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Accounting for Loan Charge-Offs

by John M. Godfrey

At the end of 1974, District member banks had loans outstanding of \$26.3 billion, an increase of \$1.7 billion during the year. While originally most of these loans were unquestionably sound credits and many would have remained so if the economy had remained strong and credit easy, some should have never been put on the banks' books in the first place. Acting both on their own initiative and under pressure from the regulatory authorities, District member banks "bit the bullet" and charged off \$201 million in bad loans during 1974 (see Table 1). And, although based upon past experience it is likely that up to one quarter of these reported losses will be at least partly recovered, banks still have a large volume of doubtful loans on their books; an equally large amount of these loans may well be written off during 1975. And, in addition to the loans actually charged off, an even larger amount are now substandard credits, even if they do not result in a direct loss of principal. But since banks generally expect to experience high loan losses at some time, District member banks have tried to provide for that possibility and have established reserves for bad loans equal to nearly twice last year's losses.

Compared to loan losses in 1973, last year marked an abrupt change. In 1973, District loan losses amounted to about one-half of last year's total, or \$102 million. By way of further comparison, gross loan losses amounted to 0.76 percent of total loans in 1974, in contrast to 0.41 percent in 1973 (see Table 2).

Despite the magnitude of last year's loan write-offs, higher losses were not entirely unexpected, since they generally rise during recessions. For example, banks had to charge off considerably more loans during 1970 (a recession year)

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TABLE 1
LOAN LOSSES

Sixth District Member Banks
(\$ Millions)

		All Banks	Large Banks*	Other Banks
District	1973	101.6	63.6	38.0
	1974	200.6	130.8	69.8
Alabama	1973	13.6	6.0	7.6
	1974	21.1	10.3	10.8
Florida	1973	25.2	7.4	17.8
	1974	58.2	23.5	34.7
Georgia	1973	32.7	27.3	5.4
	1974	68.7	56.9	11.8
Louisiana**	1973	9.7	7.0	2.7
	1974	15.6	10.3	5.3
Mississippi**	1973	6.1	4.7	1.4
	1974	8.8	7.0	1.8
Tennessee**	1973	14.3	11.2	3.1
	1974	28.2	22.8	5.4

*Banks with loans of \$100,000,000 and over as of December 1974

**Sixth District portion

than they did in 1969 (see Table 3.) And, although losses declined in 1971, they were still above 1969's rate. In this way, last year's rise was not unusual; and if the past is any guide, losses may be as large again this year.

Increased provisions for loan losses (and much larger payments for interest on deposits and borrowed funds) were significant factors in holding down the gain in net income at banks in 1974. Last year, net income at District member banks rose \$30 million to \$370 million, despite a 50-percent increase in total operating income to \$3,879 million. The profit rate on capital was 10.0 percent in 1974, down from 10.2 percent the previous year. However, if loan loss provisions had been at the same rate as in 1973, net income would have surged to \$452 million and the rate of return on capital would have risen to 12.2 percent.

While the average District rate of loan charge-off in 1974 was 0.76 percent, it varied considerably among the 646 member banks (see Table 4). The overwhelming majority of District member banks had loan losses of less than one percent last year. A large part of the charge-off was concentrated at relatively few banks, with one hundred and seven member banks charging off more than one percent of their loans. Four banks charged off more than 5 percent last year. By contrast, 56 banks reported no loan losses, and 59 more reported that they charged off less than one-tenth of one percent of their loans.

There was considerable variation among the District states in loan losses (see Tables 1 and 2). Over three-fourths of the total dollar losses last year were in Georgia, Tennessee, and Florida; banks in these same states also charged off a higher

proportion of their loans than those in the rest of the District. While on average District banks charged off 0.76 percent of their loans, Georgia member banks charged off 1.22 percent of their loans; Tennessee, 0.74 percent; and Florida, 0.68 percent. Of all District states, however, Georgia member banks accounted for a disproportionately large amount of loan losses. While Georgia banks have only 21 percent of District loans, they accounted for 34 percent of the losses.

Losses also varied according to bank size. For example, the District's larger banks (loans in excess of \$100 million) charged off 0.84 percent of their loans in 1974, up from 0.43 percent in 1973. In contrast, the medium- and smaller-sized banks charged off 0.65 percent of their loans last year and only 0.38 percent the year before. The largest banks had outstanding slightly more than 50 percent of the District's loans but accounted for 56 percent of loan losses. In Florida, Georgia, Mississippi, and Tennessee, the larger banks have tended to charge off a much higher proportion of their loans than have smaller banks. Both large and small banks in Georgia had higher rates of loan losses in 1974 than did banks in other states. In Alabama and Louisiana, however, the larger banks accounted for a smaller percentage of losses than they have loans outstanding, indicating that the smaller banks have disproportionately more losses.

While the larger banks tended to have a higher loss rate than smaller ones, there was considerable variation within each size group (see Table 4). Arranging the banks by loan volume and then distributing them according to the ratio of losses to total loans, the variation is apparent. Even though most of the smaller banks have a smaller average

TABLE 2
LOAN LOSSES AS A PERCENT OF TOTAL LOANS
Sixth District Member Banks

		All Banks	Large Banks*	Other Banks
District	1973	0.41	0.43	0.38
	1974	0.76	0.84	0.65
Alabama	1973	0.42	0.34	0.51
	1974	0.57	0.51	0.65
Florida	1973	0.31	0.25	0.34
	1974	0.68	0.76	0.63
Georgia	1973	0.59	0.66	0.39
	1974	1.22	1.34	0.87
Louisiana**	1973	0.33	0.31	0.43
	1974	0.50	0.42	0.78
Mississippi**	1973	0.45	0.45	0.46
	1974	0.63	0.72	0.43
Tennessee**	1973	0.42	0.43	0.38
	1974	0.74	0.81	0.53

*Banks with loans of \$100,000,000 and over as of December 1974

**Sixth District portion

TABLE 3
RESERVES FOR LOAN LOSSES

	Sixth District Member Banks (\$ Millions)					
	1969	1970	1971	1972	1973	1974
Beginning Balance	232.4	261.6	266.9	277.9	311.0	358.8
+Provision for Loan Losses	40.5	51.4	55.5	60.4	78.3	175.5
+Recoveries	13.2	18.6	25.4	30.4	29.8	36.1
+ Other Transfers to Reserves	37.4	25.5	20.1	27.8	41.9	28.2
Total Reserves	323.5	357.1	367.9	396.5	461.0	598.6
-Gross Loan Losses	57.2	88.8	83.9	82.7	101.6	200.6
- Other Transfers from Reserves	5.0	1.4	4.5	2.9	2.3	8.0
Ending Balance	261.3	266.9	279.5	310.9	357.1	390.0
Total Loans	13,452.6	14,089.5	16,081.7	20,151.0	24,596.9	26,321.7
Reserves as % of Loans	1.94	1.89	1.74	1.54	1.45	1.48
Gross Losses as % of Loans	0.43	0.63	0.52	0.41	0.41	0.76
Net Losses*	44.0	70.2	58.5	52.3	71.8	164.5
Net Losses as % of Loans	0.33	0.50	0.36	0.26	0.29	0.63

*Gross Losses Minus Recoveries

Note: Structural changes account for the difference between the ending balance in one year and the beginning balance in the following year.

ratio of loan losses, they do account for a high proportion of the number of banks with high loan-loss ratios. Of 107 banks with 1974 loss ratios exceeding 1 percent, 42 have loan volumes of less than \$10 million. In contrast, only 12 banks with loans in excess of \$100 million charged off more than 1 percent of their loans, but these 12 comprise one-fourth of that size category. In generalizing about the rate of loan loss and loan volume, we must keep in mind the considerable differences within each size group.

