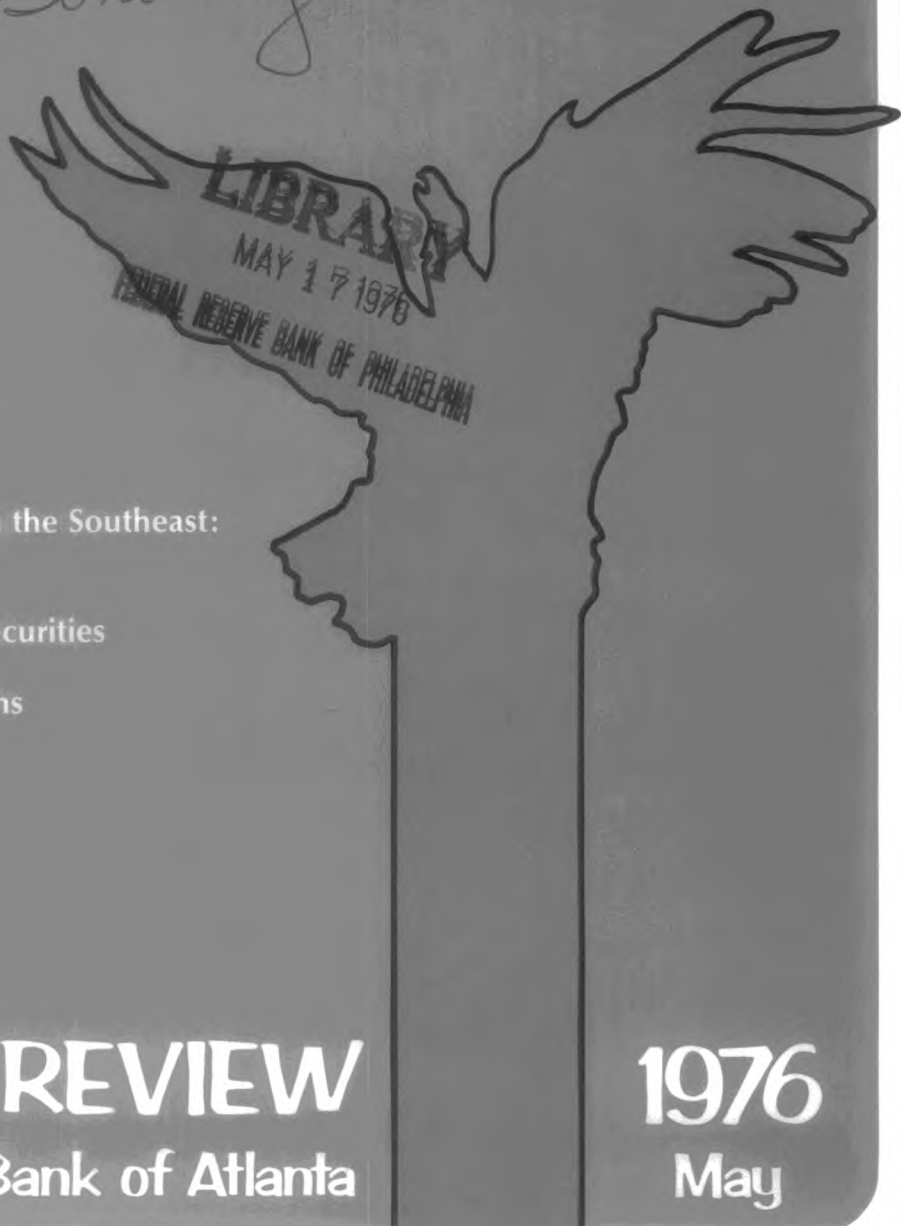


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## In This Issue:

