monthly review

january

ederal Reserve Bank of Atlanta - 1974

In this issue:

The Southeast in 1973: Rapid Growth But Behind U. S. Pace

by Harry Brandt

The Southeast has such a well-deserved recognition for fast growth that another year of large advances will make few headlines. The year 1973 was no exception, as output, employment, and income all grew rapidly in the Sixth District states (Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee). Indeed, by many measures, regional activity expanded even faster than in 1972. Other articles in this Review document and explain last year's upsurge in some detail.

But those who expected economic growth in the Southeast once again to outpace the nation may be disappointed. Without exception, the six states' per capita income from 1962 to 1972 exceeded the national average. In 1973, however, this apparently was not true. Income growth (on a per capita and aggregate basis) fell short of the U. S. average in the first half. Factory earnings for the first ten months were also under the nationwide advance, and gains in factory jobs, though sizable, did not match the U. S. pace. Very large advances occurred nationally in those goods-producing industries—metals, machinery, and transportation equipment—which are less significant to this region. Flood losses were a factor holding down income gains in the Southeast earlier in the year, especially in Mississippi.

Apart from flood effects, differences among states were more pronounced than they have been in some time. Based on ten months' data, 1973 job gains ranged from 2¼ percent in Louisiana to 7 percent in Florida. And, as is usually the case, local differences were even wider. One often-used barometer of local economic activity, debits or charges to checking accounts, showed yearly changes varying from -3 percent in Bristol, Tennessee, to +53 percent in Plaquemine, Louisiana (see page 15).

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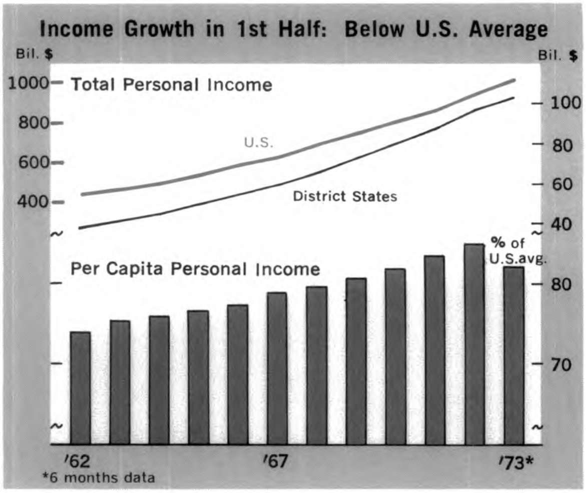
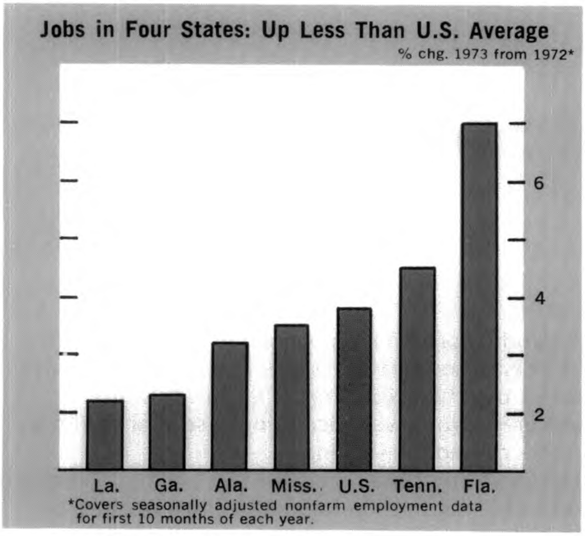




All parts of the South, on the other hand, experienced such national economic problems as inflation and shortages. The Southeastern economy slowed down toward midyear, just as the national economy did (though slightly later). And along with every other region, it more recently became aware of the energy problem. Gasoline shortages have already caused some curtailments, and these are expected to intensify. Many parts of the Southeast, for example, depend heavily on travel and tourism, both vulnerable to the fuel shortage. Energywise, however, much of the Southeast is in a strong position compared to the rest of the nation, with three states—Georgia, Tennessee, and Alabama—generating electricity chiefly from coal or water. But even if the Southeast as a whole is hurt less than other regions, the energy shortage is clearly an unfavorable element in an already slowing economic environment.■

ANNOUNCEMENT

The Federal Reserve System paid the U. S. Treasury $4,341,000,000 during 1973. Under a policy adopted by the Board of Governors at the end of 1964, the Federal Reserve Banks' net earnings (after statutory dividends to member banks and additions to surplus) are turned over to the United States Treasury as interest on Federal Reserve notes. The Reserve Banks' net earnings in 1973 amounted to $4,522 million less $35 million due to losses on the sale of U. S. Government securities and $46 million on foreign exchange transactions; dividends, $49 million; and additions to surplus accounts, $51 million.

Bank Announcements

DECEMBER 10, 1973

FIRST NATIONAL BANK OF MIRAMAR

Miramar, Florida

Opened for business as a member. Officers: Maynard Abrams, chairman; William A. Hofman, president; Daniel B. Walker, vice president and cashier; William B. Hawkins, operations manager. Capital, $400,000; surplus and other funds, $600,000.

DECEMBER 11, 1973

AMERICAN GUARANTY BANK

Tampa, Florida

Opened for business as a member. Officers: Charles S. Graves, chairman; John M. O'Connor, president; Nancy C. Lehman, vice president and cashier. Capital, $960,000; surplus and other funds, $288,000.

DECEMBER 13, 1973

THE REPUBLIC BANK

Dunedin, Florida

Opened for business as a par-remitting nonmember. Officers: Morris A. Rowe, president; Herbert C. Sigvartsen, executive vice president and cashier. Capital, $350,000; surplus and other funds, $349,500.

DECEMBER 21, 1973

SOUTHEAST NATIONAL BANK OF MANATEE

Bradenton, Florida

Opened for business as a member. Officers: H. S. Moody, chairman; G. E. Tomberlin, president; William H. Sedgeman, Jr., executive vice president; Samuel G. Watkins, assistant vice president and cashier. Capital, $500,000; surplus and other funds, $500,000.

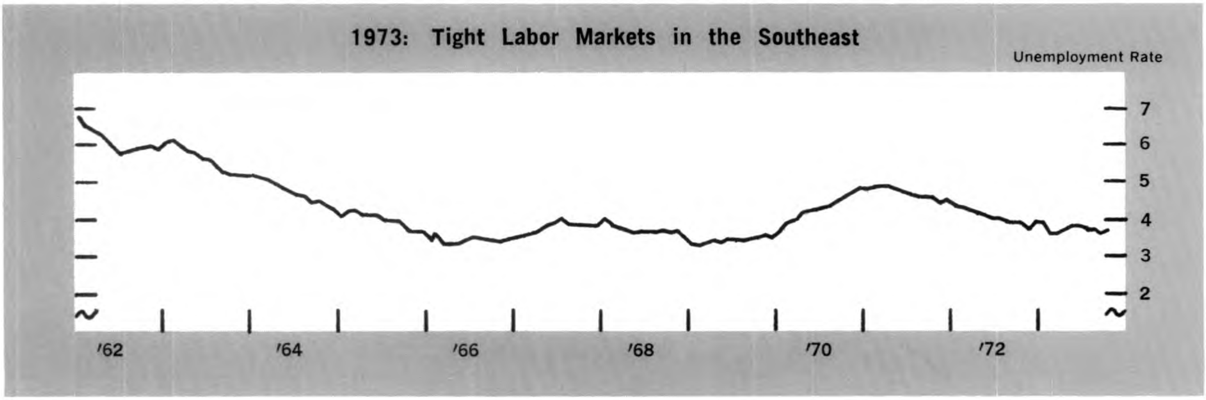
Industry: Abundant Shortages

by William D. Toal

The record shows that in 1973 production and employment expanded broadly, touching nearly every industry in each southeastern state. This expansion, which had been building momentum for over two years, began to slow toward midyear; and by year's end scattered layoffs were occurring in several industries. In most instances scarce resources caused the slowing.