Defaults on bank loans in the Southeast were not caused by any one single business failure or generally lax credit standards, but by many different situations. There is no doubt, however, that in

many situations banks did make some unsound loans and they have been hit by losses on these credits. Some loans were made for speculative purposes without adequate security and a sound plan for making repayments. Businesses, both large and small, were confronted by a sluggish economy and were unable to repay bank loans they had taken out to finance increased inventories, accounts receivable, working capital needs, and capital expenditures. Businesses associated with various aspects of construction and real estate development were especially hard hit by cost overruns, overbuilding, high interest rates, and a lack of permanent financing. Higher unemployment and the rising cost of living hit many consumers and

TABLE 4
DISTRIBUTION OF DISTRICT MEMBER BANKS BY LOAN-LOSS RATIO AND SIZE OF LOAN PORTFOLIO

Loans (\$ millions)	Loan Loss Ratio						Total
	Under .25	.25-.50	.50-.75	.75-1.00	1.00-5.00	Over 5.00	
under 10	125	48	28	14	41	1	257
10 - 25	66	54	33	11	29	2	195
25 - 50	38	30	17	12	14	0	111
50 - 100	7	12	6	2	7	1	35
100 - 500	3	12	8	6	9	0	38
500	1	3	1	2	3	0	10
Total	240	159	93	47	103	4	646

caused them to default on loans taken out to purchase homes, autos, and other goods. Some loans that were sound when they were made deteriorated as adverse economic conditions intensified during 1974. When the borrowers defaulted, the collateral securing these loans was not sufficient to repay the loan.

Providing for Loan Losses

Banks typically do not treat a loan charge-off as a current expense. Instead, standard bank accounting techniques call for establishing a reserve account for possible loan losses and adding to it each year. Banks build up reserves for loan losses in years when losses are low; in years when losses are large, they draw down these reserves. In this way, the impact of exceptionally large loan losses in any one year does not necessarily result in higher expenses and reduced net income. This procedure also has the effect of tending to smooth out net income insofar as it is affected by varying loan charge-offs. Larger reserves also keep the bank from having to reduce a capital account when the large amounts of loans are charged off. (See the example of Conservative Bank and Aggressive Bank.)

Banks generally follow one of three methods in providing minimum reserves for loan losses each year.¹ One method is to base the current year's provision on the average net charge-offs (losses less recoveries) as a percent of total loans over the most recent five-year period. For newly established banks, an interim measure may be used that makes use of a moving average of loan-loss rates until five years have elapsed and the first method can be used. Finally, banks may elect to provide for loan losses based upon their actual experience each year and not establish reserves at all.

While these methods represent minimal provisions for possible losses, a bank may want to provide more than a minimum. There are advantages and disadvantages, however, to a bank's building up its loan-loss reserves in its published financial reports. A "conservatively" managed

bank might wish to ensure that its reserves are more than adequate to meet the worst possible situation. But a conservative stance means that provision for loan losses (an expense) will be higher than what is currently necessary and, therefore, that net income will be lower. If the bank is conscious of its image in the investment community, it may be reluctant to report a lower rate of return on capital than its competitors or to curtail its dividends.

On the plus side, provisions for loan losses represent an addition to a tax-free quasi-capital account. If a bank provides for possible losses in excess of its actual experience, it accrues an expense (like depreciation) for which it does not have to pay out any money. Therefore, its balance sheet projects a solid image because of substantial reserves. An "aggressive" bank, on the other hand, may want to provide only minimum current expenses for possible loan losses in order to report higher profits. This bank faces the possibility, however, of large loan losses in a given year, losses it will have to charge to current income. The higher charge will tend to cause earnings to fall sharply in that year. The conservative bank, in contrast, may report a lower level of profits in years it is building its reserves but will report constant earnings in a year of heavy losses.

District Loan-Loss Reserves

How adequate are loan-loss reserves in the Sixth District?² Is the Sixth District like a "conservative bank" or an "aggressive bank?" The answers clearly suggest that aggregate loan-loss reserves appear adequate and that the District appears to be represented most closely by a "conservative bank." However, this should not be construed to mean that all banks have taken a conservative approach to loan-loss reserves.

After 1974 charge-offs, District loan-loss reserves totaled \$390 million, nearly twice the gross amount of loans charged off. In theory, then, District banks could sustain twice the gross losses charged off

¹Since banks typically establish loan-loss reserves out of pretax income, they are limited by Federal tax laws as to the amount of income they can set aside each year for reserves in excess of current losses. The Tax Reform Act of 1969 allows banks to make additions to reserves up to 1.8 percent of eligible loans until 1976, when the limit declines to 1.2 percent. Previous IRS rulings had allowed banks to build up their reserves to 2.4 percent. In 1982, reserves established out of pretax income cannot exceed 0.6 percent of loans; and after 1988, all banks will be allowed to establish reserves only to the extent of average loan losses during the previous six years. Of course, nothing will prevent banks from establishing more reserves out of after-tax income if they wish; but based on past experience, they are not likely to build reserves out of after-tax income.

²The adequacy of loan-loss reserves depends upon the functions these reserves should serve. One study has identified four functions. The Golembe Study specified the purpose of reserves in the following manner: (1) the experience function: "to absorb losses which can reasonably be anticipated on an experience basis from the loan portfolio" of an individual bank; (2) the catastrophe function: "to enable banks to withstand the exceptionally heavy loan losses to be expected from such unforeseen circumstances as a major depression"; (3) the stability function: "to serve as a stabilizing force for the industry by holding to a minimum the number of banks that might experience serious capital impairment because of loan losses"; and (4) the capital supplement function: "to serve as a supplement to bank capital." See **The Adequacy of Bad Debt Reserves For Banks—A Preliminary Study**, Carter H. Golembe Associates, Inc. This analysis will consider only the experience and stability functions.

TABLE 5
RESERVES FOR LOAN LOSSES, 1974

Sixth District Member Banks
(\$ Millions)

	District	Ala.	Fla.	Ga.	La.*	Miss.*	Tenn.*
Beginning Balance	358.8	53.2	118.9	77.6	43.3	20.6	45.2
+Prov. for Loan Losses	175.5	15.0	55.0	62.4	12.4	7.5	23.2
+Recoveries	36.1	6.6	10.0	7.2	3.2	1.9	7.2
+Other Transfers to Res.	28.2	4.9	7.9	4.6	5.7	1.0	4.1
Total	598.6	79.7	191.8	151.8	64.6	31.0	79.7
- Loan Losses	200.6	21.1	58.2	68.7	15.6	8.8	28.2
-Other Transfers from Res.	8.0	.1	5.9	.9	.2	.1	.8
Ending Balance	390.0	58.5	127.7	82.2	48.8	22.1	50.7

*District Portion

last year even if current loan reserves were not augmented further. Alternatively, District loan-loss reserves now almost equal the total losses charged off from 1969 through 1973. Therefore, reserves appear to be adequate, based upon the criterion of stability.

While total loss reserves may be adequate, there has been a decided decline in the proportion of loan-loss reserves to total loans (see Table 3). In 1969, reserves amounted to 1.94 percent of loans, but by 1973 they had deteriorated to 1.45 percent. By the end of 1974, the proportion had improved slightly, however, to 1.48 percent.

Early in 1974, District member banks had \$359 million in loan-loss reserves (see Table 5), plus an additional capital cushion of \$3,690 million. During 1974, they added \$176 million as a provision for possible loan losses and increased reserves another \$28 million by transferring some capital funds to bad debt reserves and recovering \$36 million from loans previously charged off. From this balance of \$599 million, banks charged off \$201 million in bad loans and transferred out \$8 million. So by the end of the year, reserves for loan losses totaled \$390 million, up 9 percent, despite the much larger losses.

While aggregate loan-loss reserves appear adequate, the same cannot be said of reserves at

some individual banks. At 116 District banks, 1974 loan losses exceeded the amount of reserves held at the beginning of the year. These 116 banks held only 14 percent of the District's loans and 11 percent of the reserves but accounted for 36 percent of losses. This also indicates the concentration of loan losses. And of the 116 banks, 77 had notably large losses in 1974 (over 1 percent of loans). While these banks' total reserves amounted to \$39 million, they charged off \$72 million in bad loans. As a result, these banks had to make large provisions during the year in order to maintain some reserves for future losses. In many respects, these banks more closely approximated the behavior of the "aggressive bank" because their reserves were not sufficient to cover their bad loans. From the standpoint of the "experience function," many individual District banks may not have sufficient reserves without further augmentation.

