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In this issue:

Measuring the Money Stock

by William N. Cox, III

On May 16, 1974, at routine weekly press conferences in Washington and New York, the Federal Reserve System issued its first public measurement of the nation's money stock level during the May 2-8 banking week ended eight days earlier: $276.8 billion. A week later on Thursday, May 23, the measurement for the May 8 money stock level was revised to $278.5 billion. Two weeks after the end of that banking week, on May 30, that figure was revised again to $278.7 billion. This last figure represented the Fed's firmest measurement of what the level of the nation's money stock had been during the May 2-8 banking week.[1] Three press conferences, held 8, 15, and 22 days after the end of the banking week being measured, provided three successive measurements of what the nation's money stock had been during that particular banking week.

These measurements are the building blocks with which money stock behavior is analyzed: Weekly levels are averaged into monthly and quarterly levels, and these are compared with those of previous periods to provide growth measurements.

The importance of money stock data stems from the fact that many analysts believe the growth rate of the money stock is the most important single statistic of monetary policy.[2] The weekly money stock statistics, built up and transformed into growth rates over longer periods, are essential ingredients. The purpose of this article is to describe how the Federal Reserve formulates these weekly building blocks, measuring the dollar level of the nation's money stock. We shall take a quick look at the procedures through which money stock data flow

[1]For purposes of exposition, this article focuses on the narrow or M_1 definition of the money stock. For the definition of this narrow money stock, and for other broader measures of money as well, see "The Money Stock," this **Review,** November 1973.

[2]See "Controlling Money with Bank Reserves," this **Review,** April 1973, and "Numerical Specifications of Financial Variables and Their Role in Monetary Policy," Federal Reserve **Bulletin,** May 1974.

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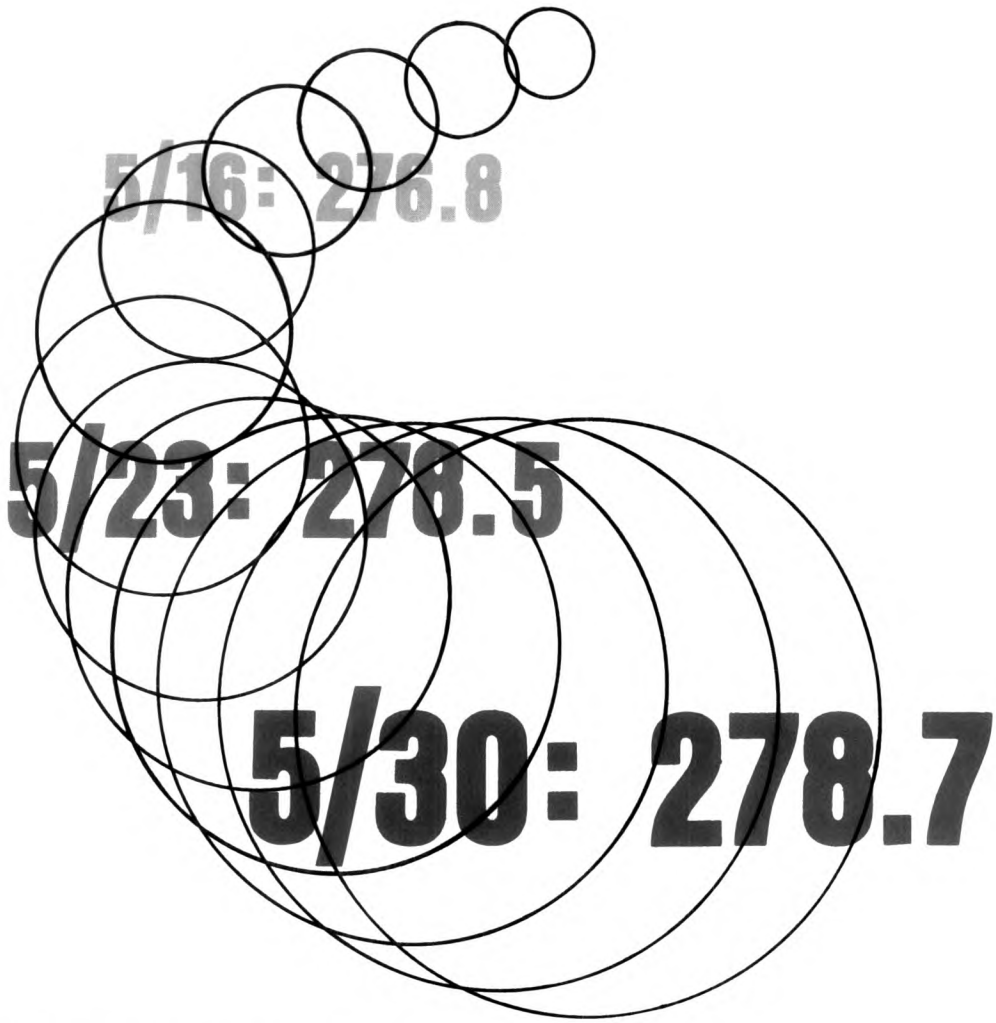


These numbers are successive measurements, as of the dates shown, of the amount of money in the economy during the banking week ended May 8, 1974. These were the successive numbers actually produced by the Fed reporting procedures, expressed in billions of dollars. Not only do the numbers change, but more importantly the quality of the numbers gets better and better as more and more information becomes available on succeeding dates.

from individual member commercial banks through the offices of the District Federal Reserve Banks to the Board of Governors in Washington, and we shall see what further processing is necessary before these individual bank data can be transformed into national money stock measurements. We shall emphasize the part played by Sixth District member banks.

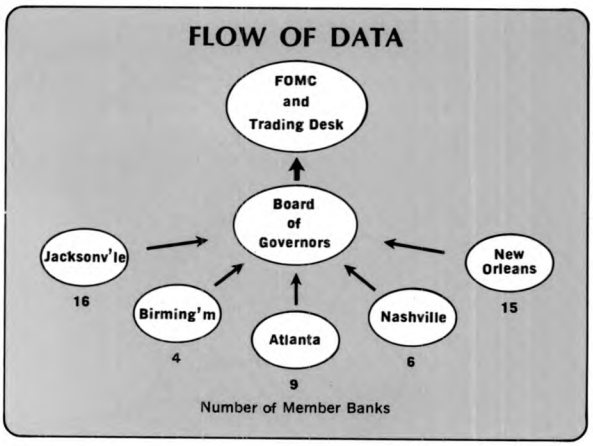
Initial Unpublished Measurements

The member-bank reporting process is somewhat similar to painting a wall. There first comes a reporting procedure, analogous to a rough first coat of paint, which involves only about ten percent of the Sixth District's member banks. This procedure culminates in a rough internal measurement of the money stock. This is generated as quickly as possible for use by the Federal Open Market Committee and the Open Market Trading Desk; it is not released to the public. After that comes a second procedure—the second coat of paint—which provides a measurement good enough for public release. This "second coat" is in turn touched up with two revisions. Overall, the concept is one of better and better coverage of higher and higher quality as more and more data are incorporated into the measurements of the money stock level for each banking week.

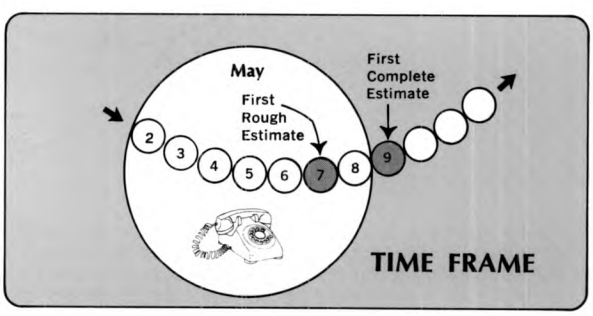
Let us see how the Sixth District part of the initial

unpublished measurements was generated for the banking week ended on May 8, 1974. That banking week began on Thursday, May 2. The "first coat" reporting procedure began on the following day, Friday, May 3, when 20 of the larger District member banks telephoned their local Federal Reserve offices in Atlanta, Birmingham, Jacksonville, Nashville, and New Orleans with reports of deposit levels on the day before.[3] Within the next business day (by Monday, May 6), these Thursday figures had been subjected to edits and transmitted for further processing via a computer-to-computer communication system to the Board of Governors in Washington.[4] This entire process—involving some phone calls from the large banks, editing, and transmission—is repeated for Friday's, Monday's, and Tuesday's balances (May 3, 6, and 7). By the Thursday immediately following the end of each banking week, the Board of Governors' staff in Washington has received initial key deposit items, covering six of the seven days in the banking week, from most of the nation's largest member banks.[5] At the beginning of 1974, these banks accounted for about half of the demand deposits included in the money stock.

On Tuesday (May 7) each Federal Reserve office in the Sixth District also received a second set of telephoned reports, this time from a special sample of 30 smaller banks. These smaller banks provided key deposit figures for five days, Thursday through Monday (May 2-6).[6] These weekly figures are edited and transmitted in exactly the same fashion as the larger banks' daily data reports.



By the day after the end of each banking week, the Board of Governors' staff has in hand data for six out of seven days from most of the larger member banks around the country and a sample of smaller member banks. These figures are the raw material from which the staff produces its initial internal measurement of the money stock, one day after the end of the banking week itself. On Thursday, May 9, for example, the Federal Open Market Committee and the Trading Desk received an initial unpublished measurement of what the



money stock had apparently averaged during the week ended the previous day.[7] The preliminary internal measurements made for monetary policy purposes, then, are derived from special telephone reports from 477 of the nation's 5,700 member banks, 50 of which report through Federal Reserve offices in the Sixth District.

