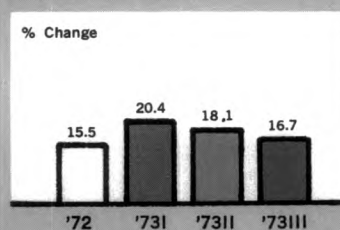


**Nonresidential: Accelerating**

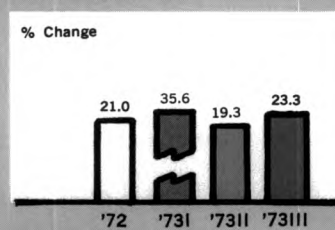


**Banking**

**Deposits: Increasing**



**Loans: Expanding**



Note: All series, except retail sales and construction, are seasonally adjusted and percentage changes, with these same exceptions, are at annual rates. Banking series cover member banks.

Note: Except where noted, 1972 figures represent percent change from year ago; 1973 figures represent percent change from quarter ago.

\*Represents percent change of first nine months of 1973 from same period of 1972.

entirely from higher prices, however. Employment has continued to rise substantially this year, particularly in the third quarter, suggesting that gains in total income have also, to a large extent, been real. Job increases have been widespread throughout almost all industries. These job gains have, in turn, caused the unemployment rate to drop steadily despite another large increase in the state's labor force. (The increase in Florida's labor force is nearly triple the rate of the nation's.) The unemployment rate (2.8 percent in October) is near its all-time low and, as a result, in many areas Florida's labor markets are near their tightest point ever.

Though the increase in value of residential contract awards was at a greater rate than any other District state, residential contract construction flattened out toward midyear as mortgage money became scarce. In addition, the effects of the Florida Pollution Control Board's moratorium on new building permits began to take hold in areas where sewage treatment failed to meet state standards. Somewhat offsetting 1973's less vigorous residential building was a noticeable pickup in nonresidential construction. In general, however, the entire industry (accounting for nearly 9 percent of Florida's nonfarm employment) began to sputter toward midyear.

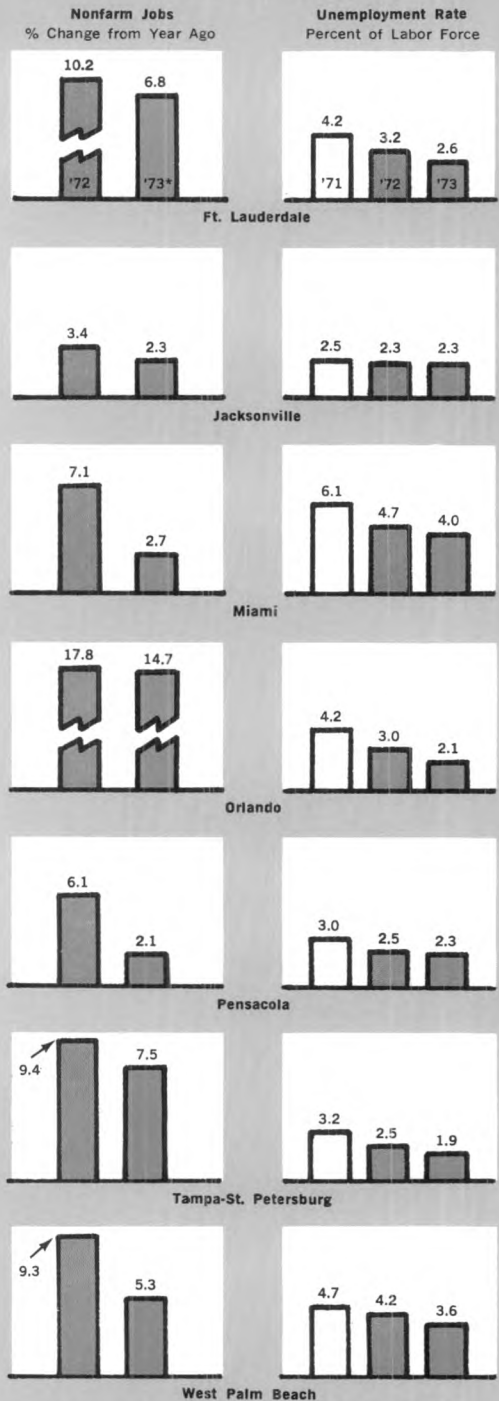
Florida's commercial banks reflected the pace of the state's economy. Deposits have grown faster than in 1972; but as 1973 progressed, deposit growth slowed. Commercial bank lending, however, has remained surprisingly strong. In response to rising interest rates, savings and loan inflows also began to slow. This has had a major dampening effect on construction.

### Splitting at the Seams

Continuing expansion in Florida's economy, even with moderation in construction, has tightened the economy to a point nearly splitting at the seams. As mentioned, tight labor markets are readily apparent. But shortages of materials and supplies have also become a problem and have curtailed or canceled construction projects and slowed production in many areas of the state. Structural steel, bricks, cement, paper products, plastics, and other petrochemical products are a few examples of a lengthy list of materials and products which have become scarce in 1973; but because of rapid economic growth as well as a large construction sector, these shortages have had a greater impact on the Sunshine State.