During 1974, loan losses were much higher than in previous years. The high charge-off rate points out the need for adequate loan-loss reserves. Nearly 20 percent of District member banks charged off loans in excess of their current reserves. To avoid seriously impairing their capital base, many banks have realized the need to raise credit standards and reserve levels.

Providing for Loan Losses: A Conservative and An Aggressive Bank

	Conservative Bank \$10 Million Capital			Aggressive Bank \$10 Million Capital		
	\$ Thousands					
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Income	6,000	6,000	6,000	6,000	6,000	6,000
Less:						
Expenses	-4,000	-4,000	-4,000	-4,000	-4,000	-4,000
Provision for Loan Losses	-1,000	-1,000	-1,000	- 500	- 500	-2,000
Net Income	1,000	1,000	1,000	1,500	1,500	-0-
Rate of Profits	10%	10%	10%	15%	15%	-0-
Reserves for Loan Losses						
Beginning Balance	-0-	500	1,000	-0-	-0-	-0-
Provision for Losses	1,000	1,000	1,000	500	500	2,000
Actual Losses	- 500	- 500	-2,000	- 500	- 500	-2,000
Ending Balance	500	1,000	-0-	-0-	-0-	-0-

In this example, there are two banks identical in every respect except their approach to providing for loan losses. Each bank generates \$6 million a year in income and has general expenses of \$4 million. The conservative bank takes a relatively prudent approach, which provides for loan losses each year based upon past experience. It knows that in some years loan losses will total less than its provisions for them and that reserves will increase. This happens in years 1 and 2 in the example. At some point, however, it expects loan losses to exceed that year's provision and it will have reserves to fall back on. This happens in year 3, when losses total \$2 million and it charges reserves to meet these losses. Over this period, the conservative bank will report a constant amount of net income and rate of return on capital. Furthermore, when losses are low, the conservative bank will strengthen its balance sheet by building up loan-loss reserves.

The aggressive bank, on the other hand, wishes to report the maximum annual net income and a high rate of return on capital in order to impress the investment community and pay out more dividends to stockholders. In order to maximize net income, this bank elects to charge current income only for that year's loan losses. As a result, the aggressive bank does not build up any reserves. During years 1 and 2, this bank reports net income and a rate of return 50 percent greater than does the conservative bank. But when loan losses rise in year 3, the aggressive bank must charge all of that year's losses against current income and report a net income of zero.

Although each bank ends up with the same results over the three-year period, the pattern is different. (This simple example ignores, among other factors, the income tax effect, which in actuality may be significant.) The conservative bank was able to report a constant profit level and presumably would have paid the same dividends in each of the three years. And, although some investors may not have purchased its stock because its profit rate was lower, this bank did have a strong balance sheet and consistent earnings. The aggressive bank at first may have attracted the attention of investors by its high rate of profits and higher dividends, but by year 3, these previous advantages would no longer be in its favor. By reporting no earnings and having to eliminate dividends entirely, the very reason that investors were attracted to this bank would cause them to desert it as an investment.

While this example assumes that both banks are the same except for the manner in which they provide for loan losses, in actual practice this is not likely to be the case. A bank that takes a conservative approach to loan losses is also likely to take a conservative approach in other respects, and a bank that is aggressive in not providing for loan losses is apt to be aggressive in other parts of its operations. Therefore, while the conservative bank may not grow the most rapidly, it will be a consistent and sound institution. The aggressive bank may draw attention with its rapid growth and new innovations, but its performance may be more volatile and risky as a result.

A New Record Wheat Crop: Will It Reduce Farm Income?

by Gene D. Sullivan

Since 1972 the size of the annual wheat crop has aroused much more public interest than in many years before. The grain shortage of 1972 and the subsequent sales of our surplus stocks, largely to the Soviet Union, created a heightened awareness of the dependency of food supplies on annual agricultural production.

Food prices have risen sharply during the past two years in response to competing demands for limited grain supplies as well as other foodstuffs. Although wheat production has risen each year since 1972, supplies have not yet returned to their former abundant level. Consumers look expectantly to each new crop for signs of renewed bounty that will set food prices on a lower course.

At the beginning of 1975, the USDA released estimates of acreages planted to winter wheat, along with projected production of each state and the nation. Winter wheat accounts for all of the crop in this District, but other types account for about one-fourth of the nation's total wheat crop. Based on those indications, both District and U. S. productions were projected to increase by 15 percent or more in 1975.

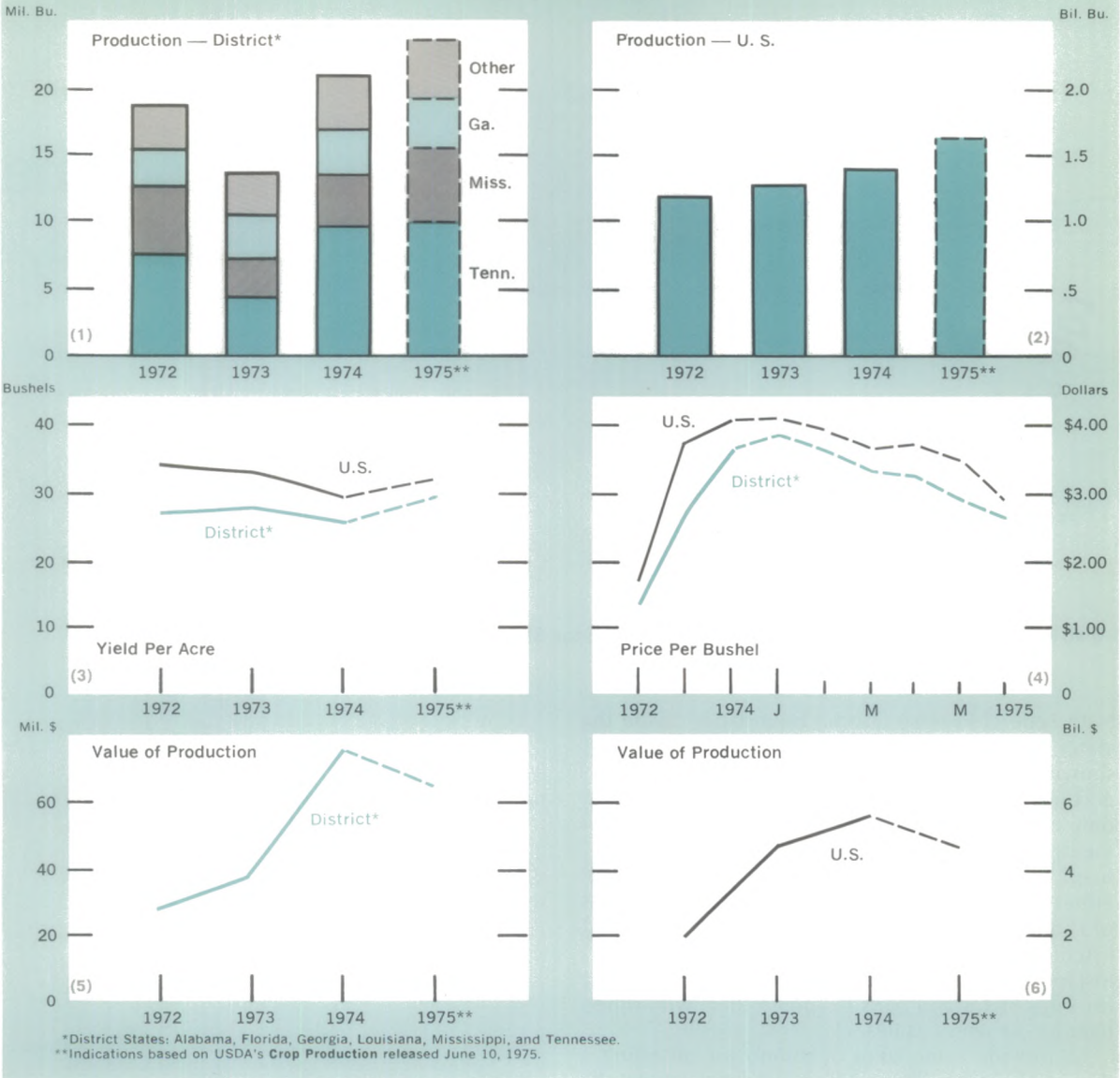
On June 10, with most of the crop having reached maturity (and largely harvested within the District), total U. S. production was indicated to have increased by 16 percent, or 272 million bushels, over 1974's level, while the District's gain had fallen to 12 percent, or 2.5 million bushels (see Figures 1 and 2). This is still by far the largest winter crop ever produced and nearly double the 1973 District crop.