[3]Nationally, these are the 177 member banks which were classified as "reserve city" banks prior to November 9, 1972. Of the 20 such banks in the Sixth District, 5 phone their reports directly to the Head Office in Atlanta, 2 call the Birmingham Branch, 5 to the Jacksonville Branch, 3 to the Nashville Branch, and 5 to the New Orleans Branch. The calls come in to the Accounting Departments at each office.

[4]These reserve city bank items make up the so-called Markstat-D wire. The data items include (1) U. S. Government demand deposits, (2) net demand deposits, (3) time deposits (including large denomination negotiable CD's), (4) demand deposits due to other banks, (5) demand deposits due from other banks, and (6) total deposits. The editing processes point up unusual data fluctuations, which are verified with the reporting member bank. Generally, these fluctuations result from specific large transactions; occasionally, however, a mistake is uncovered and corrected. Heavy emphasis is placed on editing and transmitting data from the 80-odd largest member banks in the Sixth District by Monday night following the end of the banking week on Wednesday.

[5]A banking week runs seven days from Thursday to Wednesday. On days when the bank is closed and balances do not change, the previous day's balances are carried forward. Thus, on a typical week without holidays, Friday's figures count for Saturday and Sunday as well.

[6]Nationally, these 300 banks are called the country bank sample, since they are drawn from the member banks which were classified as "country" banks prior to November 1972. Of the 30 such member banks in the Sixth District, 4 mail their reports to the Atlanta office, 2 to Birmingham, 11 to Jacksonville, 3 to Nashville, and 10 to New Orleans.

[7]Actually, the Board of Governor's staff begins to develop measurements as soon as the first daily information from the large banks begins to come in on Monday (May 6). A new measurement is run each day thereafter, on the basis of whatever data have been received by that time. By Tuesday night (May 7), the measurements are usually developed enough to give the FOMC and the Trading Desk an idea of what the preliminary internal figure will look like two days later—a rough measurement of a rough measurement, so to speak. For an illustration and description of the reserve accounting process, see "Controlling Money With Bank Reserves," this **Review,** April 1973.

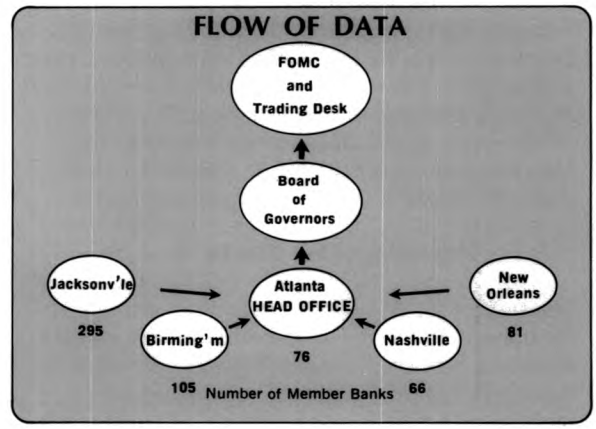
The Published Measurements

The set of money stock measurements, the second coat of paint on the wall, so to speak, are based on the reserve accounting reports submitted weekly by each of the 623 member banks in the Sixth District.[8] Member banks were reporting their daily deposit levels for reserve requirement purposes long before there was any concern about measuring the money stock; these reserve accounting reports have essentially been adapted to meet the new concern.

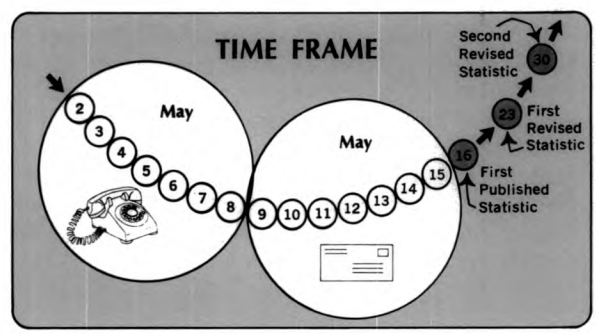
The reserve-accounting deposit reports are received by mail at Federal offices within six days after the end of the banking week being measured. As these reports arrive, the figures in them are subjected to extensive editing, both by hand and by computer, before transmission to the regional Federal Reserve Bank headquarters for further checking and subsequent transmission to the Board of Governors in Washington. As before, this information is sent via the computer-to-computer communications system.[9]

In our Sixth District example of the week ended May 8, about 5 percent of these deposit reports arrived on Thursday (May 9), about 15 percent arrived by Friday (May 10), about 40 percent arrived by Monday (May 13), and 99 percent by Tuesday (May 14). The remaining one percent reflected exceptional situations such as computer breakdowns at the reporting member banks.

In addition to this transmission of edited individual bank deposit data to Washington, each Federal Reserve Bank transmits on the Monday and Tuesday following the end of a banking week a pair of special summary wires for larger member banks and smaller member banks, respectively.[10] In our example, a routine summary wire was sent to the Board of Governors on Monday and Tuesday, May 13 and 14. If a particular member bank has not filed its deposit report by the time these summary wires are sent, the Atlanta Reserve Bank provides its own estimation of that bank's deposit data. In other words, the Atlanta Federal Reserve Bank has 623 holes to fill; if the actual reports are not available, it fills them with estimates.



If we view this process through a different perspective, that of the staff of the Board of Governors in Washington, we find that by the Wednesday one week after the end of the banking week being measured (by May 15), they have received edited deposit reports from about 99 percent of the member banks around the country. They have also the two summary wires, mentioned above, from each of the 12 Federal Reserve Districts. This is sufficient information to produce a publishable measurement of the money stock



level eight days after the end of the May 2-8 banking week being measured. This is the $276.8 billion figure released on Thursday afternoon, May 16, and printed in the financial press the following Friday morning.

For two weeks thereafter, revisions and corrections are generated and transmitted through the same procedural network by both the reporting member banks and at the Federal Reserve offices. These feed into the revised money stock figures published 15 and 22 days after the end of the particular banking week.

The successive published numbers are increasingly better measurements of what the national money stock level was during a particular banking week. The two revisions often do not change the

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[8] For an illustration and description, see "Meeting Reserve Requirements," this **Review,** October 1973. Of the 623 member banks in the Sixth District, 76 mail their reports to the Atlanta office, 105 to Birmingham, 295 to Jacksonville, 66 to Nashville, and 81 to New Orleans.

[9] The acronym for this process is TEDS (Transmission of Edited Deposits System). The edit checks are based on comparisons with (a) historical averages of data reported by each member bank, (b) the previous week's reports, and (c) other reports not directly connected with the money stock measurement process.

[10] In our example, this procedure is called the FR 422, or Flash Wire. These larger banks are those which phoned in the daily deposit measurements a week earlier.

level of the measurement very much. The important thing, however, is not that the numbers change, but that the quality of the measurements gets better and better as more and more information becomes available. Both the public and the policymakers, in other words, could place more confidence in the May 30 measurement of the May 8 money stock than they could in the May 16 measurement.

Processing at the Board of Governors

The staff of the Board of Governors is responsible for translating the raw member bank deposit data, reported through the regional Federal Reserve Banks as we have described, into successive measurements of the money stock. There is much more involved than just adding up the relevant deposit items reported by the member banks. In particular, there are missing components of the nation's money stock which must be either estimated from separate information, or inferred from the member bank deposit information the Board has in hand, or both.

There are four major gaps: (1) the liabilities of foreign-oriented U. S. banking institutions, (2) the deposits held at nonmember banks, (3) the currency component of the money stock, and (4) the application of appropriate seasonal adjustment factors to the unadjusted totals. This section provides a summarized description of how the Board staff tries to fill these four gaps.[11]

Let us first look at the liabilities of four types of foreign-oriented financial institutions: Edge Act Corporations, U. S. branches of foreign banks, U. S. agencies of foreign banks, and the foreign-owned investment corporations peculiar to New York State.[12] Their money stock liabilities are estimated from special end-of-month reports, and from Call Report information in the case of foreign branches outside New York.[13]

The second gap is quantitatively the biggest hurdle between the reported deposit data and the eventual money stock measurement: deposits at nonmember banks. From the standpoint of the economic framework within which the money stock data are being used for policy purposes, it does not matter whether a dollar of money stock deposits is held at a member or nonmember bank. It all counts because it all spends.

In comparison with the elaborate daily flow of data feeding into the money stock measurements from the member banks, corresponding data for nonmember banks have typically been available from the Federal Deposit Insurance Company for only four days each year, and these figures only become available about three months after the FDIC call dates. In mid-June, however, the FDIC announced that it would begin collecting weekly deposit data from large nonmember banks and furnish this information to the Federal Reserve, thus taking a great step toward closing the nonmember data gap.

To fill this gap, the staff of the Board of Governors "blows up" the data it has received from a selected sample of small member banks. The application of a blow-up ratio provides measurements of nonmember banks' contribution to the money stock, which are then revised or "benchmarked" on the dates when call report information becomes available.[14]

As a third gap, the nation's money stock includes not only the public's holdings of bank deposits, but also of currency and coin. The currency component of the money stock currently accounts for about one-quarter of the money stock. This component is measured by the staff of the Board of Governors on the basis of the data provided by the member banks in their mailed weekly reports and from additional information supplied by the Treasury. The procedure is to subtract currency and coin holdings reported by member banks, together with the currency and coin holdings of nonmember banks, from the amount of currency and coin which has been issued by the Federal Reserve Banks, according to Treasury and Federal Reserve records. The public's holdings of currency thus appear as a residual, in the calculation of which the reports of member banks are essential.