Recession and Recovery in the Southeast:  
A New Perspective

Banking Note: Treasury Securities

District Business Conditions

# MONTHLY REVIEW

Federal Reserve Bank of Atlanta

1976  
May

Federal Reserve Bank Of Atlanta  
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# Recession and Recovery in the Southeast: A New Perspective

by James T. Fergus

Since World War II, the keynote of economic growth in the Southeast<sup>1</sup> has been its faster-than-national rate (see Chart 1). In periods of decline, the losses have usually been smaller and have been followed by a resumption of more rapid growth (see Table 1). Yet, in the most recent recession (November 1973 to April 1975) and subsequent recovery, a marked reversal has occurred.<sup>2</sup> The Southeast's recession has been sharper and its recovery slower than in the nation as a whole. This article examines trends in nonfarm employment<sup>3</sup> to learn why the Southeast lost its former relative immunity to major economic setbacks and why certain Southeastern states have fared better than others.

## Cyclical Employment Trends in U. S. and Southeast

Various industries typically show differing degrees of sensitivity to economic cycles. In durable goods such as automobiles, production and employment are usually volatile. Products can be held in inventory for long periods before being sold; once sold, they can be used for an indefinite period. Nondurable goods such as food maintain comparatively stable production and employment levels. Nondurables are in relatively steady demand and are more practical to produce as they are needed.

In seeking an explanation for the change in Southeastern employment patterns, it is useful to compare differences in composition of U. S. and District employment (see Table 2).<sup>4</sup> The District has a relatively small manufacturing

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<sup>1</sup>The Southeast here refers to those states entirely or partially within the Sixth Federal Reserve District—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

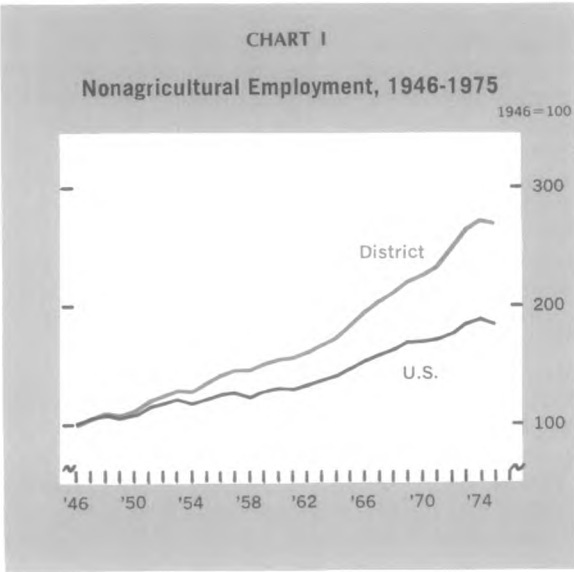
<sup>2</sup>For a general discussion of Southeastern economic developments during 1975, see "The Southeast's Economic Review and Outlook: A Slow Road to Recovery," this *Review*, January-February 1976.

<sup>3</sup>Farm jobs make up a varying proportion of total employment in Southeastern states (ranging from about 4 percent in Florida to 16 percent in Mississippi during 1973). The data and trends discussed in this analysis relate only to nonagricultural employment.

<sup>4</sup>For a discussion of industrial composition analysis, see Walter Isard, ed., *Methods of Regional Analysis: An Introduction to Regional Science*, Cambridge, Massachusetts: The M.I.T. Press, 1960, Chapter 6.

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*Monthly Review*, Vol. LXI, No. 4. Free subscription and additional copies available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303. Material herein may be reprinted or abstracted provided this *Review*, the Bank, and the author are credited. Please provide this Bank's Research Department with a copy of any publication in which such material is reprinted.



sector; within manufacturing, there is a smaller percentage in durable goods. In addition, the District has a higher proportion of jobs in non-manufacturing other than construction. These comparisons with the United States imply greater employment stability. Only the larger share of cyclically sensitive construction jobs makes the District more prone to job fluctuations.<sup>5</sup> Although Southeastern employment may vary more now because of long-term industrial development, employment composition remains favorable to greater stability than in the U. S. and does not account for the recent reversal in cyclical behavior.