Per acre yields, though improving in District states, lagged substantially behind those of the nation which fully recovered from 1974's sharp dip (see Figure 3). Yield improvement accounted for all of the increase in this region's wheat production in 1975, since planted acreage changed only slightly from 1974's level.

Prospects for the bumper crop, combined with a weakening demand for wheat throughout the first half of the year, were responsible for a rather sharp decline in prices from 1974's average. By June, prices had fallen 25 percent or more in both the District and the nation as a whole (see Figure 4).

As a result of sinking prices, the value of the 1975 winter wheat crop was estimated in June to shrink from 1974's level in both the District and the U. S. despite the sharp increase in output (see Figures 5 and 6). Based on June's average price per bushel in the Southeast, the District crop value would drop about \$10 million, or 14 percent, in sharp contrast to last January's projected increase of \$20 million. In the U. S., the crop value would drop

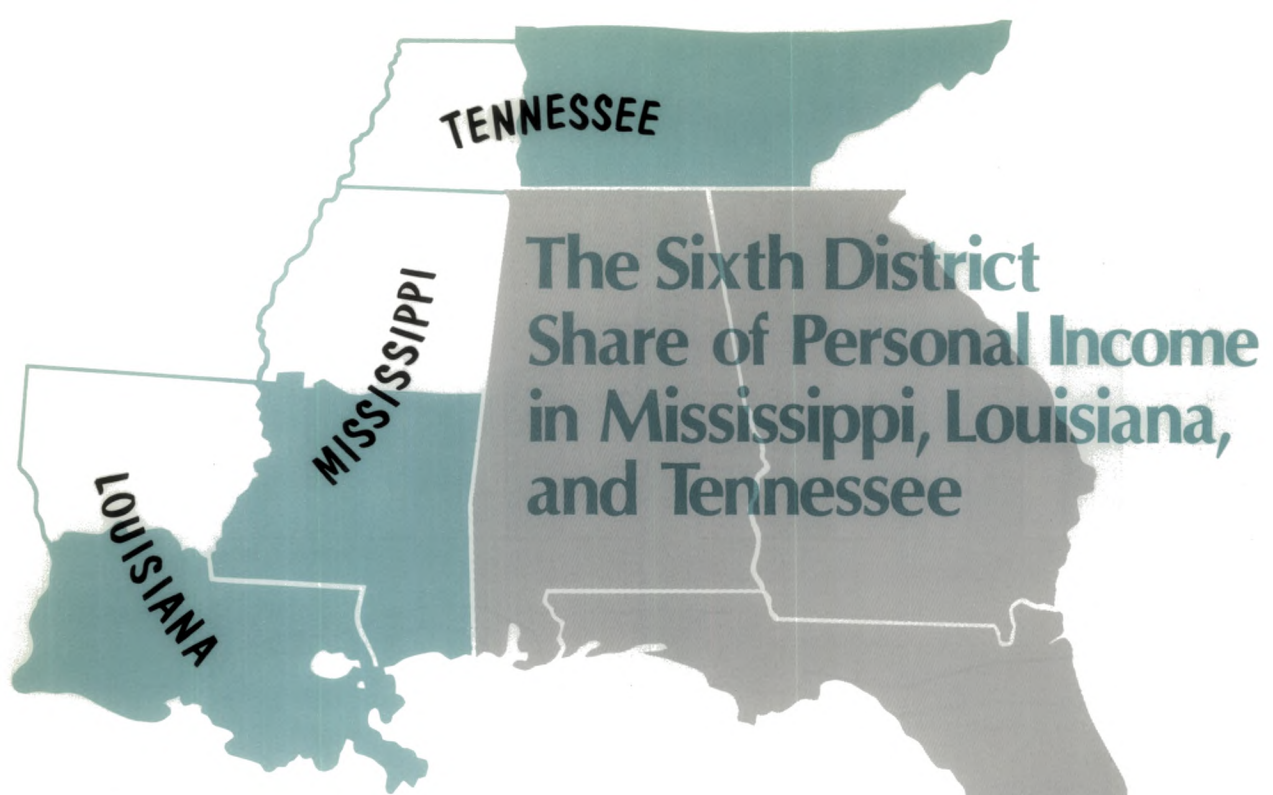
Winter Wheat



by 16 percent, or \$930 million. However, this would be a reduction of nearly \$2.0 billion from the anticipated crop value based on prices when farmers decided to increase plantings.

In early July the news broke that the Russian wheat crop was suffering from dry weather and that Soviet agricultural representatives were negotiating with grain traders in the U. S. and Canada for substantial quantities of wheat. By midmonth the size of the first purchases was made public. Grain prices reacted sharply to this news and wheat had risen 50 cents per bushel by mid-July. The sudden appearance of this unforeseen demand for grain reversed the downward trend in wheat price movements, at least temporarily.

The lasting effect of renewed export demand will depend on the total volume of grain eventually purchased as well as on further developments in domestic crops as the season progresses. From this vantage point (late July), it seems certain that despite bumper crops in prospect, the rapid decline in grain prices has been halted. The stimulus to increase livestock feeding will in turn be weakened, possibly delaying the anticipated growth in meat supplies that lower feed prices would have encouraged. Consumers may now have to look beyond 1975 for any food supply bulge that brings lower prices. But the income prospects of wheat farmers who have not already sold their crop are brighter than at the end of June. ■

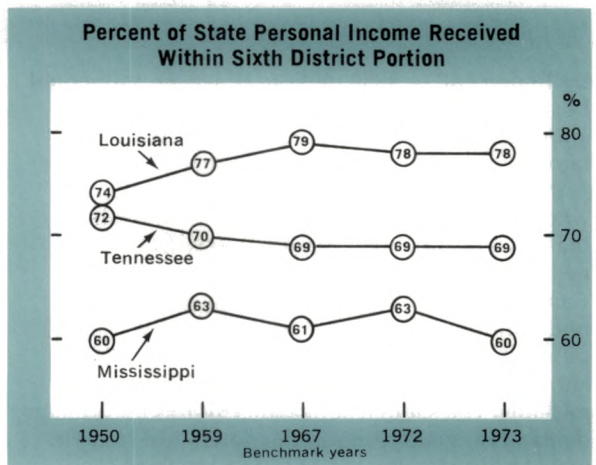


Sixth District Portions of Louisiana, Mississippi, and Tennessee Shown in Color

Sixth Federal Reserve District boundaries divide the states of Louisiana, Mississippi, and Tennessee, as shown in the accompanying map. Banking data accumulated and published by this Bank cover only commercial banks within the District. Employment, income, and production data, on the other hand, are typically published on a statewide basis, either by state agencies or by the U. S. Departments of Labor and Commerce. In statistics such as those listed at the end of this *Review* (page 130), for instance, the reader is comparing financial data for three states and parts of three others with other data for six whole states.

To provide some rules of thumb for offsetting this inconsistency in coverage, we have estimated the percentage of income received within the Sixth District portion of the three split states. To do this, we made these calculations with county census data for the entire years of 1950, 1959, 1967, 1972, and 1973.

These percentages are fairly stable: We found that about three-fourths of Louisiana's personal income, six-tenths of Mississippi's, and seven-tenths of Tennessee's is received on the Sixth District side of the line. It should be emphasized that a higher percentage for one state than another is no indication of superior economic performance. The percentages are basically the result of historical and political considerations which determined Federal Reserve District boundaries almost 60 years ago.



Bank Announcements

May 12, 1975

CITY AND COUNTY BANK OF GREENE COUNTY

Greenville, Tennessee

Opened for business as a par-remitting nonmember. Officers: Charles M. Armstrong, president; Gene E. Helms, vice president and cashier. Capital, \$480,000.