Although the word "shortage" has crept into everyone's economic vocabulary in the last few months, its significance for the Southeast is striking. Because of this region's past rapid growth, the whiplash of running into a wall of shortages at full tilt may be severe. While the Southeast has experienced the basic material shortages plaguing the national economy, it has also had a scarcity of labor, in many areas more severely than nationally. As the chart shows, the regional unemployment rate last year approached the lowest levels recorded in the Sixties, a reflection of labor shortages. Further, reports of a lack of workers come from many varying areas and industries in the region; this suggests that although labor shortages are widespread, they are especially severe in certain locations.

With the exception of Louisiana, all of the region's states had unemployment rates near or below 4.0 percent in late 1973. These rates are near the lowest ever recorded in Alabama, Mississippi, and Tennessee. Georgia (about 4 percent) and Florida (about 3 percent), though recording even lower rates in the past, are still facing problems of inadequate labor supply. These low rates existed during the latter part of 1972 and throughout most of last year, having dropped from 1970-71 recession highs. The net result of these tight labor markets has been a squeezing of job gains as 1973 progressed. Additional increases in all six states became smaller and smaller as each month passed, though job growth for the year as a whole was rapid. As usual, Florida, with approximately a 7-percent rise, led the way in new jobs, jobs which are necessary for its rapidly growing population.



Industry Job Growth

Of course, job growth tends to vary among different industries as manpower and material shortages as well as demand changes affect industries differently. Last year the construction industry recorded the most rapid job rise, headed by another strong gain in Florida. But toward year's end, it was apparent that new employment in this industry had slowed to a trickle and, in many cases, disappeared entirely. Both a general reduction in demand, as well as shortages of materials and legal constraints, have put the whammy on gains in construction jobs.

Employment in wholesale and retail trade, services, finance, transportation, and public utilities also rose substantially last year. Trade jobs rose by nearly 100,000, with much of the gain in Florida. Meanwhile, state and local governments were adding large numbers to their rolls. (But Federal Government employment in the region remained flat as in 1972.) In general these sectors continued to record job increases at about the pace of the last few years. Only toward the end of 1973 was a noticeable slowing evident, particularly in transportation because of the fuel shortage.

In manufacturing, 1973 job gains were less rapid than in 1972, while factory production, at least in the first half of last year, continued to post strong gains. Manufacturing payrolls also rose robustly. Durable goods production and employment rose the sharpest, particularly in electrical and non-electrical machinery. Transportation equipment actually lost workers last year, with losses concentrated in Georgia's aircraft and automobile industries. Employment in food processing also dropped off slightly. This slowdown in manufacturing job growth, particularly toward the second half of last year, can probably be related in part to the shortage of manpower in the region. The actual employment declines in some specific manufacturing industries in the latter part of last year were related to shortages of such basics as steel, paper, wood, cotton, and, as the energy crisis developed, fuels and petroleum by-products. Because of their importance in manufacturing, shortages of basic materials usually affect these industries before spreading out to others.

What's Next?

Tight labor markets and a growing scarcity of basic materials began to slow production and employment gains in certain industries last year. This year we can probably expect this slowing to spread and more broadly reduce the advance of economic activity. Also, labor demand may be softening slightly, as witnessed by recent drops in help-wanted advertising in major southeastern cities. Added on top of these supply and demand restrictions is the unanswered question of the impact of gasoline and other fuel shortages. One primary effect will no doubt come from a reduction in tourist traffic, spelling less balmy times ahead for this region's large and growing tourist industry. But less fuel and petroleum by-products may also force curtailment of production and employment in other sectors. Such important southeastern industries as textiles, apparel, and chemicals may become increasingly affected as the year proceeds. Because of the interdependence of all economic segments, none can immunize itself from these developments forever. This year may well be the time when the "domino effect" of a specific shortage spreads out over the entire economy. Therefore, widespread expectations of a slowing of the Southeast's economy in 1974, fewer new jobs, and some rise in unemployment are a reasonable prediction.■

Consumer Spending: Surge Followed By Moderation

by Brian D. Dittenhafer

During 1973, consumer spending was a mainstay of the national economic expansion which marked its third anniversary in November. Consumer demand for durable goods was a major factor in powering real GNP to an 8.7-percent real annual growth rate in the first quarter of 1973, well above a sustainable rate for the economy. This surge helped push unemployment below 5 percent of the work force for the first time since mid-1970 and caused total employment to set new monthly records during most of the year. However, the boom also fired inflation which combined with falling consumer confidence to slow spending in the second half.

Rapid Early Growth

As in other regions, consumer spending in the Southeast was influenced by changing income and employment patterns during 1973. In the early months, consumers in the Southeast spent and borrowed heavily. But as inflation gained momentum they became more cautious, slowing their spending and becoming less willing to take on new debt.

Still another factor evidently contributed to the early surge in spending and borrowing. Exceptionally large amounts of Federal personal income taxes were refunded during the first five months of 1973. The large refunds coincide with a surge in consumer spending and borrowing in the region and in the nation. Consumers apparently spent a large slice of their refunds; but since growth in consumer type savings in the region was also rapid during the early months of the year, there remains some question about the exact division of the refunds between saving and spending.

Buying followed the national pattern, showing the largest increases during the early months and slowing to more normal levels later in the year. As shown in the chart, both auto sales and department store sales in Southeastern major metropolitan areas were strongest in the first four months. New car registrations show that unit auto sales peaked during the first quarter and tapered off slowly during the remainder of the 1973 model year. However, for the model year as a whole, auto sales were at near record levels, providing a strong stimulus to the regional economy.

When adjusted for the rise in consumer prices, department store sales in major metropolitan areas of the Southeast showed a similar pattern. Sales surged in the first few months and then leveled off during the rest of the year. Thus consumers continued spending at the high levels attained during the first quarter, but real spending grew very little during the remainder of the year.

Again repeating the pattern of sales, consumer borrowing at Southeastern commercial banks surged early and tapered off slightly during the second quarter but remained at high levels for the rest of the year. Based on patterns established during the first half, banks in Florida and Georgia again were leaders in consumer lending in the six-state area. New car and truck registrations were also strongest in these two states during 1973; these data, combined with strong retail sales, suggest that Florida and Georgia continued to lead the District in consumer spending and borrowing.

For District banks, only auto lending showed larger growth during 1973 than during 1972, and there is some evidence that the auto sector's strong performance can be attributed largely to fear of higher prices and reduced performance on 1974 models. Consumer acceptance of 1974 models was confused and uncertain early in the model year, as fears of gasoline shortage caused small car sales to boom and large car sales to fall sharply.