To determine what sectors contributed to the District's lag, we compared the District with the U. S., using index numbers (November 1973 = 100) for employment in industries and industry groups (see Chart 2).<sup>6</sup>

Total nonagricultural employment reveals the region's lagging performance. These jobs rose

<sup>5</sup>Construction shares the characteristics which produce relatively large demand and output variations in durable goods industries.

<sup>6</sup>November 1973 is the point from which the recent recession is usually dated. The employment data used for computing state indices are seasonally adjusted monthly estimates of nonagricultural employment prepared by the Federal Reserve Bank of Atlanta from data obtained from Departments of Labor in individual states. National data are those published by the U. S. Department of Labor, Bureau of Labor Statistics.

**TABLE 1**

**CHANGE IN TOTAL NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT IN POSTWAR RECESSIONS AND RECOVERIES<sup>1</sup>**

(Percent Change at Annual Rate)

Period	Recessions <sup>2</sup>			
	Sixth	District	States	United States
11/48 - 10/49		-3.4		-5.5
07/53 - 08/54		-0.7		-3.1
07/57 - 04/58		-0.4		-5.3
05/60 - 02/61		-1.1		-2.4
11/69 - 11/70		+0.8		-1.2
11/73 - 04/75		-3.2		-1.4
Average		-1.3		-3.2

Period	Recoveries <sup>3</sup>			
	Sixth	District	States	United States
10/49 - 06/50		+3.0		+7.7
08/54 - 04/55		+6.7		+4.4
04/58 - 12/58		+7.8		+3.3
02/61 - 10/61		+3.3		+2.8
11/70 - 07/71		+3.6		+0.8
04/75 - 12/75		+1.7		+2.6
Average		+4.4		+3.6

<sup>1</sup>N.B.E.R. reference cycle dates, except for the most recent recession and recovery for which turning points have not yet been formally announced.

<sup>2</sup>Peak to trough.

<sup>3</sup>Trough plus 7 months.