May 12, 1975

ROBERTSON STATE BANK

Springfield, Tennessee

Opened for business as a par-remitting nonmember.

May 15, 1975

BANK OF LAFAYETTE

Lafayette, Louisiana

Opened for business as a par-remitting nonmember.

May 15, 1975

BAYMEADOWS BANK

Jacksonville, Florida

Opened for business as a par-remitting nonmember. Officers: Edward W. Starkey, president; Irving B. Leverock, executive vice president and chief executive; Lewis T. Rich, cashier; Newton A. Colee, vice president. Capital, \$625,000; surplus and other funds, \$625,000.

May 15, 1975

ELLIS NATIONAL BANK OF DAVIS ISLAND

Tampa, Florida

Opened for business as a member. Officers: Adolphus D. Wilburn, chairman and president; Thomas L. Trimmier, executive vice president and cashier; Elton D. Ammons, assistant cashier. Capital, \$500,000; surplus and other funds, \$250,000.

May 22, 1975

BANK OF WASHINGTON COUNTY

Chipley, Florida

Opened for business as a par-remitting nonmember. Officers: Kenneth C. Jennings, president; Nolan F. Treglown, Jr., vice president and cashier. Capital, \$325,000; surplus and other funds, \$325,000.

May 26, 1975

CITY SAVINGS BANK AND TRUST COMPANY

DeRidder, Louisiana

Began to remit at par.

June 3, 1975

FIRST BANK OF OAKLAND PARK

Fort Lauderdale, Florida

Opened for business as a par-remitting nonmember. Officers: John H. Payne, chairman; Phillip J. Rogers, president; Margaret J. Johanson, vice president and cashier. Capital, \$1,000,000; surplus and other funds, \$500,000.

June 23, 1975

FIRST NATIONAL BANK OF

ST. CHARLES PARISH

Boutte, Louisiana

Opened for business as a member. Officers: Brandt J. DuFrene, chairman; George Livermore, president and chief executive officer; J. Ned Mayeux, vice president and cashier. Capital, \$480,000; surplus and other funds, \$320,000.

July 1, 1975

FIRST NATIONAL BANK OF DOUGLASVILLE

Douglasville, Georgia

Opened for business as a member. Officers: Ezra Buell Jones, Jr., chairman; David Rogers Peters, president; Gary L. Pressley, cashier. Capital, \$600,000; surplus and other funds, \$400,000.

NOW AVAILABLE

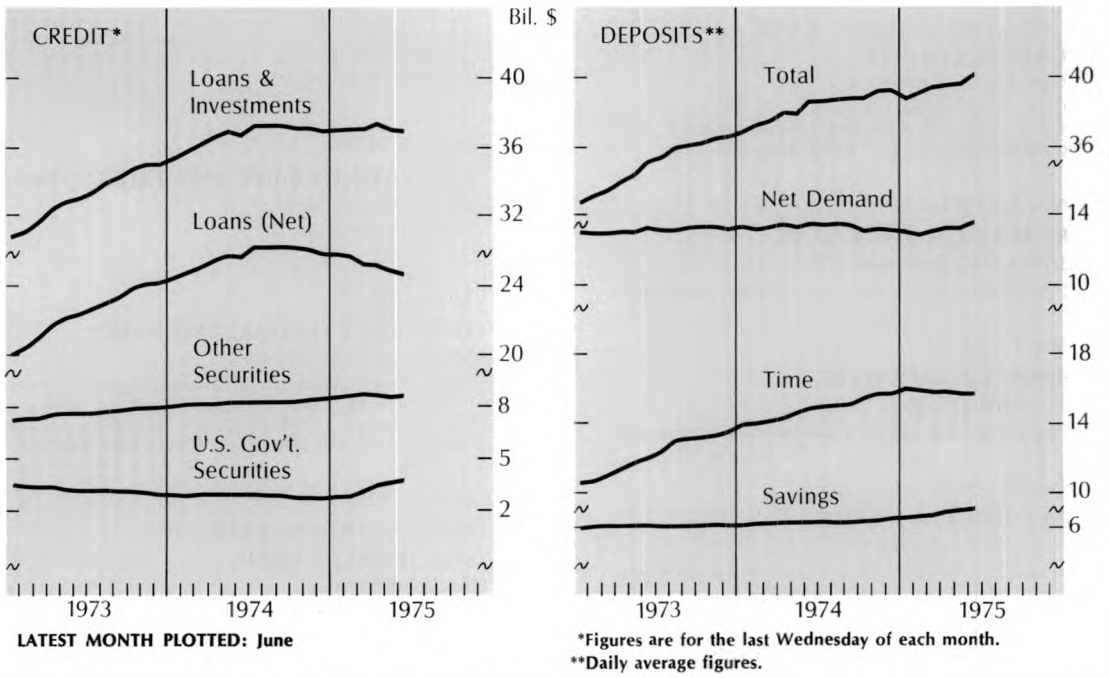
Statistics on the Developing South (1974)

Statistical time series for tracing long-run economic changes in the Southeast and United States. Single copies free; additional copies, \$0.75. Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

Essays on Southern Economic Growth (1974)

A collection of articles analyzing development of Southeastern industry, business and banking. Drawn from the Federal Reserve Bank of Atlanta's Monthly Review of the early 1970's. Complimentary copies to teachers, member bankers, and libraries; others, \$1.00 per copy. Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

BANKING STATISTICS



SIXTH DISTRICT BANKING NOTES

Rebuilding Bank Liquidity

BORROWED FUNDS AT LARGE BANKS

(\$ Millions)

	Large CD's and Time Deposits	Net Federal Funds	Discount Activity	Other Borrowed Funds	Total Borrowed Funds	Change in Total Borrowed Funds	Loans	Change in Loans
1974								
July	4,790	1,510	149	512	6,961	+286	13,083	+134
August	4,885	1,521	184	472	7,062	+101	13,164	+ 81
September	5,004	1,592	191	398	7,185	+123	13,223	+ 59
October	5,251	1,357	141	408	7,157	- 28	13,186	- 37
November	5,295	1,077	94	385	6,851	-306	13,115	- 71
December	5,386	1,094	59	363	6,902	+ 51	13,025	- 90
1975								
January	5,504	863	3	337	6,707	-195	12,842	-183
February	5,339	1,088	6	344	6,777	+ 70	12,591	-251
March	5,345	1,008	12	354	6,719	- 58	12,499	- 92
April	5,273	990	11	314	6,588	-131	12,384	-115
May	5,162	1,052	22	250	6,486	-102	12,245	-139
June	5,132	917	0	260	6,309	-177	12,159	- 86

Note: Data are a monthly average of Wednesday figures.

Most of the District's largest banks have greatly improved their liquidity position in recent months. Their current, more liquid posture marks a sharp recovery from mid-1974's extremely tight conditions. Because these banks experienced strong loan demands and very weak deposit inflows last year, they then increasingly turned to borrowed funds to support additional lending. Their total borrowed funds peaked in September at nearly \$7.2 billion, up one-third from late 1973. This put these banks under intense liquidity pressures.

Since that time, bank liquidity positions have improved significantly. During the first half of this year, they have shifted into longer-maturity borrowed funds, and use of total borrowed funds dropped \$593 million. This happened through a combination of weak loan demand and stronger deposit gains from more stable and traditional sources. Just as importantly, these banks have been able to build up secondary liquidity sources.

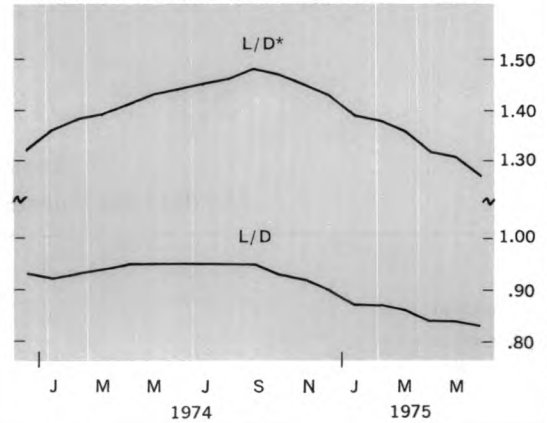
The cutback in borrowed funds began in late 1974 and has accelerated this year. At first, the banks tended to reduce their dependency upon the overnight Federal funds market; net purchases dropped from September's \$1.6-billion peak to less than \$920 million by midyear. After continuing to add to large-denomination CD issues and other large time deposits through January in order to reduce exposure to the Federal funds market, banks have let \$372 million in these money market time deposits run off through mid-year, mostly in the second quarter. Also, borrowings at the discount window have fallen from a high of \$191 million last September to virtually nothing most of this year. In all, they have continued to pay down all types of borrowed funds, especially more volatile, short-maturity, Federal funds. This improves bank liquidity both quantitatively and qualitatively.