The fourth adjustment made by the staff of the Board of Governors involves the annual recalculation of seasonal adjustment factors. The seasonal

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[11]We shall not emphasize here the relationship of these components in the definition of the money stock since this was covered in a previous article, "The Money Stock," this **Review,** November 1973.

[12]There are no Sixth District institutions involved in this reporting process, although some of the international institutions in the Sixth District do report to the Federal Reserve Bank of Atlanta for other purposes. For an overview of these international institutions and their activities in the District, see "The Spread of International Banking: A Regional View," by John E. Leimone, this **Review,** August 1971 (reprinted in **International Finance and Trade: A Southeastern Perspective,** February 1973), and "Edge Act Corporations: An Added Dimension to Southeastern International Banking," this **Review,** forthcoming.

[13]This information is also adjusted on the basis of daily reports from all New York institutions, reports which focus on the so-called cash items bias. See "The Money Stock," this **Review,** November 1973, for a description of this problem.

[14]See "Revision of the Money Stock Measures and Member Bank Reserves and Deposits," Federal Reserve **Bulletin,** February 1974. The technical appendix to the article describes alternative regression procedures for estimating the nonmember bank deposit component.

adjustment procedure involves a five-year weighted average of past data, which is revised every year as a new year of data is added and an old year is dropped. In recent years, seasonal factors have been recalculated each January.[15]

Conclusion

We have tried to provide a bird's-eye view of how the Federal Reserve measures the money stock. We have described two reporting processes, one based on early telephoned reports from a sample of the nation's member banks and culminating in early internal measurements of the money stock for use in the formulation of monetary policy by one day after the banking week being measured, and a second by a mail-reporting system involving each member bank—a procedure which produces three successively better measurements of the money stock 8, 15, and 22 days after the end of the banking week being measured. We have also described some of the editing, correction, and reporting procedures, as well as steps taken at the Board of Governors' level in Washington to fill particular gaps between the data reported by individual member banks and the eventual money stock measurements. ■

[15]See Federal Reserve **Bulletin,** February 1974, **op. cit.**

The ABC's of the Prime Rate

by W. F. Mackara

There's been a lot of discussion lately about the prime rate. Just what is it?

Actually there is no such thing as *the* prime rate. Each commercial bank sets its own interest rates, and the rate it charges its most creditworthy business customers is the bank's prime rate. Although size per se is not necessarily related to creditworthiness, large firms with well-established, multiple credit lines fit the textbook mold of the best credit risks. Such firms typically have a demonstrated ability to meet their credit obligations. Equally important, they are valuable as sources of deposits.

Have banks always had a prime rate?

The concept of a prime rate is relatively new. It was born in 1934 in the doldrums of the Great Depression. A weak economy and a low demand for bank loans usually go together, and in 1934 the economy was *very* weak. Many banks failed during the Thirties, but those which managed to survive had plenty of loanable funds though few borrowers. This created a situation many bankers believed could lead to so-called "cutthroat competition" in lending rates, thereby lengthening the obituary list of insolvent banks.

An interest rate of $1\frac{1}{2}$ percent then won acceptance as a rate below which banks would incur losses on loans.[1] This minimum became known as the "prime" rate. Thus conceived, it represented a floor protecting banks against losses at a time when they could ill afford them. The prime rate remained at $1\frac{1}{2}$ percent for 13 years; it was raised to $1\frac{3}{4}$ percent in December 1947.

Is it still sensible to view the prime rate as a protective device?

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[1]Of course, banks have always had a "best" rate for their most creditworthy customers, and starting in 1921, large New York banks reported their lowest rate each month to the Federal Reserve. However, it was not until 1934 that the prime rate became a publicized national concept.

As the economy has grown, the need for a minimum interest as a protective floor has become invalid. It is more accurate to view the prime rate almost exclusively as a base upon which to build the rest of a bank's lending rates (often, to be sure, quite loosely).

True, the prime rate is still a minimum for business loans, but it is not always set at a level where the interest yield will exceed the cost of making the loan. This was the case in late 1969, and many banks avoided the problem by charging prime customers a premium over the Eurodollar rate rather than their stated prime rate.

How do banks administer their prime rates?

There are three basic methods used.

The first involves a general consideration of both prevailing and expected credit conditions. Of particular interest are such factors as loan demand, deposit growth, cost of borrowed funds, and the rate on commercial paper (a substitute credit source for large businesses[2]). Expecting to accommodate a growth in loan demand only at rising costs might influence a bank to boost its prime rate; on the other hand, it may lower the rate if it expects the cost of funds to fall.

The second method might be termed "follow-the-leader." Banks employing this system will watch what large banks do with their prime rate and then follow their lead, perhaps after a brief period of observation and review.

The third general method is called the formula or floating prime rate. This method utilizes a mathematical formula which sets the prime rate equal to the average rate of some money market instrument plus a specified mark-up. For example, the First National City Bank bases its prime rate on a formula adding 5/8 of 1 percent to a three-week moving average of the 90-119 day commercial paper rate. Other banks using formulas include the First National Bank of Chicago and Bankers Trust of New York.

One major advantage of a formula-based prime rate is that it permits quick adjustments to money market changes. As credit conditions change, the formula prime rate will "float" with money market rates.

Does the prime rate really move in agreement with other money market rates?

Yes, it has moved in the general direction of other short-term rates, and for good reason. When loan demand rises relative to deposit growth, banks must turn increasingly to other sources, such as certificates of deposit (CD's), Eurodollars, and Federal funds.[3] As a consequence, the rates on these instruments will be bid up, raising the cost of these funds to banks. Likewise, banks may sell assets such as Treasury securities to obtain funds. The resulting fall in prices may cause capital losses for banks selling these assets.

THE PRIME RATE 1934 - 1974*

1934		1½%	1971	January 6	6½
1947	December	1¾		January 15	6¼
1948	August	2		January 18	6
1950	September 22	2¼		February 16	5¾
1951	January 8	2½		March 11	5¼
	October 17	2¾		April 23	5½
	December 19	3		July 7	6
1953	April 27	3¼		October 20	5¾
1954	March 17	3		November 4	5½
1955	August 4	3¼		December 31	5¼
	October 14	3½	1972	January 24	5
1956	April 13	3¾		January 31	4¾
	August 21	4		April 5	5
1957	August 6	4½		June 26	5¼
1958	January 22	4		August 29	5½
	April 21	3½		October 4	5¾
	September 11	4		December 27	6
1959	May 18	4½	1973	February 27	6¼
	September 1	5		March 26	6½
1960	August 23	4½		April 18	6¾
1965	December 6	5		May 7	7
1966	March 10	5½		May 25	7¼
	June 29	5¾		June 8	7½
	August 16	6		June 25	7¾
1967	January 27	5¾		July 3	8
	March 27	5½		July 9	8¼
	November 20	6		July 18	8½
1968	April 19	6½		July 30	8¾
	September 25	6¼		August 6	9
	December 2	6½		August 13	9¼
	December 18	6¾		August 22	9½
1969	January 7	7		August 28	9¾
	March 17	7½		September 18	10
	June 9	8½		October 24	9¾
1970	March 25	8	1974	January 29	9½
	September 21	7½		February 11	9¼
	November 12	7¼		February 19	9
	November 23	7		February 25	8¾
	December 22	6¾		March 22	9
				March 29	9¼
				April 3	9½
				April 5	9¾
				April 11	10
				April 19	10¼
				April 25	10½

Sources: Federal Reserve **Bulletin** and Edward J. Kane, "The Economist's Corner: Politicians Against the Prime—The Dual Rate Fiasco," **The Bankers Magazine**, Spring 1974, p. 89.

*This table gives the most common prevailing prime rate to large business borrowers.

[2]It should also be noted that many banks sell commercial paper through affiliates to raise funds. Thus, a rise in commercial paper rates also represents a higher cost of funds to these banks.

[3]CD's are a form of time deposits. Eurodollars are dollar deposits in foreign banks. Federal funds are short-term loans, largely between banks

If the bank loan demand is part of an amplified demand for credit in general, businesses will also seek funds through commercial paper sales, pushing up rates in that market. As the commercial paper rate approaches the prime rate, bank loans become a relatively cheaper credit source, further intensifying bank loan demand.

Faced with growing loan demand, banks will be tempted to raise lending rates, including the prime rate. This will compensate them for the increased costs of loanable funds and, at the same time, allocate loans to those willing and able to pay a higher rate.[4]

Why is the prime rate "sticky"?

As mentioned, the prime rate does move in the same general direction as money market rates. However, historically the prime rate has usually lagged somewhat behind market fluctuations. That's where the "stickiness" comes in.

It is often difficult to tell if a change in market rates or loan demand is an aberration that will correct itself shortly or whether it represents a change in trend. If the former, it would be impractical to adjust the prime rate, as the bank would only have to reverse the move in the next week or so. Instead, decisions on the prime rate are made on the basis of long-term expectations of loan demand and money market rates. If these behave consistently for several weeks, banks might consider changing their prime rates. On occasion, banks have waited a long time before making such changes.

Another factor which has long discouraged frequent prime rate adjustment has been the critical review such changes receive from the news media and political leaders. The visibility of the prime rate and its role as the keystone for banks' other lending rates have directed changes in it to public attention and concern.

But haven't banks changed the prime rate more often in recent years?