**TABLE 2**

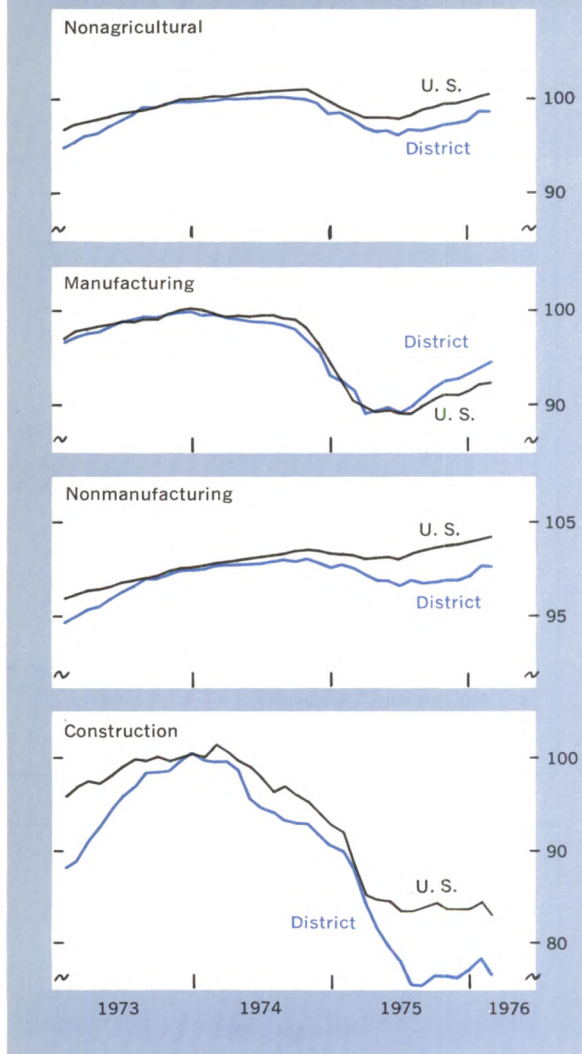
**EMPLOYMENT BY INDUSTRY AS A PERCENTAGE OF TOTAL NONAGRICULTURAL EMPLOYMENT**

November 1973

Industry	United States	Sixth District States
Total Nonagricultural Employment	100.0	100.0
Nonmanufacturing Employment	74.0	76.4
Construction	5.2	7.3
Transportation, Communication, and Public Utilities	6.0	6.2
Finance, Insurance, and Real Estate	5.3	5.2
Services and Miscellaneous	17.1	15.9
Total Government	17.8	18.1
Wholesale and Retail Trade	21.7	22.7
Manufacturing Employment	26.1	23.6
Durable Goods	15.5	10.7
Nondurable Goods	10.6	12.9

CHART II  
**Nonagricultural Employment:  
 Total and Major Components**

Nov. 1973 = 100



more rapidly than in the nation during 1973 and then in 1974 began a relative decline which continued throughout 1975. Manufacturing employment provides no reconciliation of the differences. These indices almost coincided until the spring of 1975; thereafter, manufacturing actually recovered **more** rapidly for the District. Thus, the region is favored in two respects. Because manufacturing comprises a smaller percentage of total District employment, the equal percentage decline affected total jobs in the Southeast less; and during the recovery in manufacturing, job growth has been more rapid.

Extending the search to nonmanufacturing, we locate differences which help account for the Southeast's relative weakness. Like total employment, total nonmanufacturing jobs in the District rose more rapidly in 1973 and then dropped faster and recovered more slowly in 1974 and most of 1975. Some relative gain occurred in early 1976. Probing more deeply into nonmanufacturing, construction stands out as the primary weakness. Although construction has suffered severely in many parts of the nation, the drop has been even more precipitous in the Southeast, down almost 25 percent in 21 months. The impact of this decline has been magnified because construction makes up more of the region's total employment. In addition, the decline here has been more protracted and the recovery marginal.

Other District nonmanufacturing also weakened, although not as much as construction. Finance, insurance, and real estate; services; and wholesale and retail trade—businesses which serve primarily local market areas—declined more than nationally.<sup>7</sup> Evidence from individual states links greater losses in construction with larger declines in other nonmanufacturing. Therefore, it appears that, for the District as a whole, the severity of the construction decline undermined those nonmanufacturing sectors which ordinarily serve as sources of employment stability and growth.

Finally, it seems reasonable to expect changes in construction activity, both national and regional, to have a noticeable impact on construction-related manufacturing industries (e.g., electrical appliances; furniture; textiles, including carpets; lumber; and stone, clay, and glass). Since employment in the Southeast is more concentrated in several of these industries, should not a greater impact be felt here? Examination reveals only limited differences. Lumber, wood, furniture, and fixtures followed about the same pattern nationally and regionally, but the greater regional concentration heightened the impact in this region. Stone, clay, and glass jobs were equally represented in the Southeast and the nation, but such employment was slightly weaker in the District. However, textile jobs followed a stronger-than-national trend which

<sup>7</sup>Where tourist patronage is significant, the trade and services market areas remain local in character but are influenced by regional or national economic trends affecting the volume of tourist traffic entering the local market.

TABLE 3

## TOTAL NONFARM EMPLOYMENT

November 1973 = 100

Area	Employment Peak <sup>1</sup>	Employment Trough <sup>1</sup>	Decline from Peak	February 1976	Increase from Trough
Sixth District States	100.6	96.4	-4.2	98.9	+2.5
Alabama	101.9	97.5	-4.4	102.9	+5.4
Florida	101.3	93.7	-7.6	94.8	+1.1
Georgia	100.2	93.9	-6.3	96.9	+3.0
Louisiana	102.0	99.2	-2.8	102.8	+3.6
Mississippi	101.6	96.5	-5.1	100.2	+3.7
Tennessee	102.5	98.0	-4.5	102.2	+4.2