In addition to paying down borrowed funds, these banks have been able to accumulate liquid assets in the form of short- and intermediate-maturity securities. In the first half of 1975, holdings of Treasury securities maturing within five years were up \$335 million and municipal obligations maturing within one year rose \$110 million. These securities provide a potential source of funds that can be realized by letting them run off or selling them.

Banks have been able to repay borrowed funds because of slow loan demand and improved deposit inflows. Loans outstanding have declined \$866 million during the first half of this year; about one-half of the runoff involved commercial and industrial loans. Consumer instalment loans, "other" loans, and loans to nonbank financial institutions have dropped significantly. From last September to June, deposits rose \$730 million. Demand deposits were up nearly \$200 million, and consumer time and savings deposits increased \$400 million.

Liquidity measures more clearly indicate the

Measures of Liquidity at Large District Banks



extent of the recovery. For example, the traditional loan-to-deposit ratio (L/D) has declined from a high of .95 in mid-1974 to .83 in June 1975, considerably below early 1974's .93. (A low L/D indicates more liquidity than a high one.) But the L/D includes a large amount of borrowed funds in the denominator and, therefore, is not always an appropriate measure of liquidity for banks highly dependent upon borrowed funds. A better measure of liquidity at the largest banks is L/D*, where deposits have been adjusted for purchased funds such as large-denomination negotiable CD's and other time deposits. The L/D* has declined from 1.48 in September to 1.27 in June, considerably below early 1974's level.

While the L/D* has improved, on average, for the District's 32 largest banks, there has also been a noticeable improvement at many such individual institutions. In September, less than one-third of these large banks had an L/D* of 1.20 or less. By the end of June, however, the liquidity situation had greatly improved. Only a few had an L/D* of 1.60 and over (down from 11 banks in September) and a majority had dropped below 1.20.

In summary, large District banks have done much in the last nine months to restore their liquidity to levels they consider more acceptable. They are, however, still highly dependent upon borrowed funds. Loans are now slightly less than early 1974's volume, but borrowed funds, though down from their peak, are up about \$640 million since then. Over the coming months, liquidity should continue to improve. Deposit gains will likely provide banks with sufficient funds to meet credit commitments so that they will not have to rely heavily upon borrowed funds as loan demand strengthens.

JOHN M. GODFREY

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

	Latest Month 1975	One Month Ago	Two Months Ago	One Year Ago		Latest Month 1975	One Month Ago	Two Months Ago	One Year Ago		
SIXTH DISTRICT					Unemployment Rate (Percent of Work Force)	June	8.7	9.6	9.8	5.0	
INCOME AND SPENDING					Avg. Weekly Hrs. in Mfg. (Hrs.)	June	39.2	39.2	37.9	41.0	
Manufacturing Payrolls	June	175.3	171.8	170.1	179.5	FINANCE AND BANKING					
Farm Cash Receipts	May	199	172	224	215	Member Bank Loans	June	264	269	265	253
Crops	May	334	227	391	289	Member Bank Deposits	June	221	218	216	205
Livestock	May	94	165	177	200	Bank Debits**	June	287	283	309	254
Instalment Credit at Banks* (Mil.\$)						FLORIDA					
New Loans	June	598	595r	552	724	INCOME					
Repayments	June	632	604r	629	668	Manufacturing Payrolls	June	183.7	178.3	178.1	191.9
						Farm Cash Receipts	May	125	212	309	245
EMPLOYMENT AND PRODUCTION						EMPLOYMENT					
Nonfarm Employment	June	129.2	129.9	129.8	134.6	Nonfarm Employment	June	148.6	149.5	149.2	157.7
Manufacturing	June	108.3	108.1	107.7	119.9	Manufacturing	June	117.6	117.6	117.5	129.6
Nondurable Goods	June	108.2	107.7	106.7	117.0	Nonmanufacturing	June	154.6	155.6	155.3	163.1
Food	June	102.1	103.6	104.5	104.9	Construction	June	140.8	146.4	156.9	208.8
Textiles	June	100.1	99.3	97.3	114.9	Farm Employment	May	77.0	72.7	70.9	83.4
Apparel	June	105.4	102.7	101.7	115.7	Unemployment Rate (Percent of Work Force)	June	10.4	12.3	12.2	5.1
Paper	June	103.3	105.5	104.6	115.6	Avg. Weekly Hrs. in Mfg. (Hrs.)	June	39.5	39.1	39.0	40.4
Printing and Publishing	June	122.8	123.5	123.7	132.0	FINANCE AND BANKING					
Chemicals	June	106.1	106.4	105.4	112.0	Member Bank Loans	June	288	294	288	315
Durable Goods	June	108.3	108.6	108.9	123.4	Member Bank Deposits	June	244	248	240	247
Lbr., Wood Prods., Furn. & Fix.	June	94.8	94.3	94.4	110.5	Bank Debits**	June	314	317	303	312
Stone, Clay, and Glass	June	114.7	115.3	116.6	131.8	GEORGIA					
Primary Metals	June	100.8	101.2	102.9	115.7	INCOME					
Fabricated Metals	June	117.3	120.5	121.0	132.9	Manufacturing Payrolls	June	159.1	154.7	149.1	170.3
Machinery	June	146.7	146.9	148.9	156.1	Farm Cash Receipts	May	197	188	202	222
Transportation Equipment	June	98.5	98.6	97.6	109.5	EMPLOYMENT					
Nonmanufacturing	June	136.6	137.6	137.6	139.8	Nonfarm Employment	June	124.1	124.9	124.3	130.3
Construction	June	122.4	127.5	132.6	151.0	Manufacturing	June	99.9	99.6	98.7	112.0
Transportation	June	122.1	123.6	123.4	127.0	Nonmanufacturing	June	135.2	136.4	136.0	138.6
Trade	June	135.0	134.5	134.3	139.2	Construction	June	116.5	122.3	123.5	144.2
Fin., ins., and real est.	June	149.7	150.1	150.0	154.3	Farm Employment	May	103.7	103.9	103.7	93.6
Services	June	154.6	155.1	153.9	154.0	Unemployment Rate (Percent of Work Force)	June	7.6	9.7	10.5	4.0
Federal Government	June	104.3	105.9	105.4	103.2	Avg. Weekly Hrs. in Mfg. (Hrs.)	June	39.3	39.1	38.7	40.1
State and Local Government	June	142.8	143.7	143.3	137.8	FINANCE AND BANKING					
Farm Employment	May	78.5	79.1	78.5	78.4	Member Bank Loans	June	239	252	248	269
Unemployment Rate (Percent of Work Force)	June	8.4	9.7	10.2	4.6	Member Bank Deposits	June	193	195	195	196
Insured Unemployment (Percent of Cov. Emp.)	June	6.6	6.8	6.9	2.3	Bank Debits**	June	364	349	378	328
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	39.4	39.1	38.7	40.3	LOUISIANA					
Construction Contracts*	June	216	182	163	208	INCOME					
Residential	June	135	134	133	214	Manufacturing Payrolls	June	166.5	161.7	166.2	158.1
All other	June	296	228	191	201	Farm Cash Receipts	May	324	131	239	162
Cotton Consumption**	May	61	56	56	79	EMPLOYMENT					
Manufacturing Production	May	141.2	140.4	139.7	149.5	Nonfarm Employment	June	117.4	119.5	120.2	117.0
Nondurable Goods	May	142.3	142.4	142.5	149.7	Manufacturing	June	104.2	105.2	107.2	106.8
Food	May	134.3	134.9	135.8	135.2	Nonmanufacturing	June	120.1	122.5	122.9	119.1
Textiles	May	138.6	136.0	135.9	147.9	Construction	June	97.4	102.8	105.5	95.4
Apparel	May	120.0	118.2	117.7	138.7	Farm Employment	May	72.6	75.7	74.8	78.6
Paper	May	131.6	131.4	132.1	136.5	Unemployment Rate (Percent of Work Force)	June	7.5	7.6	8.1	6.2
Printing and Publishing	May	126.1	125.7	126.3	137.1	Avg. Weekly Hrs. in Mfg. (Hrs.)	June	38.4	38.0	38.5	39.9
Chemicals	May	157.6	159.6	160.6	161.8	FINANCE AND BANKING					
Durable Goods	May	139.6	137.8	135.0	149.8	Member Bank Loans	June	246	246	253	246
Lumber and Wood	May	141.0	138.9	129.3	152.8	Member Bank Deposits*	June	205	206	207	189
Furniture and Fixtures	May	119.4	116.2	114.0	158.0	Bank Debits**	June	271	249	261	235
Stone, Clay, and Glass	May	140.8	137.4	134.0	158.7	MISSISSIPPI					
Primary Metals	May	99.1	100.8	101.4	106.9	INCOME					
Fabricated Metals	May	111.7	111.1	111.3	126.6	Manufacturing Payrolls	June	202.4	197.9	195.5	202.8
Nonelectrical Machinery	May	147.4	148.8	150.5	148.8	Farm Cash Receipts	May	293	173	233	192
Electrical Machinery	May	241.5	240.1	226.2	249.6	EMPLOYMENT					
Transportation Equipment	May	126.8	122.0	122.5	129.0	Nonfarm Employment	June	125.2	126.5	126.4	131.8
						Manufacturing	June	119.5	119.8	118.4	135.0
FINANCE AND BANKING						Nonmanufacturing	June	127.9	129.6	130.1	130.3
Loans*						Construction	June	109.4	117.8	125.9	143.0
All Member Banks	June	264	270	267	276	Farm Employment	May	59.6	63.5	58.3	69.9
Large Banks	June	241	251	250	259	ALABAMA					
Deposits*						INCOME					
All Member Banks	June	220	222	219	215	Manufacturing Payrolls	June	179.1	179.8	171.2	189.7
Large Banks	June	192	193	192	187	Farm Cash Receipts	May	311	193	204	255
Bank Debits**	June	306	297	307	288	EMPLOYMENT					
						Nonfarm Employment	June	119.0	118.9	118.4	123.5
ALABAMA						Manufacturing	June	107.4	107.6	106.6	118.7
INCOME						Nonmanufacturing	June	124.3	124.0	123.8	125.7
Manufacturing Payrolls	June	179.1	179.8	171.2	189.7	Construction	June	129.0	128.8	129.6	140.0
Farm Cash Receipts	May	311	193	204	255	Farm Employment	June	72.3	73.0	74.6	70.4
EMPLOYMENT											
Nonfarm Employment	June	119.0	118.9	118.4	123.5						
Manufacturing	June	107.4	107.6	106.6	118.7						
Nonmanufacturing	June	124.3	124.0	123.8	125.7						
Construction	June	129.0	128.8	129.6	140.0						
Farm Employment	June	72.3	73.0	74.6	70.4						