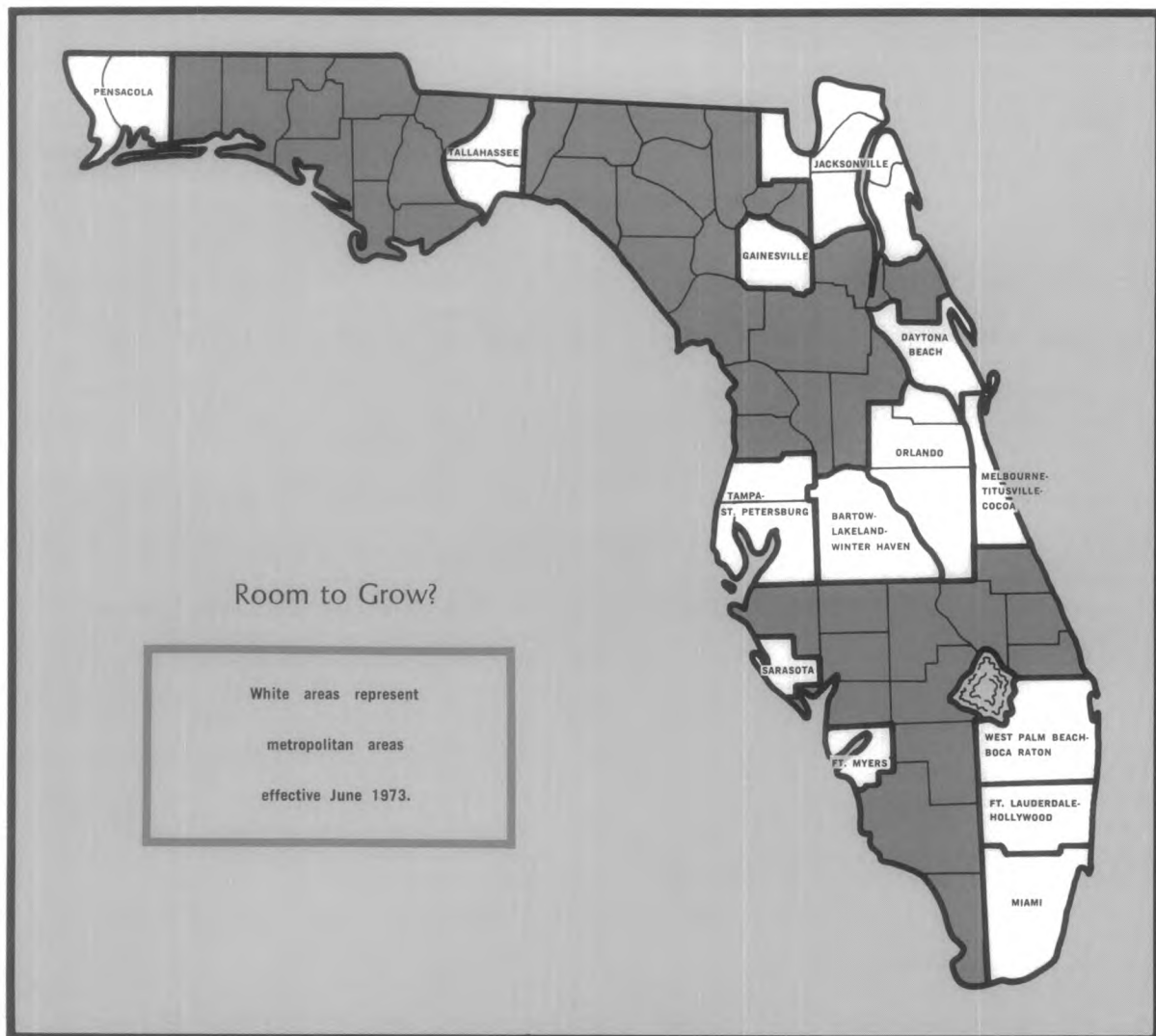
Florida's shortages are also more than just in materials and manpower. Rapid growth in

CHART II  
Florida's Economic Activity: A Closer Look



Note: Series are not seasonally adjusted. Unemployment rate figures cover first nine months of each year.

\*Represents percent change of first nine months of 1973 from same period of 1972.



certain areas has made heavy inroads into available land and natural resources. Besides developing shortages, rapid economic growth has caused the destruction of natural resources. The moratorium on building in certain areas is an example of the recognition of these problems and an attempt to deal with them by limiting growth.

### Around the State

The pace of an economy, whether it be national, regional, or state, can hide many variations in economic activity occurring within. In Florida, economic growth historically has not been even. South Florida was the first center of the state's modern-day boom. More recently, central Florida

has exploded with the advent of Disney World. And growth in the past few years appears to be spreading out over the entire Sunshine State as far north and west as the Panhandle.

In 1973, most areas of the state mirrored Florida's overall economic performance. Though slowing somewhat from the year before, all major metropolitan areas continued to expand rapidly, measured by new nonfarm jobs. As a result, unemployment rates have declined in all metropolitan areas except Jacksonville, where unemployment was already at very low levels (see Chart II). These low unemployment rates reflect labor shortages which have gradually been developing in most areas as economic expansion continues. Added to these labor

shortages, difficulty in obtaining materials for production and construction confirms the view that, throughout the Sunshine State, supply constraints are beginning to limit expansion.

Construction activity in major metropolitan areas also followed the overall state pattern. Residential contract construction in every metropolitan area was less active than in the previous year. But despite this slowing, residential construction remained brisk, especially in the first half of 1973. In the South Florida and Tampa-St. Petersburg areas, the state building moratorium was largely responsible for the slowdown in residential construction, particularly after midyear. Pensacola has had an actual decline in residential contract awards so far this year; Miami registered only a modest gain.

Nonresidential construction, on the other hand, has picked up this year in some metropolitan areas, as it did in the state generally. But the three Gold Coast metropolitan areas, along with Jacksonville, have had some softening in nonresidential as well as residential contract construction.