<sup>1</sup>Timing varies.

was magnified by their much greater regional concentration. Thus, despite offsetting differences, some evidence of a greater impact on the Southeast was found in construction-related industries.<sup>8</sup>

### Cyclical Employment Trends Within Southeastern States

Individual District states also felt a reversal of previous cyclical behavior patterns. Since the Second World War, jobs had grown in District states as follows: Florida, 5.8 percent; Georgia, 3.3 percent; Mississippi, 3.3 percent; Tennessee, 3.1 percent; Louisiana, 2.8 percent; and Alabama, 2.6 percent.<sup>9</sup> But the states with more rapid long-term growth have suffered larger losses and have recovered more slowly (see Table 3).

Differences in job mix significantly influenced comparative employment trends between states, as they did regionally and nationally. The relatively slight decline and moderate recovery in Louisiana's employment are consistent with its stable structural characteristics (see Table 3 and Chart 3). Relatively large declines and recoveries in Alabama, Missis-

sippi, and Tennessee also correspond to these states' employment makeup. However, marked declines in Georgia and Florida are clearly at odds with the behavior expected solely on the basis of compositional factors. Probing job behavior within particular industries is again necessary to explain the divergence from previously well-established trends.

### Alabama: Surprising Strength

Alabama's employment losses have disappeared as the economy has strengthened, despite the apparent obstacle of a high proportion of manufacturing jobs (see Chart 3). The state's limited decline in construction, unusual strength in relatively stable nonmanufacturing, and vigorous growth within some manufacturing industries led to this rapid resurgence. These influences moderated the drop in Alabama's nonfarm jobs and then helped push them above their previous peak (see Chart 4).

Manufacturing jobs have consistently remained above the District average and as of February 1976 have moved back toward their former peak. Following a sharp drop, nondurables jobs have rapidly recovered; durables have improved more slowly.

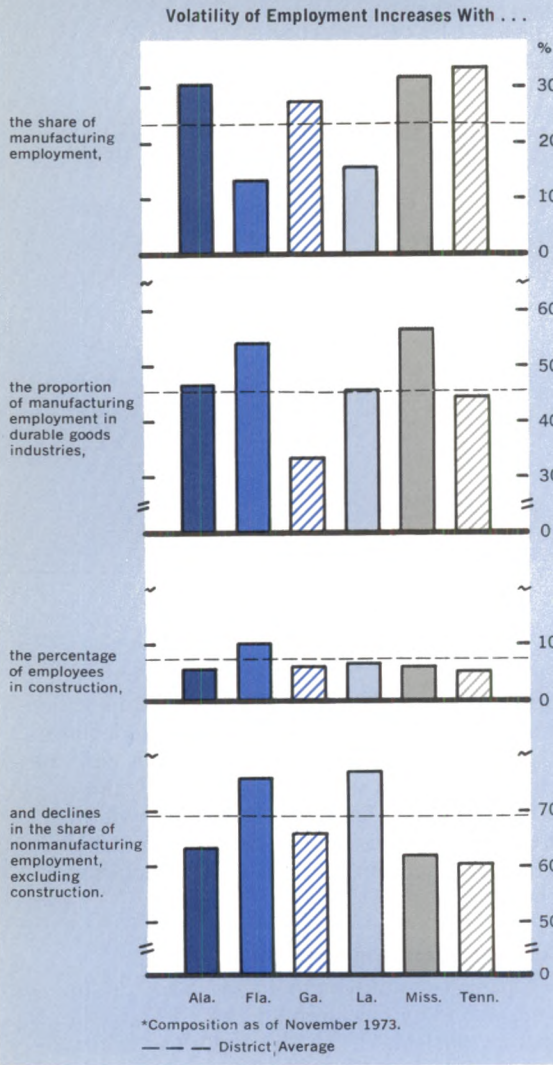
What are manufacturing's strengths and weaknesses? Machinery industry employment in Alabama has been stronger than in other District states and has almost regained its peak. Textiles also performed well, with a brief decline and more

<sup>8</sup>The absence of greater employment changes in Southeastern construction-related industries may result from the breadth of some industry classifications (e.g., the carpet industry is contained within the more general textiles category). More specific categories might clearly reveal such effects.