Borrowing to purchase nonautomotive durable goods was not as strong during 1973 as it had been in the previous year. Unlike the auto sector, which showed its largest increases early in the year, consumer borrowing for nonautomotive goods was spread fairly evenly throughout the year, after allowing for seasonal influences.

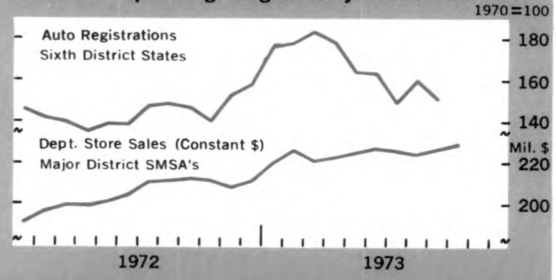
Bank lending for both repairing and modernizing homes and personal loans was lower in 1973 than the previous year. The very large increases in these categories in 1972 were not matched during 1973, as consumer confidence dipped to low points previously reached only during recessions. How much of this behavior was caused by lower demand for consumer loans and how much by unwillingness of banks to make these loans is difficult to determine; but consumers had many reasons for not spending their money, particularly during the second half of 1973.

NEW TRUCK AND AUTO REGISTRATIONS

	% Increase 1973 from 1972*
ALABAMA	6.4
FLORIDA	29.3
GEORGIA	10.0
LOUISIANA	5.4
MISSISSIPPI	9.5
TENNESSEE	4.0
DISTRICT STATES	14.1

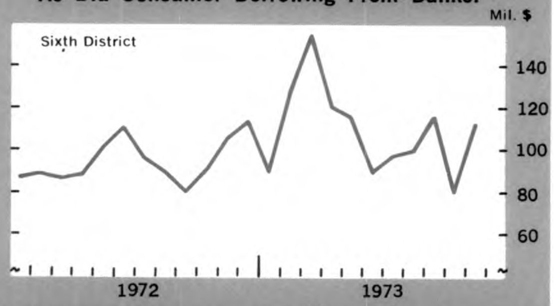
*Based on data for first 10 months of each year supplied by R. L. Polk and Company

Consumer Spending Surged Early in the Year . . .



Note: Auto registration figures are seasonally adjusted three-months moving averages; department store sales figures have been deflated by the non-food commodity portion of the U.S. consumer price index.

As Did Consumer Borrowing From Banks.



Note: Figures represent seasonally adjusted extensions minus repayments of consumer instalment credit at Sixth District commercial banks.

The shift from Phase II to Phase III controls in January was accompanied by a surge of price increases which, except for the brief freeze, continued throughout the year. Despite rapidly rising nominal income, the average factory worker in the Southeast saw his income decline after the effects of inflation and taxes are taken into account. Southerners reacted by limiting new spending and cutting back severely on new borrowing. In addition, consumers faced, for the first time since World War II, shortages of certain products.

The Outlook

The national expectation at year-end was that more rather than less uncertainty would be introduced into consumers' minds during the early part of 1974. Both the experts and consumers were having trouble predicting the precise impact of the energy shortage on individuals and the economy. Further, consumer borrowing has been growing faster than income for several years, leaving consumers with a heavy burden of previous debt to service. Adding these elements to the prospects for higher unemployment and slower income growth in 1974 leads to the expectation that the consumer sector may be softer than in 1973. There is no reason to think that the Southeast will fare much differently in this respect than the national economy.■

Construction: Less of the Same

by Boyd F. King

Major influences on District construction activity altered significantly during 1973; the volume and pattern of construction activity changed with them. The value of total construction contracts[1] and construction employment, both measures of construction activity, held at high levels. Indeed, construction contracts, in dollar terms, were greater in 1973 as a whole than in the previous year, but the percentage increase was considerably smaller than in either 1971 or 1972. This reduction in overall growth held within it weaknesses in residential construction and relative strength in nonresidential construction.

After rapid gains in 1971 and 1972, residential construction activity in 1973, as measured by the value of construction contracts, declined gradually. The highest monthly awards value was recorded in January. After that, a small decrease was recorded in each month until September. By November, the monthly value was 7 percent below January's level and equal to levels passed in September 1972 when this indicator was increasing rapidly.

Measured in units rather than value, residential activity showed even more disappointing results. Construction cost increases, both actual and anticipated, raised unit costs of contract awards considerably in 1973. For this reason, although the value of these awards averaged more in 1973 than in the year before, the number of units for which contracts were made was somewhat lower.

The turnabout in residential construction resulted from other changes in economic factors. Large volumes of residential building in 1971 and 1972 satisfied some of the pent-up demand held over from previous lean years. Accelerating increases in construction costs and rising credit costs further limited the demand for new residential units.

Rapid residential building rates from late 1970 through 1972 did much to fill unsatisfied housing demand that developed during the late 1960's. This in itself might have slowed the growth of residential building, even if other changes in the economy had not contributed.

Rising construction activity and increased competition for resources from other sectors of the economy accelerated the increase in construction costs in late 1972. Such cost increases were passed through quickly to the finished product; thus, housing costs rose more rapidly than during the previous two years. These rising costs eventually reinforced the effects of slowing demand increases.

A combination of slower growth in credit supply, plus strong credit demand from other sectors of the economy, led to rising credit costs in the housing sector. Institutions that are not primarily in residential lending were able to bid funds away from savings and loan associations that concentrate on lending for housing. Because of their structure of assets and liabilities and because home buyers are more discouraged by higher interest rates than many other

[1]Construction contract awards data from F. W. Dodge Division, McGraw-Hill Information Systems Company.

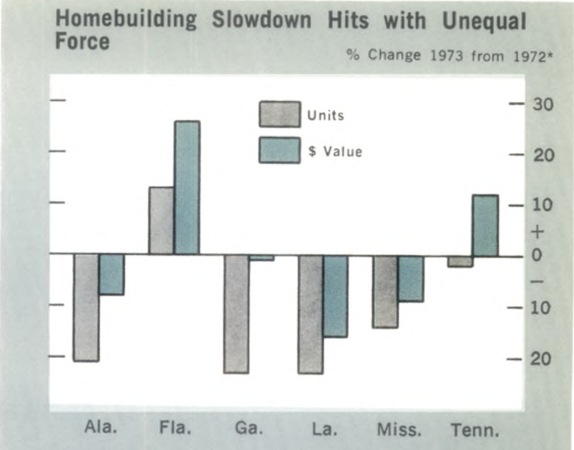
borrowers, these nonbank thrift institutions were less able to compete for funds. Credit availability for homebuilding was held back, and credit costs rose.

Regional patterns of residential construction activity changed. In 1972, Florida and Tennessee had led the region in residential construction growth. These two states were the only two to record gains in the value of construction contracts in 1973. Only Florida recorded a gain in the number of units for which contracts were awarded.