Yes, the earlier inertia of the prime rate has diminished in recent years. The advent of the floating prime rate in 1971 and, interdependently, the closer scrutiny given the cost of funds have made banks more sensitive to changes in credit conditions.[5] Thus adjustments in the prime rate have been temporally closer to movements in money market rates. Now banks can rely more on rate changes and less on nonprice terms and conditions to attract or discourage loan demand.

What are these "nonprice terms and conditions"?

One traditional tool is the compensating balance requirement. When a large borrower negotiates a loan, the bank usually requires that he keep a certain sum on deposit. This increases the cost of the loan over and above the interest cost because the borrower cannot use all the proceeds.

To decrease the number of prime loans, banks can also raise the standards of qualification; in other words, they become more selective to whom they will lend at the prime rate. To increase prime loans, banks can lower qualifying standards.

These adjustments are easier said than done, however. Because prime borrowers are literally a bank's best customers, loan officers are reluctant to do anything that would lose such clients. Informing established prime customers that they no longer meet new, higher standards of creditworthiness could do irreparable damage to customer relations.

Changing compensating balance requirements may not only be imprudent; it may be impossible. Prime customers generally borrow through lines of credit and commitments[6] whose terms, including compensating balance requirements, are negotiated in advance and may be altered only with great difficulty.

Just how effective are these nonprice terms?

Though of limited applicability, they are not totally useless. Revised credit standards can be used to screen new loan applicants, and compensating balance requirements can be changed when expired credit lines are renegotiated. In this way banks can influence loan demand without changing their prime rate, even if this influence is only limited.

Why don't banks relieve pressures caused by heavy loan demand and rising costs of funds by just refusing to grant loan requests?

Loan denial, particularly when it involves prime customers, is not really practical because prime customers generally borrow through prearranged loan commitments or lines of credit.

The problem that banks face during a period of high credit demand and rising costs of funds is not

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[4]Conversely a drop in loan demand and falling market rates will eventually induce banks to lower their prime rates.

[5]See "Liability Management Banking: Its Growth and Impact," Arnold Dill, this **Review,** February 1971 and "Liability Management Banking: Its Practice in the Sixth District," Arnold Dill, this **Review,** December 1971.

[6]A loan commitment is a formal arrangement between the bank and the borrower; all terms and conditions are agreed upon and specified. The bank usually charges a commitment fee and is legally obligated to meet all terms of the contract. A line of credit is a more informal scheme under which the customer may borrow up to a stated limit.

so much demand by new customers, but rather the increased use of existing commitments and credit lines. Customers who have commitments and credit lines will seek more of their credit needs through bank loans. This is especially true when the spread between the prime rate and the commercial paper rate narrows, making bank loans cheaper relative to alternate credit sources. Though not every line of credit agreement is binding to banks, they try to honor such arrangements lest they damage customer relations.

Why is there such uniformity among banks in their prime rates?

Firms which are eligible for prime rate status often do business on a national basis and thus have connections with several banks across the country. Because they borrow large sums of money, it is to their benefit to borrow at the bank with the lowest prime rate. Their many banking connections allow them to take advantage of any differentials in the prime rates. There is thus considerable competition for such customers, fostering uniformity of the prime rate.

Another factor working in the same direction is the competition banks themselves face in obtaining lendable funds. They all bid in the same markets for Federal funds, CD's, and Eurodollars and are more or less subject to the same changes in the cost of these funds.

Finally it must be recalled that banks not only compete with each other for prime customers but also with alternative sources of credit, particularly commercial paper. This, too, is a national money market, and changes in that market will be felt by these banks.

In short, competition among banks for prime customers and for sources of funds and competition between banks and other credit instruments limit differences in prime rates. Some differences do exist, however, because these competitive forces are not perfect and changes in the costs of funds and substitute instruments do not affect each bank equally.

Doesn't this uniformity hurt smaller business borrowers, whose access to nonlocal banks is limited?

The plight of the local business borrower has long been a thorn in the side of the prime rate system. A small business or farm may have established itself as a most creditworthy borrower and valuable deposit source with one or more banks in its local market but have no such connections outside that area. Banks' prime rates will be tied to national rather than local conditions. When these differ, the prime rate may be too high or too low to equate the local supply and demand for prime loans.

The banking industry has wrestled with this problem for many years. Some banks tried using a double prime rate system. Large business borrowers with access to banks throughout the U. S. and to money market instruments would pay one "best" rate. The most creditworthy local businesses, who were more limited in their credit sources, would pay a different "best" rate.

On April 16, 1973, the Committee on Interest and Dividends (CID) gave official status to such a two-tiered mechanism. In its statement of criteria for lending rates, the CID asked banks to set up a dual prime rate system. The traditional prime rate would apply to the most creditworthy large business customers. The second prime rate would apply to those smaller local businesses and farms with the highest credit standing. For classificatory purposes, the CID defined a small business or farm borrower as one whose total borrowings in the preceding 12 months were not above $350,000 (not counting long-term real-estate mortgage liabilities) and whose assets were not more than $1 million. This plan was to allow banks to adjust their large business prime rate to national interest rate developments without affecting local customers.[7]

In the final analysis, what does a change in the prime rate signify?

A change in the prime rate is a signal of both what has happened to credit conditions and what will be happening to bank lending policies.

As mentioned, the prime rate has historically been sticky in response to money market developments. Before the advent of formulas, any one bank was reluctant to risk changing its prime rate for fear that if it misread the market signals, it would gain or lose too many loans. Banks resorted to greater use of nonprice terms and conditions, and a decision to alter the prime rate occurred only when the need to do so stood a test of time. As such, a change in the prime rate was a sign that credit conditions *had* changed.

The floating prime rate (more correctly, the large-business prime rate) is more responsive to changes in the money markets. This removes some stickiness from prime rate adjustments, but it does not eliminate the lag factor completely. Since most of the formulas use a multiweek moving average of one or more money market rates, changes will not be reflected in the formulas until several weeks after the rates change.

Because a change in the prime rate comes about *after* credit conditions have changed, adjustment of

[7]When the legislation under which the wage-price control program had operated did expire, the CID was eliminated. Soon thereafter, several banks abolished their small-business prime rate.

the prime rate can be viewed as a lagged indicator of credit conditions.

A changed prime rate also signals that banks have revised their willingness to make loans. A new rate may signal a revamping of the spectrum of interest rates, loan conditions, and willingness to lend to nonprime customers. Viewed in this context, a change in the prime rate is a portent. That is, it represents a leading indicator of the bank's general lending policies.

Appendix

Compensating Balances and Effective Lending Rates

Compensating balance requirements increase the effective interest rate a borrower pays over and above the stated interest rate on the loan. They do so by reducing the amount of a given loan which the borrower can actually use.[8] A numerical example might help in understanding this concept.

Suppose a business wants to borrow $100,000 on a credit line for one year at 9-percent interest and the bank requires a 10-percent compensating balance. The amount of interest paid would be $9,000, but the borrower will have use of only $90,000 of the loan ($100,000 minus the $10,000 compensating balance). Thus the effective interest rate is not 9 percent, but 10 percent (=$9,000/$90,000). If the compensating balance had been 15 percent, the effective interest rate would be 10.59 percent (=$9,000/$85,000). By adjusting the compensating balance requirement, a bank can change its effective lending rate without altering its prime rate.

In our example, we used what is known as a "straight" compensating balance requirement, which puts a single compensating balance requirement on the whole line of credit. A formula for the computation of the effective rate under this requirement may be expressed as:

$$R = \frac{(r/12)\, m_1 L + (r/12)\, m_2 cL}{(L\text{-}cL)\, m_1/12} = r + \frac{rc}{(1\text{-}c)m}$$

where

R = the effective interest rate,
r = stated interest rate,
L = line of credit in dollars,
c = the compensating balance requirement in percentage terms,
m_1 = number of months the line is actually used,
$m_2 = 12 - m_1$,
$m = m_1/12$.

Note that the fewer months the line is used, the higher the effective rate.

There are two more complicated but widely used compensating balance requirements. One requires a balance on the whole line, plus an additional balance for the net amount actually used. In mathematical terms, assuming the basic balance and additional balance are equal percentagewise, this may be expressed as:

$$R = \frac{(r/12)\, m_1 L + (r/12)\, m_2 cL}{(1\text{-}c)\ (L\text{-}cL)\ (m_1/12)} = \frac{1}{1\text{-}c}\left(r + \frac{rc}{(1\text{-}c)m}\right).$$

In the example above, if the basic balance and additional balance were 10 percent of the line, the total compensating balance would be $19,000. The effective rate would be 11.11 percent (= $9,000/$81,000).

A third form of the compensating balance requirement consists of a basic balance on the whole line, plus an additional balance on the whole line, if it is used. Under the assumption these two balances are equal percentagewise, the formula for the effective rate is given by:

$$R = \frac{(r/12)\, m_1 L + (r/12)\, m_2 cL}{(L - 2\ cL)\ (m_1/12)} = \frac{1\text{-}c}{1\text{-}2c}\left(r + \frac{rc}{(1\text{-}c)m}\right).$$

In our numerical example, if both the basic and additional balance requirements are 10 percent, the total compensating balance would be $20,000

[8] See Jack M. Guttentag and Richard G. Davis, "Compensating Balances," **Essays in Money and Credit,** Federal Reserve Bank of New York, December 1964, pp. 57-61, for a modification of this point.

and the effective rate would be 11.25 percent (= $9,000/$80,000).