### Room to Grow?

Various shortages, then, have plagued Florida this year. Although many of these shortages are also present nationally, Florida may be facing a more unique problem, that of limited growing space. The portion of the state which is classified as metropolitan is greater than in any other Southeastern state [see map]. Eleven counties have been reclassified as metropolitan within the past two years. While part of this increase is a result of definitional changes, rapid growth in population and economic activity has been of equal importance. The fact is that some areas of the Sunshine State are running out of room to expand. There is also a recognition that future growth will have to be more orderly than in the past and will most likely be shifted

away from present high-density areas.

### Next Year?

The year of shortages and growing softness in residential construction has been complicated by yet another problem, the energy crisis. Because of its rapid growth, Florida has been faced with the problem of supplying enough power for its industry and population. The absence of a severe winter season in the Sunshine State may help minimize the problem this winter.

However, Florida's large tourist industry, which had a good year in 1973, should feel the effects of a gasoline shortage. If gasoline prices rise very much more or rationing is imposed, those trips to Florida, which have become increasingly commonplace for many American families, could once again become a luxury item. State officials tentatively estimate at least a 20-percent drop in tourism because of the energy shortage.

Florida's Gold Coast and central Florida will likely be hardest hit by this drop in tourism; but other sections of the state will also be affected. For central Florida, the gasoline shortage comes at a particularly bad time. The Disney World boom has already produced overbuilding of hotels and motels; occupancy rates are reportedly running at about 40 percent and at some establishments as low as 25 percent. A further drop in tourism could force some hotel and motel closings.

There are many unanswered questions facing Floridians. The Sunshine State's economy continued to expand this year, but it is clear that the state can grow only so much, so fast. Even putting the current energy shortage aside, in the years ahead Florida will be faced with the questions of how and where to grow. Hopefully it can respond by providing a steady, broad-based, and well-planned growth. Only in this way can Florida avoid a shortage economy in the future. ■

## Bank Announcements

(Cont'd. from page 191)

October 17, 1973

### PAN AMERICAN BANK OF INVERRARY

Ft. Lauderdale, Florida

Opened for business as a par-remitting nonmember.  
Officers: James S. Wilson, chairman; Carl H. Drosnar,

vice president and cashier. Capital, \$750,000;  
surplus and other funds, \$750,000.

October 18, 1973

### COMMERCIAL BANK OF HOLLYWOOD

Hollywood, Florida

Opened for business as a par-remitting nonmember.  
Officers: Lawrence H. Skeen, president; M. E. Stephens,  
vice president; Ena Ferland, cashier. Capital, \$700,000;  
surplus and other funds, \$525,000.

# Bank Announcements

(Cont'd.)

October 19, 1973

## FIRST NATIONAL BANK OF OPELOUSAS

*Opelousas, Louisiana*

**Opened for business as a member.** Officers: Ronald M. Boudreaux, president; Luther J. Simon, vice president and cashier; Mrs. Frances Thibodeaux, assistant vice president; Mrs. Joyce Bourque, assistant cashier. Capital, \$600,000; surplus and other funds, \$600,000.

October 19, 1973

## THE PEOPLES BANK

*Colquitt, Georgia*

Opened for business as a par-remitting nonmember. Officers: H. J. Middleton, Jr., president; Edward M. Gates, vice president and cashier. Capital, \$375,000; surplus and other funds, \$375,000.

October 26, 1973

## FIRST NAVY BANK

*Pensacola, Florida*

Opened for business as a par-remitting nonmember. Officers: Porter F. Bedell, president; Raymond H. Jones, vice president and cashier. Capital, \$350,000; surplus and other funds, \$157,500.

October 30, 1973

## BANK OF LAKE HELEN

*Lake Helen, Florida*

Opened for business as a par-remitting nonmember. Officers: William L. Hale, president; John A. Buckingham, vice president and cashier. Capital, \$192,000; surplus and other funds, \$308,000.

October 30, 1973

## FIRST NATIONAL BANK OF WIGGINS

*Wiggins, Mississippi*

**Opened for business as a member.** Officers: Hubert F. Campbell, chairman; Wiley H. Knight, president; Betty B. Brock, cashier. Capital, \$200,000; surplus and other funds, \$300,000.

November 1, 1973

## BARNETT BANK OF SARASOTA, NATIONAL ASSOCIATION

*Sarasota, Florida*

**Opened for business as a member.** Officers: Eugene W. Butler, president; George E. Roberts, cashier. Capital, \$500,000; surplus and other funds, \$500,000.

November 1, 1973

## DALE MABRY STATE BANK

*Tampa, Florida*

**Opened for business as a member.** Officers: James W. Walter, chairman; James W. Kynes, vice chairman; J. Bennett Wilson, president; Joe B. Cordell, vice president; Floyd R. Slayton, cashier. Capital, \$500,000; surplus and other funds, \$500,000.

November 1, 1973

## STATE BANK OF FOREST CITY

*Forest City, Florida*

Opened for business as a par-remitting nonmember. Officers: Edwin W. Fly, president; E. Stewart Green, vice president; Mrs. Sarah O. White, cashier. Capital, \$500,000; surplus and other funds, \$407,383.82.

November 8, 1973

## WINTER PARK NATIONAL BANK

*Winter Park, Florida*

**Opened for business as a member.** Officers: John Wm. Beck, chairman; Frank A. Eidson, president; Ray Cartee, vice president and cashier; Anthony P. Blackwell, vice president. Capital, \$1,000,000; surplus and other funds, \$1,000,000.