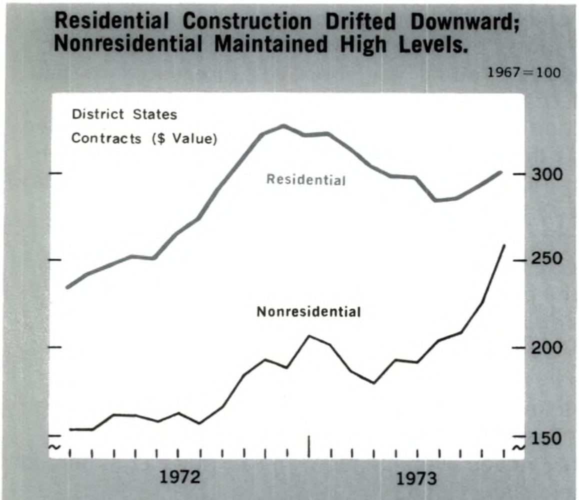
Florida's relatively strong performance is not surprising; the state continues to have rapid population growth, and housing demand has been buoyed most of the time in recent years by buyers of second homes and investment real estate. Tennessee's strong performance has extended over the past three years; it is based on a fairly general expansion of residential building throughout the state. Metropolitan areas in Tennessee have shown steady growth in construction contracts, but these areas account for only about half of the state's total awards and growth.

With lower levels of income and population growth and less strength from secondary factors, the other states were more seriously affected by the conditions that hampered overall construction activity. All but Mississippi had at least one metropolitan area where contract values declined substantially.

Until it spurted upward in the latter part of the year, monthly value of nonresidential construction contracts remained stable at high levels reached in late 1972. As in 1972, commercial construction was a major element of strength. This type of construction was joined by increasing levels of contract awards for industrial buildings in late 1972 to push the levels of nonresidential activity up to a high plateau.



*Note: Covers contract data for entire state for first 11 months of each year.



Note: Figures are seasonally adjusted 5-month moving averages.

High levels of nonresidential contracts in 1973 occurred with little help from contracts for electric generating facilities. Such contracts have provided a relatively large proportion of awards in each of the past five years. They were fewer in number and smaller in dollar value in 1973 than in any of these years.

Each state recorded gains in 1973 nonresidential contracts. Alabama and Mississippi, the only states with large awards for electric generating facilities in 1973, led in percentage gain. Florida also had gains that were above the percentage gain for the six states as a whole.

Problems related to the fuel shortage that surfaced late in 1973 cloud the 1974 prospects for both residential and nonresidential construction. In the residential sector, lenders will begin 1974 with commitment levels that are well below their mid-1973 high levels but also with relatively low liquidity levels and uncertainty about deposit inflows. The increasingly poor housing market of 1973 has made many residential builders cautious, and real and anticipated fuel and related shortages have increased the caution of buyers. These influences are likely to keep activity in this sector in a reduced state, even if resources and credit are made available through declines in demand in other sectors of the economy.

Large capital spending increases projected for the national economy would generally foreshadow increasing nonresidential construction activity in the region. Any tendency for businesses to accelerate building programs because of expected construction cost increases would boost nonresidential construction further. On the other hand, fuel and material bottlenecks may keep such plans from being realized.■

Agriculture: A New High-Water Mark

by Gene D. Sullivan

Although 1972 had been the best year in history for District farmers, that record was submerged by 1973's new high-water mark. And the waters were literally quite high at the beginning of the year when record-breaking rainfall produced flooding throughout the country. In the Mississippi Delta, flood waters lingered over fertile cotton fields long beyond normal planting dates. When dry land finally appeared, farmers had to rush to plant soybeans and other short-season crops that had some chance of maturing before frost.

As 1973 progressed, farmers experienced even more turbulence. The international shortfall in protein meal production and the concurrent brisk demand for livestock feed grains contributed to soaring agricultural exports and record-high feed prices. Rising livestock prices led to retail price ceilings on beef and pork which were followed by a general freeze on retail food prices in late spring. Export controls were imposed when it appeared that domestic supplies of soybeans and soybean meal might be inadequate to sustain domestic livestock production until new crops were harvested. Nevertheless, many farmers curtailed livestock production because price controls prevented them from recouping their rising costs in higher market prices. Poultry feeders particularly were caught in an intolerable squeeze by rapidly rising feed costs and relatively rigid prices for broilers during late spring. As production cutbacks increased and threats of severe food shortages became more ominous, the freeze on food prices was lifted. However, production curtailments, along with food hoarding by consumers who feared post-freeze price increases, contributed to highly unstable conditions in farm markets at the end of summer.

Shortages of agricultural inputs, particularly fuels, created more havoc during the fall harvesting season. Natural gas shortages threatened to halt production of fertilizer needed to expand agricultural output in 1974.

Despite everything, production of most major crops increased throughout the region. The soybean crop was the star performer with a one-fifth gain over 1972's production. Feed grains, rice, and peanuts also showed healthy production gains, but rice fell sharply below its projected level after hurricane winds and rains damaged much of the crop.

Production of cotton, tobacco, and sugar cane was down from a year ago. Acreage reduction forced by the unfavorable spring planting season was largely responsible for the shortfall in cotton and tobacco. Even though sugar cane acreage increased, yields were off sharply in Louisiana for reasons still baffling experts as the season drew to a close.

Sharply higher prices more than compensated for production shortfalls. Crop prices received by District farmers averaged as much as 40 percent above year-ago levels. Livestock prices moved even higher, rising as much as 80 percent above the year-ago level at their August high.

As the year drew to a close, prices received by District farmers remained about one-third higher than 1972's level. However, much of this gain was erased by the increase in prices paid by farmers. On average during the year, District farmers paid well over twice year-ago prices for soybean meal, a major ingredient of livestock feed. This was a particularly hard blow to the region's vast poultry industry, for which feed is the major input. The increase in feed cost largely explains the reduction in poultry production during the year; this was despite extremely high market prices for broilers and eggs.

Dairy farmers were also hard-hit by the price-cost squeeze. Although milk prices advanced rapidly during the last half of 1973, they did not keep up with soaring feed prices. Faced with growing losses and attractive beef prices, some dairymen elected to market their herds for slaughter.

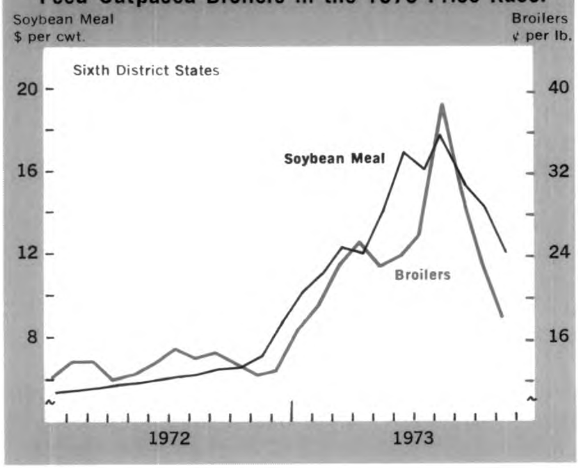
New High for Cash Receipts

Thanks to the combination of high prices and expanded output, cash receipts from farm marketings established a new high water mark in 1973. Results for the first ten months indicate nearly a one-third gain from a year ago. Louisiana farmers realized a 50-percent gain over 1972 receipts that were unusually depressed by rains and floods at harvest time. Though costs rose to offset much of the District's gain, net farm income has also reached the highest level in history.