The effective interest rate as calculated by these equations measures the rate the borrower pays on a loan. But they do not measure the effective yield the bank receives. The reason is that the bank must hold part of the compensating balance as required reserves.

For simplicity, let us return to the effective rate when the straight compensating balance requirement is used. As noted, the borrower actually pays 10 percent on a loan with a nominal interest rate of 9 percent and a 10-percent compensating balance requirement. The bank lends out $100,000. It requires the borrower to maintain $10,000 in deposits. Assuming the bank must hold 13.5 percent of deposits as required reserves, the bank holds $1,350 of the compensating balance in reserves.

The borrower has use of $90,000; this is the base amount on which his effective interest cost is calculated. However, the base on which a bank's interest income is calculated is not $90,000, but $91,350, the size of the effective loan plus the reserves it must hold against the compensating balance. As a result, the interest income to the bank is not 10 percent, but 9.85 percent ($9,000/$91,350). The difference between the borrower's effective interest rate, 10 percent, and the bank's effective yield, 9.85 percent, is absorbed by required reserves.

In formula terms, the bank's effective yield is given by

$$y = \frac{(1-c)L}{L + scL - cL} = \frac{1-c}{1 + c(s-1)},$$

where

y = effective yield to the bank,

s = required reserve ratio,

and the other terms are defined above.

Bank Announcements

April 18, 1974

FLORIDA CENTER BANK

Orlando, Florida

Opened for business as a par-remitting nonmember. Officers: Robert J. Twigg, president; Carole Ann McGahey, cashier; James H. Green, Jr., assistant vice president. Capital, $500,000; surplus and other funds, $500,000.

April 30, 1974

CITIZENS BANK OF GLENCOE

Glencoe, Alabama

Opened for business as a par-remitting nonmember. Officers: Charles A. Cantrell, president; Charles B. Barrontine, vice president and cashier. Capital, $400,000; surplus and other funds, $480,000.

April 30, 1974

FIRST BANK OF ROCKLEDGE

Rockledge, Florida

Opened for business as a par-remitting nonmember. Officers: Tom Dolan, chairman; Frank E. Sullivan, III, president; Henry S. Leininger, executive vice president and cashier; Jerry Morgan, assistant vice president. Capital, $588,240; surplus and other funds, $411,768.

May 4, 1974

BARNETT BANK OF LAKE PLACID

Lake Placid, Florida

Opened for business as a par-remitting nonmember. Officers: Kenneth H. Grady, president; William M. Bryan, Jr., executive vice president; J. W. Ridley, cashier; Hugh Haston, security. Capital, $500,000; surplus and other funds, $250,000.

May 4, 1974

THE PEOPLE'S BANK OF POLK COUNTY

Benton, Tennessee

Opened for business as a par-remitting nonmember. Officers: Joseph V. Carter, president; Miss Gene Hilliard, cashier; Danny F. Qualls, assistant vice president; Mrs. Faye McClary, assistant cashier. Capital, $240,000; surplus and other funds, $360,000.

May 7, 1974

ELLIS COMMERCIAL BANK

Sarasota, Florida

Opened for business as a member. Officers: Emmet Addy, chairman; Charles D. Bailey, president; William Matthews, executive vice president; P. Gregory Robichaud, vice president and cashier; Genevieve Sendral, assistant cashier. Capital, $300,000; surplus and other funds, $312,717.

May 7, 1974

THE KEY BANK OF TAMPA

Tampa, Florida

Opened for business as a par-remitting nonmember. Officers: James T. Porter, president; Josie C. Kinney, vice president; June M. Morgan, cashier. Capital, $900,000; surplus and other funds, $450,000.

May 9, 1974

CLEWISTON NATIONAL BANK

Clewiston, Florida

Opened for business as a member. Officers: Ed Watson, chairman and president; Dewey M. Terrell, executive vice president and chief executive officer; Johnny E. Johnson, vice president and cashier. Capital, $480,000; surplus and other funds, $720,000.

May 10, 1974

BANK OF LAUREL

Laurel, Mississippi

Opened for business as a par-remitting nonmember. Officers: A. Jackson Huff, Jr., president; W. Bill Ainsworth, vice president and cashier. Capital, $500,000; surplus and other funds, $500,000.

May 10, 1974

CONTINENTAL NATIONAL BANK OF MIAMI

Miami, Florida

Opened for business as a member. Officers: Charles Dascal, chairman; Jorge L. Martinez, president; Osvaldo D. Delgado, vice president and cashier; Paul Rauschenplat, assistant vice president. Capital, $750,000; surplus and other funds, $1,250,000.

May 13, 1974

BANK OF TENNESSEE

Kingsport, Tennessee

Opened for business as a par-remitting nonmember. Officers: W. B. Greene, Sr., chairman; P. L. Basinger, Jr., president; Cham H. Percer, Jr., executive vice president; Dennis Phillips, vice president. Capital, $1,000,000; surplus and other funds, $875,000.

May 15, 1974

LYNN HAVEN COMMERCIAL BANK

Lynn Haven, Florida

Opened for business as a par-remitting nonmember. Officers: M. G. Nelson, chairman and president; Jack A. Blackwell, vice president; Lee A. Kinard, vice president and cashier. Capital, $200,000; surplus and other funds, $200,000.

May 16, 1974

COMMERCIAL BANK OF OKEECHOBEE

Okeechobee, Florida

Opened for business as a par-remitting nonmember. Officers: Haynes E. Williams, chairman of the board; J. E. Spooner, president; Cecil McKinney vice president and cashier. Capital, $600,003; surplus and other funds, $400,000.

May 17, 1974

THE FLAGLER BANK

Miami, Florida

Opened for business as a par-remitting nonmember.

Bank Announcements (continued)

May 29, 1974

FIRST PRUDENTIAL BANK
West Palm Beach, Florida

Opened for business as a par-remitting nonmember. Officers: Joseph M. Reed, president; Oscar Horton, Jr., vice president; Dr. Robert Smith, cashier. Capital, $514,000; surplus and other funds, $514,000.

May 30, 1974

HIGHLANDS COUNTY BANK OF AVON PARK
Avon Park, Florida

Opened for business as a par-remitting nonmember. Officers: Ben Hill Griffin, Jr., president and chairman; Lewis S. Stidham, executive vice president; D. R. Daubach, vice president and cashier; Verita Bentley, assistant cashier. Capital, $625,000; surplus and other funds, $625,000.

May 31, 1974

METROPOLITAN BANK
Tampa, Florida

Opened for business as a member. Officers: D. Wallace Fields, chairman; Donald A. Regar, president; John N. Elder, executive vice president and cashier; A. B. Campbell, senior vice president; Stephen S. Sloan, vice president; Joseph F. Smiley, Jr., vice president; John R. Weachter, vice president; Evie Lou Nichols, assistant cashier; Larry M. Geiger, consumer counselling officer. Capital, $8,000,000; surplus and other funds, $2,400,000.

June 4, 1974

BANK OF NORTH BAY VILLAGE
North Bay Village, Florida

Opened for business as a par-remitting nonmember. Officers: Andrew Loriz, president; Victor Lopez DeMendoza, vice president and cashier. Capital, $800,000; surplus and other funds, $232,000.

June 4, 1974

COMMUNITY BANK OF REDINGTON
Redington Shores, Florida

Opened for business as a par-remitting nonmember. Officers: Donald A. Henke, executive vice president. Capital, $500,000; surplus and other funds, $500,000.

June 5, 1974

CITY BANK OF NORTH MIAMI
North Miami, Florida

Opened for business as a par-remitting nonmember. Officers: Gerald A. Keller, chairman; Christian W. Hattenbrun, president; Angelberto A. Arroya, vice president and cashier. Capital, $700,000; surplus and other funds, $800,000.

June 5, 1974

FIRST NATIONAL BANK OF MOORE HAVEN
Moore Haven, Florida

Opened for business as a member. Officers: Maynard Abrams, chairman; James S. Higdon, executive vice president. Capital, $400,000; surplus and other funds, $600,000.

June 7, 1974

SOUTHEAST BANK OF WESTLAND
Hialeah, Florida

Opened for business as a par-remitting nonmember. Officers: William D. Hewett, president; Raul Rivero, vice president and cashier. Capital, $700,000; surplus and other funds, $300,000.

June 14, 1974

FIRST STATE BANK OF ALBERTVILLE
Albertville, Alabama

Opened for business as par-remitting nonmember. Officers: Jerry W. Roberts, president and cashier; Kenneth L. Murphree, assistant vice president. Capital, $500,000; surplus and other funds, $500,000.

June 14, 1974

THE STATE BANK OF SOUTH JACKSONVILLE
Jacksonville, Florida

Opened for business as a par-remitting nonmember. Officers: L. A. Symasek, president; Jack H. Turner, vice president; Johnny F. Johns, cashier. Capital, $500,000; surplus and other funds, $300,000.

June 18, 1974

REPUBLIC NATIONAL BANK OF LOUISIANA
New Orleans, Louisiana

Opened for business as a member. Officers: Rudolph A. McLeod, chairman; George J. Livermore, Jr., president and chief executive officer; Robert E. Ahrens, vice president and cashier; Elray Venice, vice president; Rebecca Marshall, assistant cashier. Capital, $500,000; surplus and other funds, $250,000.

June 19, 1974

VANDERBILT BANK
Naples, Florida

Opened for business as a par-remitting nonmember. Officers: Roy E. Ingram, chairman; Walter R. Rogers, vice chairman; William D. Seiffert, president; Robert L. Patton, vice president and cashier; Mrs. Pauline Miller, assistant cashier. Capital, $500,000; surplus and other funds, $500,000.