November 14, 1973

## PINELLAS STATE BANK

*St. Petersburg, Florida*

Opened for business as a par-remitting nonmember. Officers: Walter J. Hiel, president; Donald R. Crane, vice president; William C. Bliss, cashier. Capital, \$600,000; surplus and other funds, \$400,000.

November 15, 1973

## FIRST NATIONAL BANK OF AUTAUGA COUNTY

*Prattville, Alabama*

**Opened for business as a member.** Officers: Jerry E. Anderson, president; Kay W. Hines, cashier. Capital, \$450,000; surplus and other funds, \$450,000.

November 20, 1973

## FIRST BANK OF PEMBROKE PINES

*Pembroke Pines, Florida*

Opened for business as a par-remitting nonmember. Officers: Gerald Katcher, president; James J. Rogers, vice president; Herbert O. Vollrath, vice president and cashier. Capital, \$600,000; surplus and other funds, \$400,000.

November 26, 1973

## WEST BOYNTON BEACH NATIONAL BANK

*Boynton Beach, Florida*

**Opened for business as a member.** Officers: Thomas F. Fleming, Jr., chairman; David McLaughlin, Jr., president; Robert B. Efron, cashier. Capital, \$400,000; surplus and other funds, \$600,000.

November 27, 1973

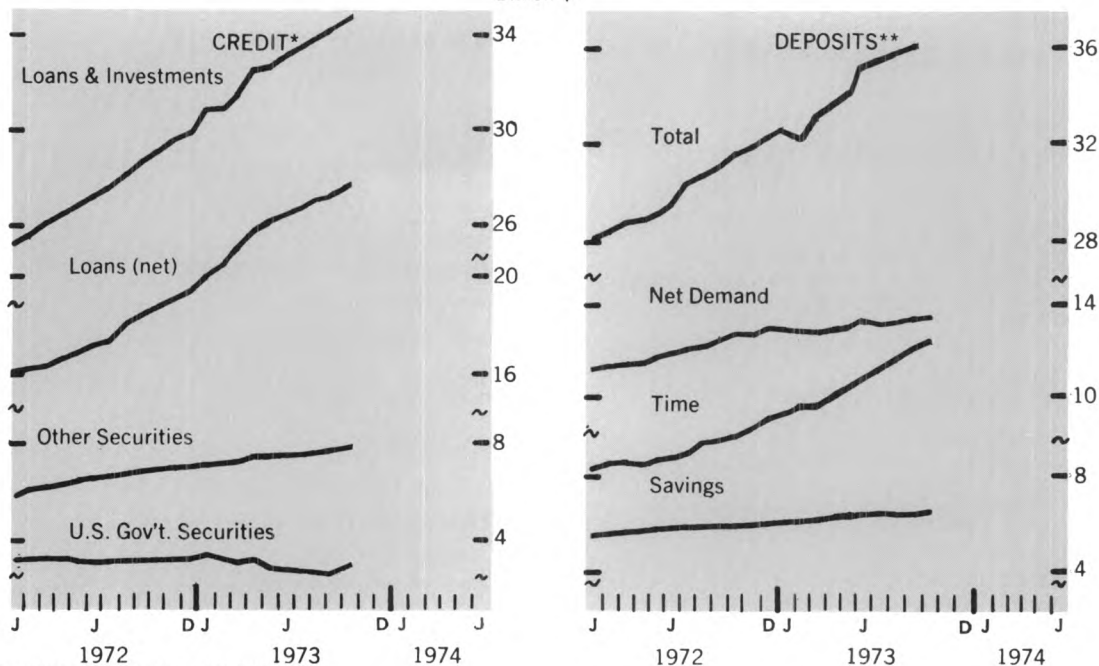
## PEOPLES BANK

*Anniston, Alabama*

Opened for business as a par-remitting nonmember. Officers: P. E. Godbolt, president; Earl F. Lockett, vice president and cashier. Capital, \$1,200,000; surplus and other funds, \$305,000.

## BANKING STATISTICS

Billion \$



LATEST MONTH PLOTTED: OCTOBER

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

\*\*Daily average figures.