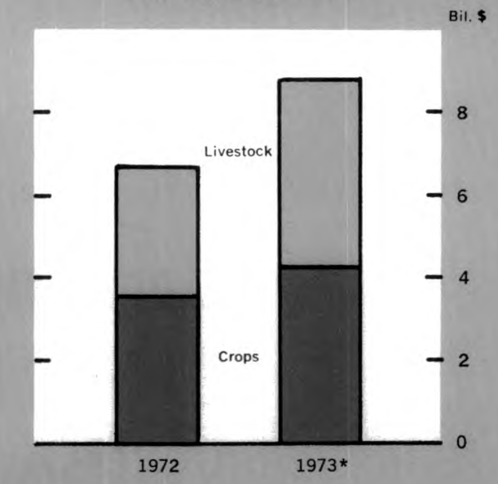
More Loans Floated

Southeastern farmers abruptly expanded their use of credit during the year. Rising production costs were responsible for some of the growth, as farmers found it necessary to borrow more money to buy feed, fertilizer, insecticides, and many other farm inputs that increased in cost during the year. In addition, however, higher prices for farm

Feed Outpaced Broilers in the 1973 Price Race.



Cash Receipts Set a New High-Water Mark.



*Partially estimated by the Federal Reserve Bank of Atlanta.

products and liberalized acreage controls stimulated farmers to expand output which, in turn, increased their demand for capital items.

The swift rise in land prices was responsible for an expansion in real estate debt which accounted for a major portion of 1973's growth in farm credit volume. The Federal Land Banks, which lend primarily on farm real estate, reported a larger increase in credit outstanding than did commercial banks and production credit associations combined.

The Outlook

As the new year begins, prices of most farm products remain high and the potential for profitable expansion of farm production appears even brighter than a year ago. Changes in agricultural legislation will permit farmers to expand most crop acreages. The extent of foreign demand for U. S. farm products is uncertain, although it is likely that the return of favorable weather to many agricultural regions will reduce the export demand for U. S. products from 1973's extraordinarily high level. Energy shortages in 1974 could hinder production expansion, however, so that supplies remain tight compared with the effective demand both at home and abroad.

Production costs will undoubtedly continue to rise at a brisk pace. It is unlikely that the production capacity of firms manufacturing off-farm inputs will be able to keep up with farmers' needs for expansion. On balance, however, 1974 should be another good year for District farmers. ■

Banking: Credit Restraint Without a Crunch

by Charles D. Salley

The Southeast's striking economic growth, together with high levels of capacity utilization, placed strong credit demands on its regional banks. Business loans expanded sharply in 1973 to provide working capital and inventory financing for a broad base of industries. Consumer and real estate borrowing also kept up the strong pace set the year before. Rising interest rates in the commercial paper market made bank financing more attractive to business corporations, giving additional impetus to bank loan demand. Because of these pressures, loans rose spectacularly, particularly in Atlanta, New Orleans, Nashville, and throughout Florida.

The growth in loans, moreover, exceeded the growth in demand deposits. To secure loanable funds, then, bankers had to liquidate U. S. Government securities and compete aggressively for borrowed funds, especially certificates of deposit. Bankers also made greater use of the discount window and the Federal funds market.

Looking chronologically at the year's rapid-fire developments, Sixth District member banks expanded loans at a 34-percent annual rate between January and April. This development, along with slower deposit growth, forced loan-deposit ratios sharply upward to 75 percent, and the larger banks consequently bid for large-denomination CD's. Rates for short-term CD's, on which regulatory ceilings had been suspended in 1970, rose from $5^1/_2$ percent in January to $7^1/_2$ percent by April, and open market interest rates had begun to rise rapidly. However, in response to the request of the Committee on Interest and Dividends, Southeastern banks followed the example of others by raising their prime rate by less than market rates had increased.

In April, the Committee decided on a two-tier guideline. The rates which banks could charge large corporate borrowers would be flexible and could follow open-market interest rates; rates charged small business borrowers should remain more stable. During May the prime rate for large borrowers rose quickly to 7 percent.

That same month, the Board of Governors suspended the remaining Regulation Q interest rate ceilings on large 90-day CD's. There had been widespread concern that banks would be unable to compete for funds when market interest rates surpassed the ceiling rates banks were permitted to offer. Such nonmarket interest regulation, coupled with rapid demand and supply changes, had diverted credit flows from normal banking channels during restraint periods in 1966 and in 1969. In those periods, credit at financial intermediaries had become essentially unavailable for many borrowers, who then found themselves in a "credit crunch."

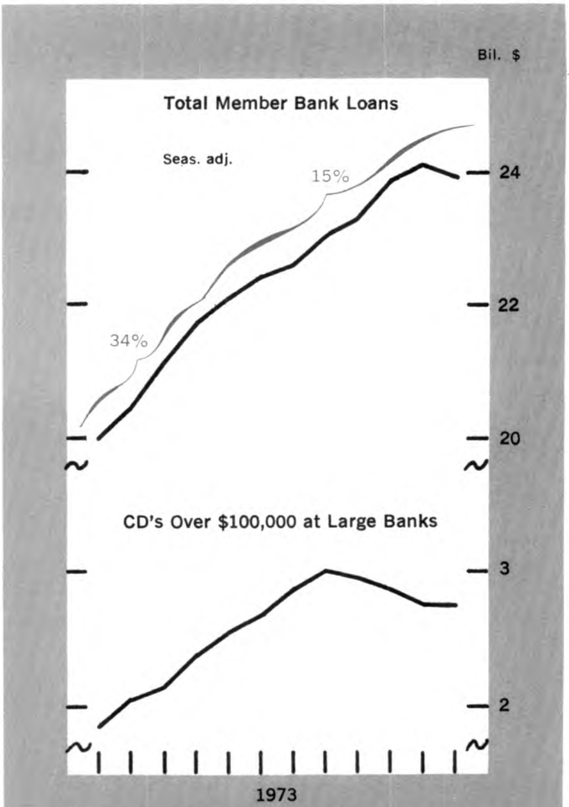
As in the nation, District banks responded decisively to the lifting of interest rate ceilings. Their issue of CD's over $100,000 increased to $3 billion by August. This was an extraordinarily high 73-percent increase over January's holdings and a remarkable contrast to the runoff of time certificates experienced in 1966 and 1969 when interest rate ceilings were in effect.

Not only did large-denomination CD's rise, but so did holdings of time deposits under $100,000 at small as well as large member banks, expanding by $2.4 billion between January and August. This increase was partially in response to the raising of interest rate ceilings on passbook savings and consumer CD's. Regulatory agencies suspended ceilings altogether on minimum deposits of $1,000 with maturities of four years or more; these certificates grew most rapidly at country banks. Ceilings were reimposed later in the year, however, so as not to impair savings flows to thrift institutions that provide mortgage credit.

The availability of these various deposit sources and some $469 million obtained from selling Treasury securities made it possible for District banks to accommodate much of the extraordinarily strong credit demand. Growth in bank loans slowed appreciably after April, but banks still managed to accommodate a substantial 15-percent loan growth for the remainder of the year. This performance provided a sharp contrast to the little or no growth experienced during previous periods of credit restraint.