June 25, 1974

DOUGLAS COUNTY BANK
Douglasville, Georgia

Opened for business as a par-remitting nonmember.

June 26, 1974

MACON BANK AND TRUST COMPANY
Macon, Georgia

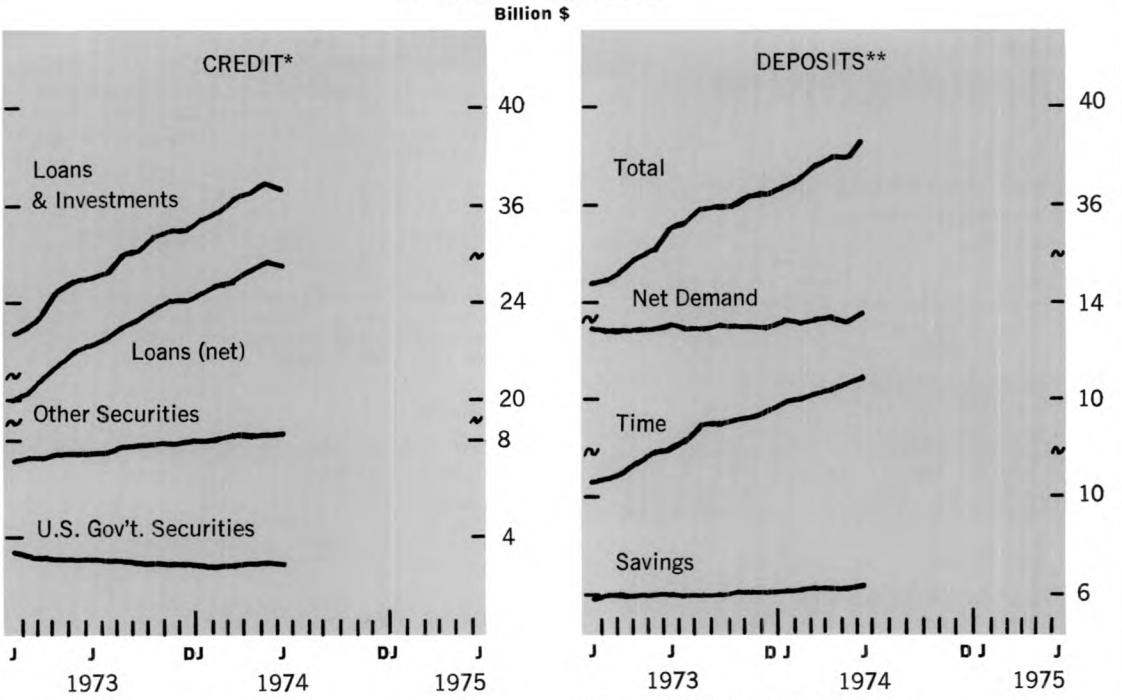
Opened for business as a par-remitting nonmember. Officers: W. M. Dickey, Jr., president.

June 26, 1974

BANK OF FLORIDA IN ST. PETERSBURG
St. Petersburg, Florida

Opened for business as a member. Officers: Robert M. Menke, chairman; L. Eugene Oliver, Jr., president; Neil W. Savage, executive vice president; J. Homas Aldrich, vice president and cashier. Capital, $750,000; surplus and other funds, $750,000.

BANKING STATISTICS



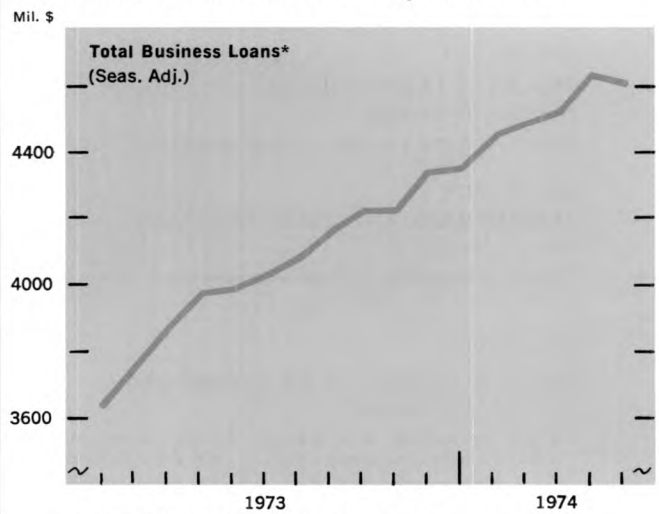
LATEST MONTH PLOTTED: JUNE

*Figures are for the last Wednesday of each month
**Daily average figures

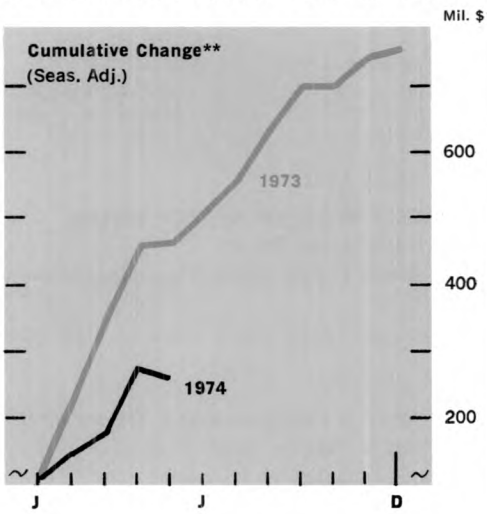
SIXTH DISTRICT BANKING NOTES

Borrowing: Back to Normal?

Business loans continue upward . . .



but at a much slower rate than 1973.

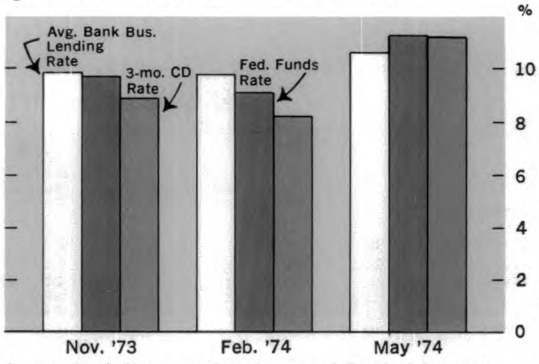


*32 Large District banks; last Wednesday figures
**From end of previous year

Thus far in 1974, business lending at large District banks has been below the exceptional pace of 1973. From January to May this year, business loans increased $263 million, almost $200 million less than the increase over the same period last year. This contrast between 1973 and 1974 is broad-based, as one can see by looking at the accompanying breakdown of loan growth among several industrial categories.

As in 1973, business loans started the year on a strong note, with a sizable rise (seasonally adjusted) taking place in January. Unlike last year, however, the growth rate settled down in February and March. The most significant development was the surge in business loans during April. The weakness in both the economy and, in particular, retail sales (after correcting for inflation) made this an unexpected event.

By May 1974, cost of bank funds exceeded average rates received on business loans.



Source: Quarterly Interest Rate Survey and Board of Governors release, "Weekly Summary of Banking and Credit Measures."

CUMULATIVE CHANGE IN BUSINESS LOANS AT 23 LARGE SIXTH DISTRICT BANKS
($ Mil.)

	January - May		
	1974	1973	1972
Total Business Loans	359.5	501.4	230.8
Durable Goods Manufacturing	22.7	81.7	37.2
Nondurable Goods Manufacturing	57.5	77.1	30.3
Wholesale Trade	43.9	62.8	34.2
Retail Trade	35.7	55.6	41.1
Transportation, Communication, and Other Public Utilities	40.9	67.9	−0.4
Construction	55.9	75.7	43.7
Services	54.4	41.3	54.2

Several special factors helped to account for the April surge. A slump in retail sales required additional business borrowing to finance the unintended build-up in inventories of unsold goods. Moreover, as firms voluntarily stockpiled materials in short supply, their need for financing also increased. Inflation intensified these inventory financing needs, as higher prices raised the dollar value of the inventories that had to be financed. Furthermore, rapidly rising prices induced some firms to buy needed materials earlier than usual, even when this necessitated borrowing money to do so.

Banks received their share of these credit demands during the first five months of 1974. As the interest rates rose on alternative business credit sources such as commercial paper and corporate bonds, bank loans became a relatively more attractive source to some business borrowers. In addition, much of the increased lending in the Southeast was to national corporations, which drew on their District credit lines after utilizing such lines at larger financial centers, particularly in New York.

The April burst may prove to be a short-lived phenomenon. In May the seasonally adjusted level of business loans actually declined. Although the decline was slight—about $13 million—it was the first such drop since August 1972. It may be premature to take this as evidence of a return to more normal growth in business loans, but some observers have advanced a number of arguments for expecting a slowdown. Businesses are reducing their demand for inventory financing. Near-record lending rates are making inventory accumulation an expensive proposition. Meanwhile, the termination of wage-price controls and the lifting of the oil embargo are now operating to relieve shortages which motivated some stockpiling in the first place. As suppliers of business credit, District banks are becoming more selective in granting new loans and extending old credit lines because the rates they are paying for borrowed funds have been above the average rate they receive on business loans (see chart). At the same time, a wider spread between the prime rate and commercial paper rates than existed in April has shifted some credit demand from banks to alternative sources.