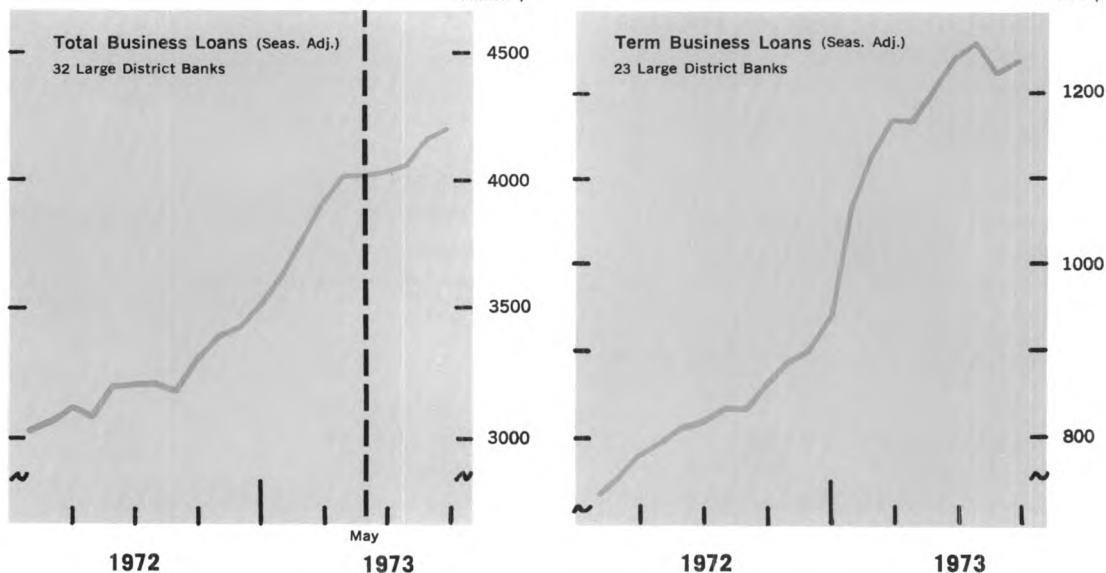
## SIXTH DISTRICT BANKING NOTES

# Business Loans Moderate

### BUSINESS LOANS

Million \$

Million \$





Loans to commercial and industrial customers, or "business loans," account for about 20 percent of the total assets of large banks in the Sixth Federal Reserve District. Business loan volume is one of the first measures of bank lending to reflect changes in credit markets.

Although the seasonally adjusted volume of total business loans outstanding at large District banks has not actually declined, business loan growth has been moderating in recent months. The rate of growth began slowing in May of this year in sharp contrast to the continuous, rapid increase in such loans after August 1972. During the first quarter of 1973, business lending had accelerated to a phenomenal 45-percent annual rate of expansion; by the third quarter, however, the rate of growth had slowed to 4 percent.

The slowdown was broadly based although certain borrowers curtailed their loan expansion rate more noticeably than others. Service and retail trade loans, for instance, fell off during the second quarter of 1973 to rates not only below high first quarter rates but below the over-all 1972 average as well. On the other hand, loans to durable goods manufacturers continued to expand during the second quarter. These loans did slow down during the third quarter but nonetheless remained above their average rate of growth for the previous year.

The rate of growth for term loans slowed somewhat later than short-term business loans. Term loans are those which have an original maturity of over one year. Quite often, though, such a loan will involve a commitment by the bank to lend an amount which the borrower does not fully draw until some later date. Term loans were exceptionally strong during the first quarter of 1973. This is a contrast to the decline in term loans typical of the early months of each year.

A slight decline occurred in April, possibly reflecting a reluctance of bankers to make new term loan commitments during a period when short-term interest rates were rising rapidly. However, term lending resumed expansion for an additional three months, most likely because bankers were honoring previous commitments. These "takedowns" by borrowers of previous commitments ran considerably higher than during the past year. During 1972, it was common for term borrowers to draw on only about 40 percent of their total commitments, whereas this year the utilization ratio has run as high as 85 percent at some banks. A leveling-off in term loans eventually took place in the third quarter of 1973, lagging behind the moderating behavior of business loans in general.

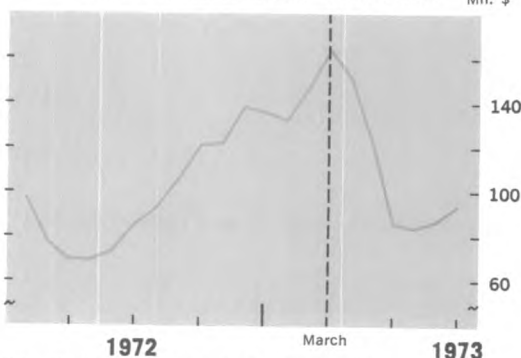
Also in recent months, banks have resorted less to the sale of loans to nonbank institutions. Banks often sell loans or portions of loans to corporations or to mortgage lenders and finance companies that

#### CHANGE IN BUSINESS LOANS AT 23 LARGE DISTRICT BANKS

	1972	I	1973	II	III
Total Business Loans	+17.7	+45.2	+25.2	+4.4	
Durable Goods Mfg.	+18.1	+40.8	+48.0	+24.0	
Nondurable Goods Mfg.	+10.0	+52.0	+20.0	-.4	
Wholesale Trade	+17.0	+35.2	+29.6	-.8	
Retail Trade	+21.2	+44.0	+18.0	-1.2	
Transp., Comm., and Other Public Utilities	+5.7	+39.2	+46.4	-1.2	
Construction	+42.1	+56.0	+42.4	+10.8	
Services	+27.9	+41.6	+5.2	+20.8	

Note: 1972 figures represent percent change last Wednesday of 1972 from year ago; 1973 figures represent average of Wednesday figures for each quarter from previous quarter at an annual rate.

#### Loans Sold to Nonbank Institutions



Note: Figures are for selected large District banks.

have excess funds which they are willing to lend. A banker thus can sometimes accommodate his loan customers by tapping funds available from a source beyond his bank's own deposits.

The sale of loans by the large banks which report these sales increased steadily during the latter half of 1972 and reached a monthly peak of \$155 million in March of 1973. In April, loans sold to nonbank institutions began a rapid decline. This may have occurred because the corporations which purchase such bank loans found other demands for their funds as interest rates began to rise. In any event, the decline in loan sales preceded the slowing down in business loan growth by one month and led the tapering in term loans by four months.

Despite moderation in business loan growth, however, the volume of loans previously extended has been exceptionally large. Loan-to-deposit ratios at District banks consequently remained at the very high 80-percent levels scaled earlier in the year. Heavy lending in late 1972 and early 1973, coupled with an increase in short-term business loans in October, suggests that loan-to-deposit ratios might remain high in coming months.