The cost of borrowed funds, though, was substantially higher for banks than in the previous year, since CD rates increased to attract needed deposits. Also, as short-term interest rates steadily advanced, the Federal Reserve raised the discount rate in successive steps, reaching an historical peak of $7^1/_2$ percent in August. In addition, the Federal Reserve placed a marginal reserve requirement on CD holdings in excess of $10 million and, in July, raised reserve requirements on net demand deposits one-half percent.

All these events increased the effective cost of funds for banks at a time when open market rates surged beyond their 1969-1970 peaks. The prime rate banks charge their most trustworthy customers also rose, reaching a high of 10 percent in late summer. However, by October, market pressures finally began to ease, and interest rates receded from the late summer highs. Under intense reserve pressure during most of the year, banks had increased their borrowings from the Federal Reserve Bank of Atlanta, averaging $237 million per day in August; these borrowings subsequently began to decline. Federal funds borrowed from other banks, however, have shown no let-up, although rates banks have paid for these reserves declined in September and October before showing a small uptick in November.



Note: Percentages are at annual rates.

As District banks strove to rebuild their investment holdings after the August open market interest rate high, they turned increasingly to purchases of municipal bonds. Banks outside the large cities greatly increased their holdings of municipals by $98 million in late August and by $83 million the following month.

By the year's end, loan demand, though still robust, was no longer excessive. Loan-deposit ratios at banks were still at high 80-percent levels, but this was primarily because of the great amount of credit that had been extended throughout the year. Looking backward, District banks—thanks to their ability to borrow—were able to provide considerable credit to their customers in 1973, customers who otherwise might have sharply curtailed their contribution to economic growth. ■

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

	Latest Month		One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Manufacturing Payrolls	Nov.	171	170	168	157
Farm Cash Receipts	Oct.	201	188	210	141
Crops	Oct.	191	129	163	125
Livestock	Oct.	222	276	243	149
Instalment Credit at Banks*/¹ (Mil. $)					
New Loans	Nov.	737	655r	701	599
Repayments	Nov.	621	574r	584	493
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment	Nov.	127.3	127.0	126.3	122.6
Manufacturing	Nov.	115.1	115.0	114.6	113.2
Nondurable Goods	Nov.	113.1	112.7	112.3	111.6
Food	Nov.	103.9	101.3	100.2	102.9
Textiles	Nov.	110.6	109.8	109.7	109.1
Apparel	Nov.	111.2	112.3	111.2	111.3
Paper	Nov.	111.0	110.5	110.9	110.0
Printing and Publishing	Nov.	124.5	124.8	124.5	121.2
Chemicals	Nov.	108.2	107.7	107.3	106.3
Durable Goods	Nov.	117.6	117.9	117.5	115.3
Lbr., Wood Prods., Furn. & Fix.	Nov.	109.5	109.7	110.0	110.6
Stone, Clay, and Glass	Nov.	122.9	122.5	121.5	118.2
Primary Metals	Nov.	113.5	113.1	113.2	111.3
Fabricated Metals	Nov.	129.3	128.8	127.6	122.2
Machinery	Nov.	146.5	145.2	143.7	137.0
Transportation Equipment	Nov.	105.7	108.9	108.9	108.6
Nonmanufacturing	Nov.	131.5	131.2	130.4	125.9
Construction	Nov.	138.3	138.2	136.1	129.5
Transportation	Nov.	124.7	123.4	122.7	119.1
Trade	Nov.	133.2	133.3	132.5	126.8
Fin., ins., and real est.	Nov.	138.9	138.7	137.8	132.2
Services	Nov.	137.1	136.5	135.4	132.5
Federal Government	Nov.	102.4	101.7	101.1	101.7
State and Local Government	Nov.	134.0	133.1	133.3	128.5
Farm Employment	Nov.	84.9	84.3	82.1	83.5
Unemployment Rate (Percent of Work Force)	Nov.	3.7	3.7	3.6	3.7
Insured Unemployment (Percent of Cov. Emp.)	Nov.	1.6	1.7	1.8	1.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.8	40.9	40.9	41.0
Construction Contracts*	Nov.	374	265	241	282
Residential	Nov.	346	311	293	325
All Other	Nov.	401	220	190	240
Cotton Consumption**	Oct.	79	79	79	80
Petroleum Production**	Nov.	105	116	113	125
Manufacturing Production	Sept.	304	305	299	281
Nondurable Goods	Sept.	244	245	244	234
Food	Sept.	188	189	188	185
Textiles	Sept.	297	298	292	275
Apparel	Sept.	289	290	292	275
Paper	Sept.	225	225	224	219
Printing and Publishing	Sept.	156	157	158	159
Chemicals	Sept.	316	312	309	298
Durable Goods	Sept.	375	376	365	336
Lumber and Wood	Sept.	202	202	203	199
Furniture and Fixtures	Sept.	193	192	192	188
Stone, Clay, and Glass	Sept.	208	206	204	188
Primary Metals	Sept.	258	255	250	219
Fabricated Metals	Sept.	293	288	285	274
Nonelectrical Machinery	Sept.	498	497	519	446
Electrical Machinery	Sept.	922	916	852	751
Transportation Equipment	Sept.	456	471	445	438
FINANCE AND BANKING					
Loans*					
All Member Banks	Nov.	253	248	242	202
Large Banks	Nov.	238	235	225	189
Deposits*					
All Member Banks	Nov.	200	199	200	176
Large Banks	Nov.	174	178	176	155
Bank Debits*/**	Nov.	280	247	245	204
ALABAMA					
INCOME					
Manufacturing Payrolls	Nov.	175	171	169	156
Farm Cash Receipts	Oct.	196	215	266	128
EMPLOYMENT					
Nonfarm Employment	Nov.	116.8	116.2	115.9	114.0
Manufacturing	Nov.	113.6	113.4	113.2	112.2
Nonmanufacturing	Nov.	118.1	117.4	117.2	114.9
Construction	Nov.	123.9	124.4	124.1	117.0
Farm Employment	Nov.	76.4	74.4	70.5	75.6
Unemployment Rate (Percent of Work Force)	Nov.	3.8	4.1	4.1	4.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	41.4	41.1	40.9	41.4
FINANCE AND BANKING					
Member Bank Loans	Nov.	237	228	225	194
Member Bank Deposits	Nov.	192	194	191	172
Bank Debits**	Nov.	228	215	206	183
FLORIDA					
INCOME					
Manufacturing Payrolls	Nov.	179	178	174	165
Farm Cash Receipts	Oct.	217	252	185	197
EMPLOYMENT					
Nonfarm Employment	Nov.	144.7	144.4	143.7	135.6
Manufacturing	Nov.	123.2	122.7	122.1	117.7
Nonmanufacturing	Nov.	148.6	148.6	147.8	139.0
Construction	Nov.	187.3	187.9	184.3	166.4
Farm Employment	Nov.	96.6	91.6	102.4	94.2
Unemployment Rate (Percent of Work Force)	Nov.	3.0	2.8	2.7	2.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	41.2	41.0	41.1	41.3
FINANCE AND BANKING					
Member Bank Loans	Nov.	281	274	277	224
Member Bank Deposits	Nov.	232	226	233	200
Bank Debits**	Nov.	303	288	287	238
GEORGIA					
INCOME					
Manufacturing Payrolls	Nov.	158	159	160	151
Farm Cash Receipts	Oct.	254	179	153	166
EMPLOYMENT					
Nonfarm Employment	Nov.	124.1	124.0	123.1	121.2
Manufacturing	Nov.	109.0	109.4	108.9	109.3
Nonmanufacturing	Nov.	131.0	130.7	129.6	126.6
Construction	Nov.	134.3	135.1	132.2	128.0
Farm Employment	Nov.	89.6	85.4	85.2	83.8
Unemployment Rate (Percent of Work Force)	Nov.	3.8	3.9	3.5	3.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.3	40.4	41.0	40.6
FINANCE AND BANKING					
Member Bank Loans	Nov.	253	251	234	198
Member Bank Deposits	Nov.	174	181	182	156
Bank Debits**	Nov.	280	282	282	230
LOUISIANA					
INCOME					
Manufacturing Payrolls	Nov.	154	153	153	142
Farm Cash Receipts	Oct.	222	188	319	128
EMPLOYMENT					
Nonfarm Employment	Nov.	114.4	114.2	113.4	112.3
Manufacturing	Nov.	104.0	104.0	104.8	103.2
Nonmanufacturing	Nov.	116.6	116.3	115.2	114.1
Construction	Nov.	96.5	95.0	95.2	95.0
Farm Employment	Nov.	71.9	79.3	73.3	79.9
Unemployment Rate (Percent of Work Force)	Nov.	5.8	6.3	6.2	5.5
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.6	41.3	41.2	41.7
FINANCE AND BANKING					
Member Bank Loans*	Nov.	227	226	218	176
Member Bank Deposits*	Nov.	175	174	171	160
Bank Debits*/**	Nov.	201	193	179	161
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	Nov.	191	189	186	176
Farm Cash Receipts	Oct.	171	154	249	108
EMPLOYMENT					
Nonfarm Employment	Nov.	124.2	123.7	123.2	119.9
Manufacturing	Nov.	127.4	126.9	126.6	124.7
Nonmanufacturing	Nov.	122.7	122.3	121.6	117.8
Construction	Nov.	114.6	116.5	113.5	113.3
Farm Employment	Nov.	79.9	84.1	76.3	80.7