W. F. MACKARA

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	May	176	172	174	166
Farm Cash Receipts	Apr.	173	203	202	166
Crops	Apr.	188	218	216	153
Livestock	Apr.	179	203	206	183
Instalment Credit at Banks*/[1] (Mil. $)					
New Loans	May	745	687r	595	679
Repayments	May	670	643r	573	563
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment	May	132.4	132.6	132.8	129.4
Manufacturing	May	118.2	118.5	118.5	117.8
Nondurable Goods	May	115.6	115.6	115.7	115.5
Food	May	105.6	106.5	107.3	103.9
Textiles	May	112.7	112.4	112.2	112.7
Apparel	May	112.9	113.5	113.6	116.2
Paper	May	112.7	112.5	112.0	113.4
Printing and Publishing	May	130.0	129.0	129.4	128.7
Chemicals	May	109.7	109.0	108.5	109.4
Durable Goods	May	121.4	121.8	122.0	120.6
Lbr., Wood Prods., Furn. & Fix.	May	111.0	111.4	111.9	112.2
Stone, Clay, and Glass	May	130.1	129.4	132.6	127.2
Primary Metals	May	112.4	112.3	111.4	110.9
Fabricated Metals	May	131.8	133.1	134.0	128.2
Machinery	May	156.7	157.2	156.1	150.4
Transportation Equipment	May	110.3	112.3	109.3	113.3
Nonmanufacturing	May	137.5	137.6	137.8	133.6
Construction	May	145.4	152.9	154.7	145.4
Transportation	May	127.2	127.2	127.3	124.9
Trade	May	137.6	137.2	137.1	134.6
Fin., ins., and real est.	May	147.4	146.9	147.5	142.9
Services	May	149.5	148.1	148.1	143.9
Federal Government	May	104.3	103.8	104.6	101.3
State and Local Government	May	136.6	136.4	136.2	130.6
Farm Employment	May	84.1	83.8	85.2	85.7
Unemployment Rate[2] (Percent of Work Force)	May	4.3	4.2	4.1	3.6
Insured Unemployment (Percent of Cov. Emp.)	May	2.2	2.2	2.1	1.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	May	40.1	39.7	40.4	40.5
Construction Contracts*	May	222	225r	233	222
Residential	May	216	250	246	284
All other	May	228	200r	220	161
Cotton Consumption**	Apr.	79	86	90	79
Petroleum Production**	May	101	104	103	114
Manufacturing Production	Dec.	300	306	307	283
Nondurable Goods	Dec.	248	247	245	237
Food	Dec.	192	191	189	187
Textiles	Dec.	302	301	298	280
Apparel	Dec.	292	290	289	274
Paper	Dec.	227	227	225	221
Printing and Publishing	Dec.	156	156	155	158
Chemicals	Dec.	321	324	320	303
Durable Goods	Dec.	363	378	382	338
Lumber and Wood	Dec.	206	203	202	198
Furniture and Fixtures	Dec.	189	188	191	187
Stone, Clay, and Glass	Dec.	217	210	212	195
Primary Metals	Dec.	272	273	271	221
Fabricated Metals	Dec.	308	302	298	288
Nonelectrical Machinery	Dec.	479	485	502	414
Electrical Machinery	Dec.	835	932	918	753
Transportation Equipment	Dec.	416	448	472	444
FINANCE AND BANKING					
Loans*					
All Member Banks	May	274	272	269	231
Large Banks	May	257	254	248	216
Deposits*					
All Member Banks	May	215	210	208	194
Large Banks	May	186	181	180	170
Bank Debits*/**	May	285	293	276	229
ALABAMA					
INCOME					
Manufacturing Payrolls	May	178	175	176	162
Farm Cash Receipts	Apr.	193.1	217.3	247.3	209.3
EMPLOYMENT					
Nonfarm Employment	May	120.1	120.3	120.8	118.5
Manufacturing	May	117.3	117.6	117.8	151.1
Nonmanufacturing	May	121.4	121.5	122.2	120.0
Construction	May	128.2	128.8	130.0	125.8
Farm Employment	May	66.7	72.7	87.9	79.6
Unemployment Rate[2] (Percent of Work Force)	May	4.1	4.1	3.9	3.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	May	40.7	40.5	41.0	40.3
FINANCE AND BANKING					
Member Bank Loans	May	251	249	243	213
Member Bank Deposits	May	206	202	200	185
Bank Debits**	May	260	245	247	194
FLORIDA					
INCOME					
Manufacturing Payrolls	May	184	182	182	176
Farm Cash Receipts	Apr.	169.1	175.6	173.2	148.6
EMPLOYMENT					
Nonfarm Employment	May	153.0	152.5	152.0	148.1
Manufacturing	May	128.5	128.2	128.2	125.5
Nonmanufacturing	May	157.7	157.2	156.6	152.4
Construction	May	198.8	215.4	212.5	203.1
Farm Employment	May	99.1	96.2	101.0	104.7
Unemployment Rate[2] (Percent of Work Force)	May	3.6	3.4	3.4	2.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	May	40.1	39.7	40.4	40.8
FINANCE AND BANKING					
Member Bank Loans	May	309	306	303	259
Member Bank Deposits	May	246	240	240	224
Bank Debits**	May	301	310r	307	267
GEORGIA					
INCOME					
Manufacturing Payrolls	May	166	163	163	159
Farm Cash Receipts	Apr.	180.7	220.6	221.4	184.7
EMPLOYMENT					
Nonfarm Employment	May	130.1	130.0	130.3	127.2
Manufacturing	May	111.8	112.6	111.4	112.7
Nonmanufacturing	May	138.4	137.9	139.0	133.8
Construction	May	145.2	146.2	151.3	140.6
Farm Employment	May	92.7	85.9	87.9	85.5
Unemployment Rate[2] (Percent of Work Force)	May	5.1	4.8	4.7	4.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	May	39.9	39.8	40.4	40.4
FINANCE AND BANKING					
Member Bank Loans	May	266	269	262	231
Member Bank Deposits	May	196	186	181	183
Bank Debits**	May	327	364	309	261
LOUISIANA					
INCOME					
Manufacturing Payrolls	May	156	154	159	151
Farm Cash Receipts	Apr.	170.4	177.6	198.5	142.9
EMPLOYMENT					
Nonfarm Employment	May	117.1	118.1	118.5	115.3
Manufacturing	May	105.4	106.8	107.9	105.4
Nonmanufacturing	May	119.5	120.4	120.7	117.3
Construction	May	89.4	96.8	96.6	90.7
Farm Employment	May	68.1	64.1	61.2	76.2
Unemployment Rate[2] (Percent of Work Force)	May	6.4	6.2	6.0	6.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	May	39.9	39.4	40.5	41.4
FINANCE AND BANKING					
Member Bank Loans*	May	255	249	244	211
Member Bank Deposits*	May	189	189	186	169
Bank Debits*/**	May	229	225	223	175
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	May	198	191	197	182
Farm Cash Receipts	Apr.	197.1	290.4	243.2	205.3
EMPLOYMENT					
Nonfarm Employment	May	129.6	129.5	130.2	126.5
Manufacturing	May	130.0	130.0	131.4	130.2
Nonmanufacturing	May	129.3	129.3	129.6	124.8
Construction	May	132.4	134.3	144.3	134.9
Farm Employment	May	78.8	81.3	79.2	82.0

	Latest Month		One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate[2] (Percent of Work Force)	May	3.6	3.8	3.5	3.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	May	40.0	39.2	39.9	40.3
FINANCE AND BANKING					
Member Bank Loans*	May	268	257	269	220
Member Bank Deposits*	May	221	216	218	189
Bank Debits*/**	May	256	260	251	217
TENNESSEE					
INCOME					
Manufacturing Payrolls	May	180	175	175	170
Farm Cash Receipts	Apr.	186.0	205.3	206.7	159.1
EMPLOYMENT					
Nonfarm Employment	May	128.2	128.7	129.0	125.8
Manufacturing	May	118.7	118.6	118.9	119.7
Nonmanufacturing	May	133.4	134.3	134.7	129.2
Construction	May	135.2	140.1	146.6	130.7
Farm Employment	May	93.6	90.5	85.8	84.3
Unemployment Rate[2] (Percent of Work Force)	May	3.5	3.5	3.3	2.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	May	40.2	39.4	40.3	40.2
FINANCE AND BANKING					
Member Bank Loans*	May	261	258	259	214
Member Bank Deposits*	May	203	203	200	178
Bank Debits*/**	May	274	265	245	183

*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. 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.

[2]Unemployment rates for all District States except Florida have been estimated using new techniques developed by the U. S. Dept. of Labor. New seasonal factors have been developed for all six District States. These new seas. adj. rates are not comparable with previously published unemp. rates.