Charles D. Salley

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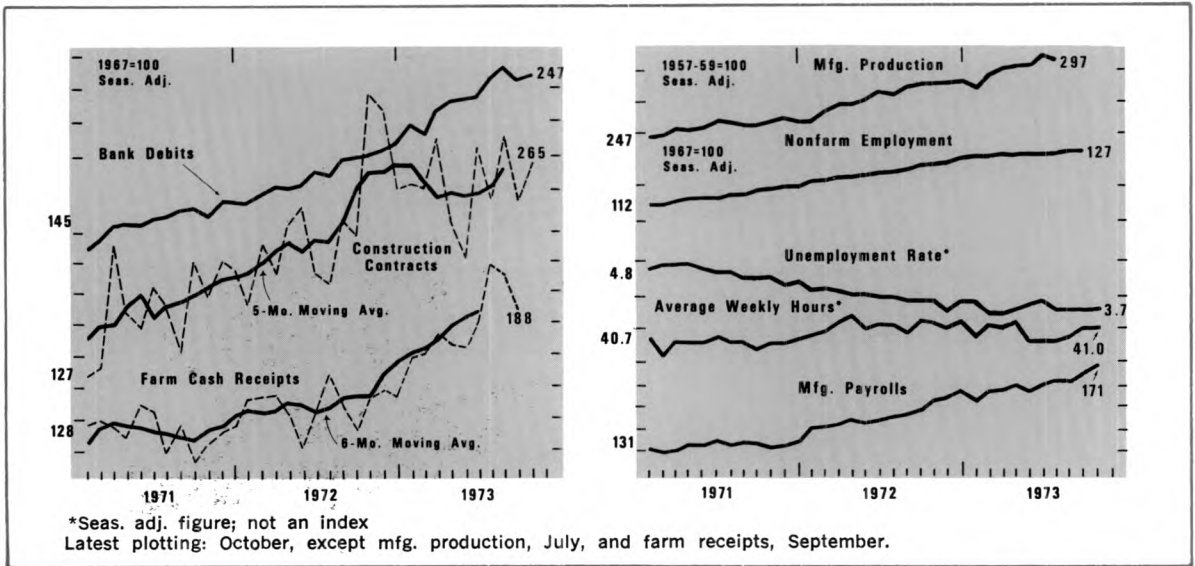
# Sixth District Statistics

Seasonally Adjusted  
(All data are indexes, unless indicated otherwise.)