		Latest Month	One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate					
(Percent of Work Force)	June	8.2	8.6	8.4	3.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	39.3	38.9	38.8	39.9
FINANCE AND BANKING					
Member Bank Loans*	June	260	262	248	265
Member Bank Deposits*	June	219	218	217	219
Bank Debits**	June	266	257	259	256

TENNESSEE

INCOME

Manufacturing Payrolls	June	177.4	174.4	171.6	180.9
Farm Cash Receipts	May	59	158	197	277

*For Sixth District area only; other totals for entire six states

**Daily average basis

†Preliminary data

r-Revised

N.A. Not available

Note: All indexes: 1967=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.; 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.

†Data benchmarked to June 1971 Report of Condition.

EMPLOYMENT

		Latest Month	One Month Ago	Two Months Ago	One Year Ago
Nonfarm Employment	June	125.5	125.1	125.4	129.6
Manufacturing	June	108.3	107.3	107.1	121.4
Nonmanufacturing	June	135.0	135.1	135.5	134.2
Construction	June	127.4	133.0	137.2	131.4
Farm Employment	May	86.6	88.0	88.6	78.9
Unemployment Rate					
(Percent of Work Force)	June	7.5	8.5	8.9	3.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	June	40.0	39.5	39.2	40.3

FINANCE AND BANKING

Member Bank Loans*	June	271	277	274	265
Member Bank Deposits*	June	218	223	220	201
Bank Debits**	June	257	244	258	264