	Latest Month		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate					
(Percent of Work Force)	Nov.	3.8	3.9	3.8	4.2
Avg. Weekly Hrs. in Mfg.(Hrs.)	Nov.	40.6	40.8	40.4	40.7
FINANCE AND BANKING					
Member Bank Loans*	Nov.	250	244	239	201
Member Bank Deposits*	Nov.	209	209	204	173
Bank Debits*/**	Nov.	221	213	204	193
TENNESSEE					
INCOME					
Manufacturing Payrolls	Nov.	178	176	172	160
Farm Cash Receipts	Oct.	180	185	217	126
EMPLOYMENT					
Nonfarm Employment	Nov.	124.9	124.7	124.0	121.4
Manufacturing	Nov.	116.3	116.3	115.5	114.6
Nonmanufacturing	Nov.	129.7	129.4	128.7	125.2
Construction	Nov.	124.4	122.2	120.1	122.2
Farm Employment	Nov.	90.1	89.0	93.7	85.6
Unemployment Rate					
(Percent of Work Force)	Nov.	3.1	2.8	2.9	3.2
Avg. Weekly Hrs. in Mfg. (Hrs.)	Nov.	40.7	41.0	40.9	40.9
FINANCE AND BANKING					
Member Bank Loans*	Nov.	239	233	225	198
Member Bank Deposits*	Nov.	189	189	185	171
Bank Debits*/**	Nov.	215	194	213	171

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

Note: Indexes for bank debits, construction contracts, cotton consumption, employment, farm cash receipts, loans, petroleum production, and payrolls: 1967 = 100.[1] All other indexes: 1957-59 = 100.

Sources: Manufacturing production estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U.S. Dept. of Labor and cooperating state agencies; cotton consumption, U.S. Bureau of Census; construction contracts, F. W. Dodge Div., McGraw-Hill Information Systems Co.; petrol. prod., U.S. Bureau of Mines; 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.