	Latest	One	Two	One		Latest	One	Two	One
	Month	Month	Months	Year		Month	Month	Months	Year
		Ago	Ago	Ago			Ago	Ago	Ago
<b>SIXTH DISTRICT</b>									
<b>INCOME AND SPENDING</b>					<b>Unemployment Rate</b> (Percent of Work Force) . . . . . Oct. 4.1 4.1 4.2 4.6				
<b>Manufacturing Payrolls</b> . . . . . Oct. 171 168 165 157					<b>Avg. Weekly Hrs. in Mfg. (Hrs.)</b> . . . . . Oct. 41.1 40.9 40.7 41.0				
<b>Farm Cash Receipts</b> . . . . . Sept. 188 210 217 122					<b>FINANCE AND BANKING</b>				
<b>Crops</b> . . . . . Sept. 129 163 267 94					<b>Member Bank Loans</b> . . . . . Oct. 228 225 224 187				
<b>Livestock</b> . . . . . Sept. 276 243 198 154					<b>Member Bank Deposits</b> . . . . . Oct. 194 191 190 171				
<b>Instalment Credit at Banks*<sup>1</sup> (Mil. \$)</b>					<b>Bank Debits**</b> . . . . . Oct. 215 206 211 181				
<b>New Loans</b> . . . . . Oct. 628 701r 677 603					<b>FLORIDA</b>				
<b>Repayments</b> . . . . . Oct. 564 584r 568 512					<b>INCOME</b>				
<b>EMPLOYMENT AND PRODUCTION</b>					<b>Manufacturing Payrolls</b> . . . . . Oct. 176 174 172 165				
<b>Nonfarm Employment</b> . . . . . Oct. 127.1 126.3 126.2 122.3					<b>Farm Cash Receipts</b> . . . . . Sept. 252 185 279 169				
<b>Manufacturing</b> . . . . . Oct. 115.0 114.6 114.5 113.0					<b>EMPLOYMENT</b>				
<b>Nondurable Goods</b> . . . . . Oct. 112.7 112.3 111.8 111.6					<b>Nonfarm Employment</b> . . . . . Oct. 144.5 143.7 144.4 135.0				
<b>Food</b> . . . . . Oct. 100.8 100.2 100.1 103.0					<b>Manufacturing</b> . . . . . Oct. 122.4 122.1 121.6 117.3				
<b>Textiles</b> . . . . . Oct. 109.8 109.7 109.3 108.2					<b>Nonmanufacturing</b> . . . . . Oct. 148.7 147.8 148.8 138.4				
<b>Apparel</b> . . . . . Oct. 112.2 111.2 110.9 111.2					<b>Construction</b> . . . . . Oct. 187.9 184.3 181.8 164.8				
<b>Paper</b> . . . . . Oct. 138.7 137.8 137.1 131.8					<b>Farm Employment</b> . . . . . Oct. 91.6 102.4 106.1 99.1				
<b>Printing and Publishing</b> . . . . . Oct. 124.5 124.5 124.5 121.1					<b>Unemployment Rate</b> (Percent of Work Force) . . . . . Oct. 2.8 2.7 2.7 3.0				
<b>Chemicals</b> . . . . . Oct. 107.8 107.3 106.8 106.2					<b>Avg. Weekly Hrs. in Mfg. (Hrs.)</b> . . . . . Oct. 40.9 41.1 40.6 41.6				
<b>Durable Goods</b> . . . . . Oct. 117.9 117.5 117.7 114.8					<b>FINANCE AND BANKING</b>				
<b>Lbr., Wood Prods., Furn. &amp; Fix.</b> . . . . . Oct. 109.9 110.0 110.6 109.9					<b>Member Bank Loans</b> . . . . . Oct. 274 277 273 220				
<b>Stone, Clay, and Glass</b> . . . . . Oct. 122.6 121.5 121.5 117.1					<b>Member Bank Deposits</b> . . . . . Oct. 226 233 230 202				
<b>Primary Metals</b> . . . . . Oct. 113.0 113.2 112.4 111.0					<b>Bank Debits**</b> . . . . . Oct. 288 287r 306 227				
<b>Fabricated Metals</b> . . . . . Oct. 128.4 127.6 127.0 121.5					<b>GEORGIA</b>				
<b>Machinery</b> . . . . . Oct. 145.2 143.7 143.9 135.0					<b>INCOME</b>				
<b>Transportation Equipment</b> . . . . . Oct. 109.0 108.9 109.5 108.8					<b>Manufacturing Payrolls</b> . . . . . Oct. 160 160 156 149				
<b>Nonmanufacturing</b> . . . . . Oct. 131.3 130.4 130.3 125.5					<b>Farm Cash Receipts</b> . . . . . Sept. 179 153 176 105				
<b>Construction</b> . . . . . Oct. 138.0 136.1 134.0 128.8					<b>EMPLOYMENT</b>				
<b>Transportation</b> . . . . . Oct. 123.2 122.7 122.3 118.6					<b>Nonfarm Employment</b> . . . . . Oct. 124.1 123.1 122.7 120.8				
<b>Trade</b> . . . . . Oct. 133.4 132.5 131.9 126.4					<b>Manufacturing</b> . . . . . Oct. 109.7 108.9 109.2 108.9				
<b>Fin., ins., and real est.</b> . . . . . Oct. 138.7 137.8 137.1 131.8					<b>Nonmanufacturing</b> . . . . . Oct. 130.6 129.6 129.0 126.2				
<b>Services</b> . . . . . Oct. 136.6 135.4 135.0 131.6					<b>Construction</b> . . . . . Oct. 134.2 132.2 128.6 128.3				
<b>Federal Government</b> . . . . . Oct. 101.4 101.1 99.9 101.1					<b>Farm Employment</b> . . . . . Oct. 85.4 85.2 87.1 83.5				
<b>State and Local Government</b> . . . . . Oct. 133.8 133.3 135.6 128.1					<b>Unemployment Rate</b> (Percent of Work Force) . . . . . Oct. 3.9 3.5 3.7 4.0				
<b>Farm Employment</b> . . . . . Oct. 84.3 82.1 83.8 85.1					<b>Avg. Weekly Hrs. in Mfg. (Hrs.)</b> . . . . . Oct. 40.4 41.0 40.3 40.6				
<b>Unemployment Rate</b> (Percent of Work Force) . . . . . Oct. 3.7 3.6 3.7 3.9					<b>FINANCE AND BANKING</b>				
<b>Insured Unemployment</b> (Percent of Cov. Emp.) . . . . . Oct. 1.7 1.8 1.8 2.0					<b>Member Bank Loans</b> . . . . . Oct. 251 234 241 187				
<b>Avg. Weekly Hrs. in Mfg. (Hrs.)</b> . . . . . Oct. 41.0 40.9 40.7 41.1					<b>Member Bank Deposits</b> . . . . . Oct. 181 182 183 160				
<b>Construction Contracts*</b> . . . . . Oct. 265 241 283 292					<b>Bank Debits**</b> . . . . . Oct. 282 282 278 209				
<b>Residential</b> . . . . . Oct. 311 293 288 348					<b>LOUISIANA</b>				
<b>All Other</b> . . . . . Oct. 220 190 278 237					<b>INCOME</b>				
<b>Electric Power Production**</b> . . . . . Oct. 188 187 186 168					<b>Manufacturing Payrolls</b> . . . . . Oct. 154 153 154 144				
<b>Cotton Consumption**</b> . . . . . Aug. 79 82 84 78					<b>Farm Cash Receipts</b> . . . . . Sept. 188 319 211 95				
<b>Petroleum Production**</b> . . . . . Nov. 105 116 113 125					<b>EMPLOYMENT</b>				
<b>Manufacturing Production</b> . . . . . July 297 301 292 275					<b>Nonfarm Employment</b> . . . . . Oct. 114.2 113.4 113.2 112.1				
<b>Nondurable Goods</b> . . . . . July 244 245 242 235					<b>Manufacturing</b> . . . . . Oct. 104.0 104.8 104.7 103.5				
<b>Food</b> . . . . . July 188 189 188 185					<b>Nonmanufacturing</b> . . . . . Oct. 116.3 115.2 115.0 113.8				
<b>Textiles</b> . . . . . July 293 291 286 271					<b>Construction</b> . . . . . Oct. 95.2 95.2 93.9 93.6				
<b>Apparel</b> . . . . . July 291 298 291 282					<b>Farm Employment</b> . . . . . Oct. 79.3 73.3 75.9 80.0				
<b>Paper</b> . . . . . July 225 224 223 220					<b>Unemployment Rate</b> (Percent of Work Force) . . . . . Oct. 6.1 6.2 6.2 6.0				
<b>Printing and Publishing</b> . . . . . July 159 161 161 161					<b>Avg. Weekly Hrs. in Mfg. (Hrs.)</b> . . . . . Oct. 41.8 41.2 41.7 42.4				
<b>Chemicals</b> . . . . . July 309 310 308 295					<b>FINANCE AND BANKING</b>				
<b>Durable Goods</b> . . . . . July 360 367 352 323					<b>Member Bank Loans*</b> . . . . . Oct. 226 218 224 170				
<b>Lumber and Wood</b> . . . . . July 203 203 198 198					<b>Member Bank Deposits*</b> . . . . . Oct. 174 171 171 161				
<b>Furniture and Fixtures</b> . . . . . July 192 193 191 188					<b>Bank Debits**</b> . . . . . Oct. 193 179 191 163				
<b>Stone, Clay, and Glass</b> . . . . . July 203 206 206 182					<b>MISSISSIPPI</b>				
<b>Primary Metals</b> . . . . . July 253 253 241 213					<b>INCOME</b>				
<b>Fabricated Metals</b> . . . . . July 286 288 289 267					<b>Manufacturing Payrolls</b> . . . . . Oct. 190 187 182 176				
<b>Nonelectrical Machinery</b> . . . . . July 485 472 452 449					<b>Farm Cash Receipts</b> . . . . . Sept. 154 249 238 99				
<b>Electrical Machinery</b> . . . . . July 829 870 797 713					<b>EMPLOYMENT</b>				
<b>Transportation Equipment</b> . . . . . July 448 462 447 405					<b>Nonfarm Employment</b> . . . . . Oct. 123.7 123.2 122.4 119.6				
<b>FINANCE AND BANKING</b>					<b>Manufacturing</b> . . . . . Oct. 126.9 126.6 126.3 124.2				
<b>Loans*</b>					<b>Nonmanufacturing</b> . . . . . Oct. 122.3 121.6 120.7 117.5				
<b>All Member Banks</b> . . . . . Oct. 248 242 243 196					<b>Construction</b> . . . . . Oct. 116.5 113.5 113.3 114.2				
<b>Large Banks</b> . . . . . Oct. 235 225 229 181					<b>Farm Employment</b> . . . . . Oct. 84.1 76.3 71.5 85.7				
<b>Deposits*</b>									
<b>All Member Banks</b> . . . . . Oct. 199 200 198 178									
<b>Large Banks</b> . . . . . Oct. 178 176 174 157									
<b>Bank Debits**</b> . . . . . Oct. 247 245r 252 202									
<b>ALABAMA</b>									
<b>INCOME</b>									
<b>Manufacturing Payrolls</b> . . . . . Oct. 171 169 165 153									
<b>Farm Cash Receipts</b> . . . . . Sept. 215 266 266 131									
<b>EMPLOYMENT</b>									
<b>Nonfarm Employment</b> . . . . . Oct. 117.0 115.9 115.9 113.5									
<b>Manufacturing</b> . . . . . Oct. 113.7 113.2 113.0 111.4									
<b>Nonmanufacturing</b> . . . . . Oct. 118.5 117.2 117.2 114.4									
<b>Construction</b> . . . . . Oct. 124.1 124.1 120.3 118.1									
<b>Farm Employment</b> . . . . . Oct. 74.4 70.5 69.9 79.6									