Debits to Demand Deposit Accounts

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

	Percent Change						Percent Change					
	June 1975	May 1975	June 1974	June 1975 from 1974		Year to date 6 mos. from 1974	June 1975 from 1974	May 1975	June 1974	June 1975 from 1974		Year to date 6 mos. from 1974
				1975	1974					1975	1974	
STANDARD METROPOLITAN STATISTICAL AREAS¹												
Birmingham	5,040,740	4,996,007r	4,352,202	+ 1	-16	+19						
Gadsden	108,110	104,785	100,021	+ 3	+ 8	+ 1						
Huntsville	388,963	381,091	360,988	+ 2	+ 8	+14						
Mobile	1,405,973	1,441,446	1,252,576	- 2	+12	+20						
Montgomery	808,450	774,545	650,987	+ 4	+24	+16						
Tuscaloosa	290,776	292,689	242,836	- 1	+20	+10						
Bartow-Lakeland												
Winter Haven	860,168	874,418	842,355	- 2	+ 2	+ 7						
Daytona Beach	504,695	458,036	459,651	+10	+10	+12						
Fl. Lauderdale												
Hollywood	1,918,830	1,833,801	1,839,566	+ 5	+ 4	- 3						
Ft. Myers	429,811	432,413	343,831	+ 1	+25	+10						
Gainesville	255,230	237,820	252,896	+ 7	+ 1	+ 1						
Jacksonville	5,175,591	5,065,479	4,917,529	+ 2	+ 5	- 1						
Melbourne												
Titusville-Cocoa	446,646	435,259	491,293	+ 3	- 9	+ 1						
Miami	7,122,879	7,170,508	7,208,788	- 1	- 1	+ 2						
Orlando	1,793,555	1,674,652	1,558,489	+ 7	+15	+ 2						
Pensacola	555,674	530,095	511,860	+ 5	+ 9	+12						
Sarasota	529,270	575,669	538,703	- 8	- 2	- 1						
Tallahassee	923,522	1,229,832	734,797	25	+26	+ 9						
Tampa-St. Pete	4,461,600	4,275,938	4,096,729	+ 4	+ 9	+ 2						
W. Palm Beach	1,148,943	1,139,059	1,218,065	+ 1	- 6	- 6						
Albany												
Atlanta	206,184	192,182	207,486	- 7	- 1	- 5						
Augusta	21,279,670	19,837,989r	18,999,103	- 7	+12	+ 6						
Columbus	635,161	664,264	591,271	+ 4	+ 7	+ 6						
Macon	486,451	486,237	474,575	+ 0	+ 3	+ 0						
Savannah	872,080	845,720	774,598	+ 3	+13	+ 9						
	1,032,010	1,061,418	625,881	+ 3	+65	+67						
Alexandria												
Baton Rouge	325,209	322,253	271,428	+ 1	+20	+12						
Lafayette	2,117,172	1,894,069	1,784,110	+12	+19	+28						
Lake Charles	423,931	403,071	311,731	+ 5	+36	+32						
New Orleans	279,884	296,666r	247,700	- 6	+13	+11						
	5,688,240	5,551,556	4,852,841	+ 2	-17	+12						
Biloxi-Gulfport												
Jackson	305,432	295,457	267,387	+ 3	+14	+17						
	1,678,959	1,705,840	1,560,047	- 2	+ 8	+ 6						
Chattanooga												
Knoxville	1,237,107	1,254,622	1,308,253	+ 1	- 5	-10						
Nashville	1,493,517	1,492,263	1,929,050	+ 0	-23	11						
	4,255,918	4,321,950	3,903,072	+ 2	- 9	+14						
OTHER CENTERS												
Anniston	123,400	122,684	118,532	+ 1	+ 4	+ 7						
Dothan												
Selma	196,108	189,517	196,279	+ 3	- 0	- 4						
	83,779	82,551	69,215	+ 1	+21	- 5						
Bradenton												
Monroe County	206,629	194,913	210,668	+ 6	- 2	+ 1						
Ocala	111,344	135,308	90,554	-18	+2	+15						
St. Augustine	232,388	241,035	197,052	- 4	+18	+11						
St. Petersburg	45,712	43,860	46,665	+ 4	- 2	- 4						
Tampa	1,007,793	963,338r	1,006,707	+ 5	+ 0	- 4						
	2,397,802	2,319,613	2,051,712	+ 3	+17	+ 9						
Athens												
Brunswick	171,838	172,383	159,399	- 0	+ 8	+ 2						
Dalton	126,361	119,997	106,463	+ 5	-19	+19						
Elberton	175,354	177,022	185,923	- 1	- 6	-11						
Gainesville	33,915	27,909	24,926	+22	+36	+12						
Griffin	176,753	160,189	145,385	+10	+22	+10						
LaGrange	68,614	75,743	81,750	- 9	-16	-12						
Newnan	40,517	40,337	60,447	+ 0	-33	-18						
Rome	52,344	44,156	59,470	+19	-12	-15						
Valdosta	172,566	162,152	145,450	+ 6	+19	+ 5						
	114,581	116,634	108,582	- 2	+ 6	+ 7						
Abbeville												
Bunkie	17,843	18,530	15,822	- 4	+13	+10						
Hammond	15,519	16,730	12,976	- 7	+20	+27						
New Iberia	109,770	116,395	84,509	- 6	+30	+30						
Plaquemine	79,719	95,444	61,606	-16	+29	+33						
Thibodaux	31,840	27,560	26,081	-16	+22	+23						
	63,106	68,508	39,904	- 8	+58	+66						
Hattiesburg												
Laurel	150,610	147,866	147,266	+ 2	+ 2	+10						
Meridian	76,735	76,250	79,795	+ 1	- 4	- 3						
Natchez	146,063	132,524	124,962	+10	+17	+ 4						
Pascagoula	57,990	53,389	55,812	- 9	+ 4	+ 3						
Moss Point	178,376	186,795	149,798	- 5	+19	+ 7						
Vicksburg	78,338	75,690	75,886	+ 3	+ 3	-10						
Yazoo City	46,321	42,706	66,470	+ 8	-30	- 7						
Bristol												
Johnson City	160,285	146,450	135,088	+ 9	+19	+15						
Kingsport	172,604	170,130	155,694	+ 1	+11	+ 0						
	357,896	313,761	277,190	+14	+29	+11						
DISTRICT TOTAL												
	93,044,086	90,829,484r	84,509,559	+ 2	+10	+ 7						
Alabama												
Florida	11,290,839	11,185,111r	9,690,386	+ 1	+17	+17						
Georgia	28,560,313	28,493,684	27,274,092	+ 0	+ 5	+ 1						
Louisiana	28,766,021	27,163,576r	25,135,230	+ 6	+14	+ 8						
Mississippi	10,553,298	10,165,280	8,865,699	+ 4	+19	+17						
Tennessee	3,587,516	3,577,287	3,363,521	+ 0	+ 7	+ 5						
	10,286,099	10,244,546	10,180,631	+ 0	+ 1	+ 2						

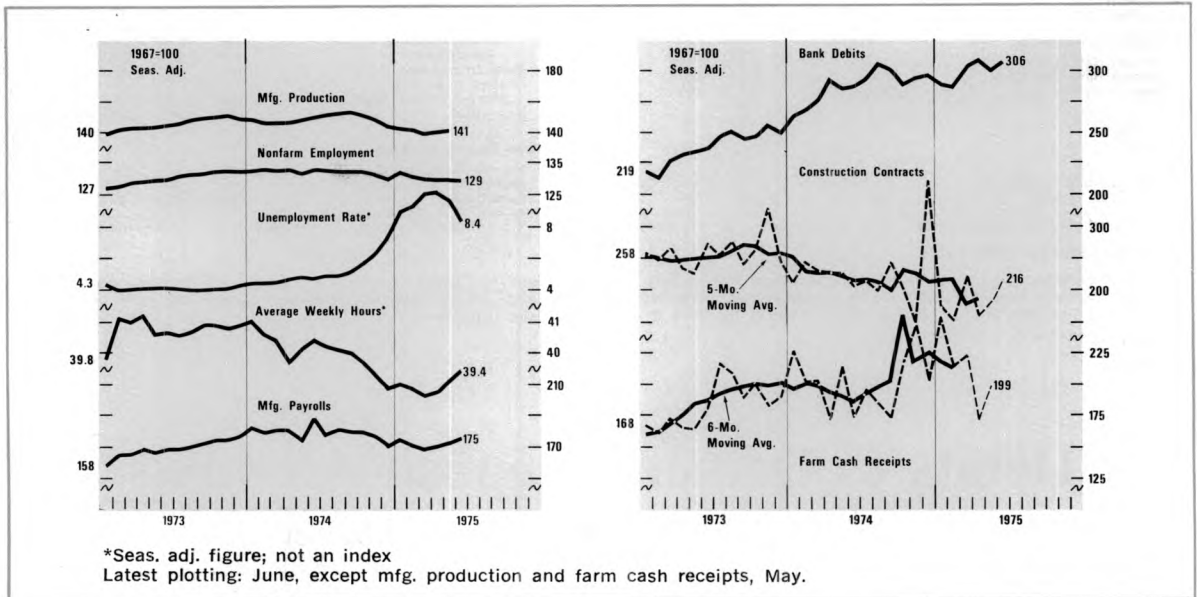
Conforms to SMSA definitions as of December 31, 1972.

-District portion only.

r-revised

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

District Business Conditions



At midsummer, overall economic signs are more encouraging in the Southeast. Although employment slipped, household incomes have strengthened. Construction activity advanced again and agricultural conditions brightened. Consumer deposits, at financial institutions swelled.

Total nonagricultural employment fell in June as nonmanufacturing jobs posted a small decline. Despite the job losses, the unemployment rate fell primarily because of a statistical quirk. Construction, fabricated metals, and the paper industry had the largest percentage job losses. Nondurables realized moderate gains on the basis of some strength in textiles and apparel. Manufacturing payrolls grew sizably as the average workweek, hourly earnings, and employment increased.

Registrations of new automobiles jumped. Bank consumer instalment debt fell considerably, owing to reduced purchases of auto loan contracts and greater repayments of direct auto loans. These reductions were partially offset by increased personal loan extensions. June was the tenth successive month of significant decline for instalment lending at District banks. Meanwhile, incomes of manufacturing employees grew more rapidly and disposable income benefited from reduced tax withholding. Department store sales rose in May and were 7 percent higher than a year ago.

The value of construction contracts rose for the third straight month. Large contracts for electric

power systems in Mississippi and manufacturing plants in Alabama pushed the value of nonresidential contracts to their second highest level of the year. The value of residential contracts crept up for the fourth month in a row as savings inflows continued to flood savings and loan associations.

Prices received by farmers increased in June, led by particularly sharp rises in broiler and vegetable prices. Preliminary data indicate that the rising price trend continued during July, largely reflecting an upward turn in grain prices. Cash farm receipts for the first five months of 1975 were higher than the year-ago level in four of six District states, largely resulting from higher receipts from crops and some recovery in receipts from livestock. Abundant rainfall through July has contributed to excellent development of growing crops.

District member banks continue to experience strong deposit gains in passbook savings accounts. The larger banks are still letting their money market time deposits run off. Loan demand has shown no signs of reviving. However, many of the larger banks have posted higher prime lending rates, as short-term borrowing costs have advanced.

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