[1]Data benchmarked to June 1971 Report of Condition

Debits to Demand Deposit Accounts

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

	November 1973	October 1973	November 1972	Percent Change: November 1973 from Oct. 1973	Nov. 1972	Year to date 11 mos. 1973 from 1972
STANDARD METROPOLITAN STATISTICAL AREAS**						
Birmingham	3,748,567	3,748,969	2,942,239	0	+27	+19
Gadsden	101,390	101,693	98,264	− 0	+ 3	+11
Huntsville	325,753	332,078	266,141	− 2	+22	+17
Mobile	1,119,324	1,242,779	887,200	−10	+26	+17
Montgomery	642,458	687,660	549,299	− 7	+17	+21
Tuscaloosa	220,203	230,244	166,860	− 4	+32	+28
Bartow-Lakeland-Winter Haven	751,337	744,580	631,373	+ 1	+19	+23
Daytona Beach	381,573	415,024	298,111	− 8	+28	+25
Ft. Lauderdale-Hollywood	1,704,767	1,830,477	1,557,095	− 7	+ 9	+14
Ft. Myers	367,904	338,653	235,650	+ 9	+56	+37
Gainesville	254,869	299,166	217,245	−15	+17	+24
Jacksonville	4,734,367	4,079,798	3,212,638	+16	+47	+26
Melbourne-Titusville-Cocoa	530,087	432,454	410,035	+23	+29	+24
Miami	6,995,300	7,056,992	5,726,406	− 1	+22	+28
Orlando	1,443,162	1,584,732	1,235,508	− 9	+17	+21
Pensacola	418,157	439,912	378,791	− 5	+10	+12
Sarasota	437,808	527,071	402,089	−10	+18	+42
Tallahassee	783,044	836,076	626,657	− 6	+25	+43
Tampa-St. Pete	4,075,416	4,122,812	3,140,511	− 1	+30	+25
W. Palm Beach	1,212,070	1,288,635	935,655	− 6	+30	+37
Albany	187,849	204,542	170,215	− 8	+10	+17
Atlanta	15,727,515	17,321,905	11,592,317	− 9	+36	+42
Augusta	579,852	548,473	426,164	+ 6	+36	+20
Columbus	433,090	447,618	399,515	− 3	+ 8	+10
Macon	569,887	612,444	450,480	− 7	+27	+21
Savannah	537,769	556,656	443,883	3	+21	+19
Alexandria	259,819	273,806	200,679	5	+29	+20
Baton Rouge	1,229,568	1,335,841	1,070,896	− 8	+15	+14
Lafayette	273,779	323,782	234,664	−15	+17	+20
Lake Charles	232,676	244,101	192,027	− 5	+21	+12
New Orleans	4,044,756	4,319,319	3,419,266	− 6	+18	+12
Biloxi-Gulfport	223,388	251,264	214,311	−11	+ 4	+17
Jackson	1,466,448	1,398,181	1,258,590	+ 5	+17	+20
Chattanooga	1,290,027	1,420,533	964,787	− 9	+34	+29
Knoxville	1,020,120	1,025,375r	801,052	− 1	+27	+21
Nashville	3,677,876	3,494,745	2,808,189	+ 5	+31	+22
OTHER CENTERS						
Anniston	102,267	111,862	97,124	− 9	+ 5	+12
Dothan	185,135	213,269	131,979	−13	+40	+40
Selma	97,815	90,312	73,541	+ 8	+33	+25
Bradenton	180,342	186,649	163,490	− 3	+10	+28
Monroe County	75,968	77,699	58,991	− 2	+29	+32
Ocala	211,655	214,183	145,347	− 1	+45	+40
St. Augustine	35,092	37,861	25,022	− 7	+40	+32
St. Petersburg	982,314	1,039,137	792,481	− 5	+24	+34r
Tampa	2,013,760	1,912,109	1,443,782	+ 5	+39	+25
Athens	156,660	163,165	146,658	− 4	+ 7	+10
Brunswick	95,985	104,038	76,391	− 8	+26	+24
Dalton	195,880	187,003	168,637	+ 5	+16	+18
Elberton	21,220	23,683	17,890	−10	+19	+ 7
Gainesville	139,610	151,932	114,697	− 8	+22	+27
Griffin	74,541	82,578	57,975	−10	+29	+25
LaGrange	43,545	43,600	32,940	− 0	+32	+30
Newnan	58,175	57,940	48,828	+ 0	+19	+28
Rome	147,699	156,094	129,355	− 5	+14	+15
Valdosta	93,471	100,636	93,506	− 7	− 0	+10
Abbeville	17,642	19,249	15,001	− 8	+18	+ 9
Bunkie	19,465	15,051	13,659	+29	+43	+24
Hammond	86,052	87,246	59,144	− 1	+45	+38
New Iberia	64,188	67,530	55,824	− 5	+15	+15
Plaquemine	20,991	30,431	23,130	−31	− 9	+53
Thibodaux	36,819	37,587	34,763	− 2	+ 6	+14
Hattiesburg	129,724	134,885	104,126	− 4	+25	+23
Laurel	72,976	78,503	67,944	− 7	+ 7	+15
Meridian	114,001	130,758	109,124	−13	+ 4	+15
Natchez	57,414	56,607	50,764	+ 1	+13	+13
Pascagoula-Moss Point	149,796	168,719	150,712	−11	− 1	+ 7
Vicksburg	91,047	86,859	66,628	+ 5	+37	+25
Yazoo City	49,782	45,527	40,138	+ 9	+24	+12
Bristol	107,491	135,508	114,264	−21	− 6	− 3
Johnson City	159,516	182,808	132,888	−13	+20	+18
Kingsport	255,686	275,222	218,714	− 7	+17	+18
District Total	76,673,922	78,614,643r	60,710,183	− 2	+26	+26
Alabama	8,733,395	8,915,324	7,050,633	− 2	+24	+19
Florida	26,638,463	26,904,841	20,969,156	− 1	+27	+27
Georgia	21,602,258	23,629,898	16,820,862	− 9	+28	+34
Louisiana[1]	7,795,684	7,871,426	6,209,634	− 1	+26	+20
Mississippi[1]	3,144,414	3,151,000	2,734,497	− 0	+15	+17
Tennessee[1]	8,759,708	8,142,154r	6,925,401	+ 8	+26	+19

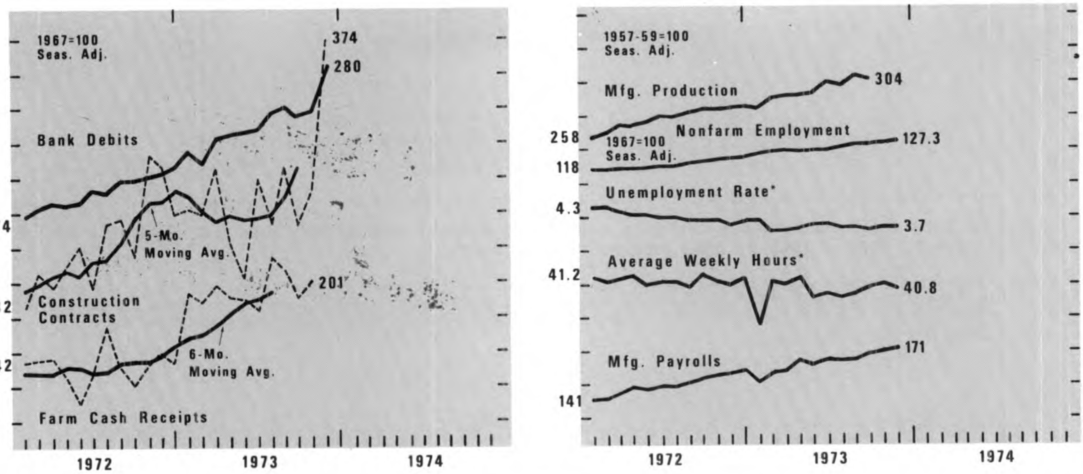
[1] District portion only

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.

**Conforms to SMSA definitions as of December 31, 1972.

District Business Conditions



*Seas. adj. figure; not an index
Latest plotting: November, except mfg. production, September, and farm receipts, October.

The Southeast's economy maintained its moderate growth as concern over the energy problem grew. A leveling in construction employment was counter-balanced by gains in the value of both residential and nonresidential construction contracts awarded. Nonfarm jobs rose despite weakness in some sectors. Agricultural prices edged downward, but cash receipts remained sharply higher than a year ago. Growth of loans and deposits at member banks slowed, but overall consumer borrowing and spending indicators showed increased activity.

Preliminary data indicate a further expansion in nonfarm jobs in November. Jobs in the nonmanufacturing sector were the primary source of strength. Construction employment gains, however, slowed. Manufacturing job gains were more spotty and factory hours edged downward. The unemployment rate remained unchanged in November, but more recent reports indicate lay-offs in automobile assembly plants and in the airline industry.

The value of construction contract awards rose sharply in November. A contract for a large electric generating plant in Alabama propelled the value of nonresidential awards upward and accounted for much of the rise. The value of residential awards also increased in a surprising show of strength. Deposit inflows at thrift institutions during the last three months have risen from last summer's low levels; and residential mortgage interest rates have drifted downward in recent weeks.

Although prices received by farmers continued to edge downward, farm cash receipts remained nearly one-third higher than the year-ago level. Both livestock and crop prices declined in November, with grapefruit, broilers, calves, and soybeans registering the major downturns. A sharp increase in the price of rice and milder increases for vegetables, milk, and hogs partially offset other price declines. Crop harvests were nearly completed before being interrupted by heavy year-end rainfall. Through the first four weeks of December, broiler placements were up substantially from the comparable November period.

Loan growth slowed during November after a brief rebound in October. Total member bank deposit growth slowed for the third consecutive month, as large-denomination CD's continued to run off and demand deposits at large banks actually declined. Borrowing from the Federal Reserve's discount window and net purchases of Federal funds, although declining fractionally, have remained very strong. Total investments remained unchanged as large banks reduced their holdings of U.S. securities and smaller banks increased their investments in municipal obligations.

Consumer borrowing at commercial banks increased in November, resuming the higher growth rates seen earlier in 1973. Gains were strongest in lending to purchase nonautomotive consumer goods and weakest in the auto lending categories. Preliminary indications show a good retail Christmas selling season.

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