# District Business Conditions



Before energy concern became paramount, the Southeast's economy maintained the moderate expansion pace of the preceding few months. Job gains were evident in major industries, and business loan demand strengthened. Construction activity was held back by a soft housing sector but continued at high levels. Consumer lending grew more slowly, and spending gains were small. Agricultural prices declined as harvests progressed rapidly.

Job gains were recorded by most major industries in October, following several months of spotty gains. Construction, finance, service, and trade employment advances were the largest. Despite job growth, the unemployment rate rose fractionally because of a sharp rise in the civilian labor force. Gains in factory jobs and payrolls were recorded in most states. However, an appreciable reduction in factory hours held down manufacturing payrolls in Georgia in October. Those energy-related layoffs already announced should have an unfavorable impact on statistical indicators for subsequent months.

Bank reserves remain pressured by a rebound in loan demand, coupled with slowing deposit growth. Deposits increased during October at the moderating pace begun in September, as large-denomination CD's continued to run off. Loan growth, however, rebounded from September's dip. Real estate lending was especially strong. Loan-deposit ratios consequently remained high, and purchases of Federal funds increased strongly. Total investment holdings grew at a slower pace, although large banks increased their holdings of municipal securities.

The value of residential construction contract awards increased slightly, following declines in

previous months. Residential contracts' dollar value in October about equaled that of mid-1972 when construction costs were much lower. Credit for residential purchases and construction remains tight, although fragmentary evidence of greater availability has appeared recently. Nonresidential contract awards remained stable at a high level; however, time between contract awards and completions is reportedly being extended by material shortages.

Growth in consumer instalment credit was more moderate than early in the year. Bank lending to purchase autos was particularly sluggish, apparently reflecting lower unit volume on full-sized cars. Both sales and lending indicators show consumers less willing to spend than earlier in the year.

Prices of agricultural products declined for the second consecutive month in October. Falling livestock prices accounted for the continuing slide, as market supplies increased. Preliminary data indicate that most crop prices rose in November, while livestock prices continued to fall. Harvesting progressed rapidly in November, but was still lagging behind the year-ago levels for cotton and soybeans. Farmers are reducing outstanding indebtedness and are repaying loans in advance because of their high income levels.

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