Debits to Demand Deposit Accounts

Insured Commercial Banks in the Sixth District

(In Thousands of Dollars)

	May 1974	April 1974	May 1973	Percent Change: May 1974 from April 1974	Percent Change: May 1974 from May 1973	Percent Change: Year to Date 5 mos. 1974 from 1973
STANDARD METROPOLITAN STATISTICAL AREAS**						
Birmingham	4,790,846	4,393,125	3,251,777	+ 9	+47	+29
Gadsden	112,073	108,759	98,600	+ 3	+14	+10
Huntsville	403,859	359,123	305,283	+12	+32	+20
Mobile	1,321,131	1,228,559	1,056,940	+ 7	+25	+24
Montgomery	730,704	684,067	619,006	+ 7	+18	+14
Tuscaloosa	260,331	252,197	217,036	+ 3	+20	+30
Bartow-Lakeland-Winter Haven	843,829	803,434	748,261	+ 5	+13	+12
Daytona Beach	453,292	496,244	362,849	− 9	+25	+21
Ft. Lauderdale-Hollywood	1,976,033	2,331,826	1,778,040	−15	+11	+12
Ft. Myers	400,678	415,941	320,666	− 4	+25	+28
Gainesville	282,645	286,535	241,844	− 1	+17	+17
Jacksonville	5,605,487	5,023,580	3,688,497	+12	+52	+43
Melbourne-Titusville-Cocoa	466,367	514,659	443,185	− 9	+ 5	+10
Miami	7,517,573	7,888,835	6,613,924	− 5	+14	+18
Orlando	1,619,776	1,687,774r	1,464,200	− 4	+11	+13
Pensacola	530,749	477,061	418,450	+11	+27	+13
Sarasota	592,722	621,469	481,536	− 5	+23	+20
Tallahassee	1,009,132	933,039	911,258	+ 8	+11	+12
Tampa-St. Pete	4,287,075	4,486,879	3,840,789	− 5	+11	+15
W. Palm Beach	1,352,458	1,484,807	1,233,882	− 9	+10	+12
Albany	219,880	224,815	186,459	− 2	+18	+13
Atlanta	19,711,332	21,831,289	15,333,669	−10	+29	+34
Augusta	674,399	664,350	514,352	+ 2	+31	+27
Columbus	518,696	492,807	375,412	+ 5	+38	+21
Macon	895,095	796,033	519,144	+12	+72	+53
Savannah	645,404	597,159	525,302	+ 8	+23	+14
Alexandria	295,841	289,221	235,908	+ 2	+25	+22
Baton Rouge	1,799,235	1,593,069	1,242,160	+13	+45	+36
Lafayette	325,521	309,814	266,460	+ 5	+22	+19
Lake Charles	280,107	281,607	220,726	− 1	+27	+21
New Orleans	5,307,890	5,147,463	4,156,968	+ 3	+28	+17
Biloxi-Gulfport	260,523	254,769	281,968	+ 2	− 8	+ 1
Jackson	1,784,184	1,787,249	1,436,628	− 0	+24	+24
Chattanooga	1,530,700	1,386,500	1,232,366	+10	+24	+24
Knoxville	2,069,166	2,001,952	860,827	+ 3	+140	+103
Nashville	4,080,654	4,240,712	3,209,257	− 4	+27	+27
OTHER CENTERS						
Anniston	125,657	122,399	115,068	+ 3	+ 9	+ 7
Dothan	214,468	216,955	170,437	− 1	+26	+31
Selma	81,271	80,275	75,671	+ 1	+ 7	+16
Bradenton	225,108	220,293	178,016	+ 2	+26	+16
Monroe County	96,598	119,789	72,570	−19	+33	+57
Ocala	196,724	219,551	194,903	−10	+ 1	+ 4
St. Augustine	54,718	64,938	36,283	−16	+51	+63r
St. Petersburg	1,090,277	1,133,289	1,012,003	− 4	+ 8	+ 7
Tampa	2,139,985	2,196,051	1,846,631	− 3	+16	+19r
Athens	169,474	184,552	153,196	− 8	+11	+ 7
Brunswick	104,639	118,863	101,606	−12	+ 3	+12
Dalton	192,799	196,240	182,160	− 2	+ 6	+ 5
Elberton	23,952	30,043	21,787	−20	+10	+18
Gainesville	151,897	165,431	133,617	− 8	+14	+19
Griffin	91,103	95,290	70,621	− 4	+29	+26
LaGrange	45,869	52,736	37,807	−13	+21	+22
Newnan	55,351	59,617	65,846	− 7	−16	− 9
Rome	161,607	165,521	135,697	− 2	+19	+12
Valdosta	113,446	114,728	96,493	− 1	+18	+12
Abbeville	18,172	18,507	16,061	− 2	+13	+13
Bunkie	15,154	12,327	9,627	+23	+57	+23
Hammond	100,067	96,669	81,669	+ 4	+23	+15
New Iberia	70,988	72,165	57,748	− 2	+23	+21
Plaquemine	26,955	24,355	26,895	+11	+ 0	+ 2
Thibodaux	44,407	41,221	37,132	+ 8	+20	+12
Hattiesburg	144,418	143,964	125,723	+ 0	+15	+12
Laurel	92,903	88,056	72,984	+ 6	+27	+12
Meridian	135,705	141,043	120,384	− 4	+13	+13
Natchez	60,895	60,559	51,664	+ 1	+18	+10
Pascagoula-Moss Point	168,036	156,059	152,649	+ 8	+10	+ 6
Vicksburg	93,843	91,175	65,622	+ 3	+43	+28
Yazoo City	51,014	53,457r	39,456	− 5	+29	+29
Bristol	146,255	147,035	111,779	− 1	+31	− 2
Johnson City	181,774	196,011	175,303	− 7	+ 4	+10
Kingsport	303,630	308,353	261,944	− 2	+16	+16
District Total	90,662,834	93,405,524r	72,258,607	− 3	+25	+24
Alabama	10,623,567	9,825,146	7,876,763	+ 8	+35	+25
Florida	28,287,351	30,572,896r	24,956,948	− 7	+13	+18
Georgia	26,601,426	28,973,013	21,120,817	− 8	+26	+29
Louisiana[1]	9,580,394	9,133,325	7,357,955	+ 5	+30	+21
Mississippi[1]	3,648,913	3,601,171	3,066,320	+ 1	+19	+18
Tennessee[1]	11,921,183	11,299,973	7,879,804	+ 5	+51	+37

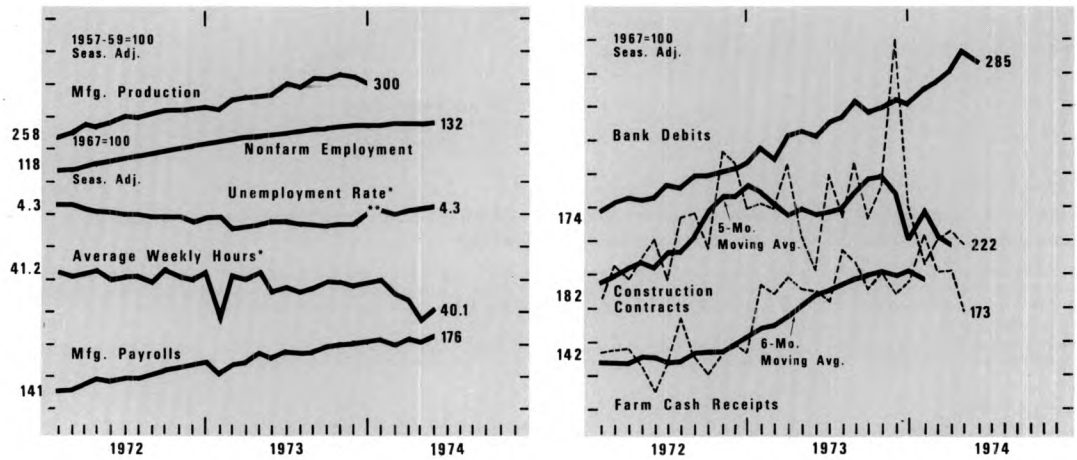
[1] District portion only

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
**Unemployment rates for January through March are based on new estimating techniques and concepts and are not comparable with earlier data.
Latest plotting: May, except mfg. production, Dec., and farm cash receipts, April.

The Southeastern economy continues to be sluggish, although some sectors are showing renewed strength. Labor markets, except for strike-related job declines, were essentially unchanged in May. Strong loan demands have resulted in greater short-term borrowing by District banks. A weak housing sector hampered overall construction activity. Consumer borrowing and spending indicators showed more positive signs than in recent months. Low product prices and high costs placed a tight squeeze on livestock producers.

The number of unemployed inched upward in May, and the rate of unemployment rose to 4.3 percent. A year ago this rate stood at 3.6 percent. Nonfarm employment changed very little, posting only a fractional decline. Job losses were heaviest in the construction industry where several strikes, particularly in Florida and Louisiana, have idled workers. Though manufacturing jobs fell, factory hours rose and payrolls climbed sharply, reversing last month's decline.

Consumer instalment credit outstanding at commercial banks grew more rapidly in May than in any other month this year. Lending to purchase nonautomotive consumer goods grew rapidly, and loans for home repair and other personal loans also showed strength. Auto loans continued sluggish, reflecting the low volume of unit auto sales. Consumer spending showed some signs of recovery from the doldrums of the first quarter.

A sharp decline in the housing sector brought the value of construction contracts down in May. Interest rates on construction and permanent residential credit continued to creep up; deposit inflows at savings and loan associations were well below levels of a year ago. Nonresidential contract awards were moderately above April's relatively high level.

Livestock producers continue to be plagued by falling prices and high feed costs. Overall farm prices declined in May and averaged more than one-tenth below year-ago levels, while corn prices held at 43 percent above May of 1973. Average crop prices were strengthened from April's level by strong increases for citrus and vegetable products. The growth in farm cash receipts continued to slow, reflecting the overall reduction in price levels. In spite of rate increases, farmers' use of short-term credit increased further in May; real estate credit showed a leveling trend.

The continued demand for bank credit is exerting strong pressures on District banks. In line with these credit requests and the rising cost of short-term funds, most District banks had posted an 11¾-percent prime lending rate by the end of June. Tennessee banks remain an exception, however, since state law restricts interest charges there to a maximum of 10 percent. District banks have increased their use of Federal funds, money market CD's, and the Federal Reserve discount window as sources of funds.

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