<sup>9</sup>Compounded annual rates of growth, 1946-1974.

CHART III

Differences in Employment Composition Affect Cyclical Stability in Sixth District States\*



rapid recovery than in other Southeastern states. However, by February 1976, the ground lost during the downturn had not yet been fully recaptured. Apparel, the second largest nondurable sector, bettered the District average in resisting job losses and in its climb toward its prerecession level.

Jobs in the cyclically sensitive lumber, wood, furniture, and fixtures group have paralleled the District decline. They remain 9 percent below prerecession levels both in Alabama and the District, as of February 1976. A prolonged decline in primary metals, which continued through late 1975 despite previous upturns in other District states, reduced employment by 18 percent, the most in the region. In general, employment variability in the more important manufacturing industries coin-

cides closely with expectations based on employment composition, except for machinery manufacturing's notable strength.

Construction has also significantly shaped state employment (see Chart 5). Construction jobs fell off throughout 1974 and the first half of 1975 but were free from the fits and starts experienced in both Louisiana and Tennessee. Moreover, losses of 8 percent were moderate compared to Mississippi, Georgia, and Florida. Subsequent increases have almost restored the prerecession level by early 1976.

Strength in other nonmanufacturing is the final element in Alabama's employment stability. Trade and finance, insurance, and real estate show virtually unbroken uptrends; government and services jobs have also contributed strength. Transportation, communication, and public utilities fell behind the District but later regained strength. These gains helped total nonmanufacturing remain stable and then increase in the face of construction losses. Strength in nonmanufacturing offset weaknesses in manufacturing and moved total employment above its previous peak.

**Louisiana: A Double-Dip Recession**

Based on employment composition, Louisiana should enjoy great stability (see Chart 3). Confirming this, Louisiana has lost relatively fewer jobs than any other District state and has regained its previous peak in total employment (see Chart 4). However, one unique feature appears in Louisiana. Its employment had not one, but two separate troughs—it had a "double-dip" recession.

The bedrock underlying the state's employment stability is the three-quarters of total employment in nonmanufacturing industries other than construction. Almost all of these stable sectors show two distinct periods of decline which contribute to the corresponding pattern in total employment. Despite the double decline, jobs in finance, insurance, and real estate and in wholesale and retail trade have recovered with greater strength than in other District states; however, the recovery of service jobs has lagged. Government employment has grown continuously, while transportation, communication, and public utilities jobs have been stronger than in any other Southeastern state. The net result in nonmanufacturing has been steady, robust gains among the best in the Southeast.

In construction, jobs have been fairly level since the spring of 1973, with offsetting erratic movements (see Chart 5). Losses have been limited and temporary. Interestingly, the sporadic declines were again concentrated in two periods, contributing to the double-downturn pattern. In early 1976, jobs stood near their peak, a stronger showing than

in other District states. Thus, construction has not been an albatross to the Pelican State.

Within manufacturing, the double-trough pattern is repeated, particularly in durable goods. Nondurable goods jobs, except chemicals, dropped slowly and gradually but rebounded in early 1976. Total manufacturing jobs declined later and much less than in other Southeastern states. Transportation equipment and lumber, wood, furniture, and fixtures showed relative strength. Chemicals closely paralleled the District pattern. Sustained declines in food and paper products have weakened the state relative to the District.

In summary, Louisiana's double-dip decline was limited and total employment has recovered completely. The state benefited from stability in the dominant segment of its economy, non-manufacturing other than construction, which offset limited declines in the more volatile construction and manufacturing sectors.

### Tennessee: Losses Offset by Gains

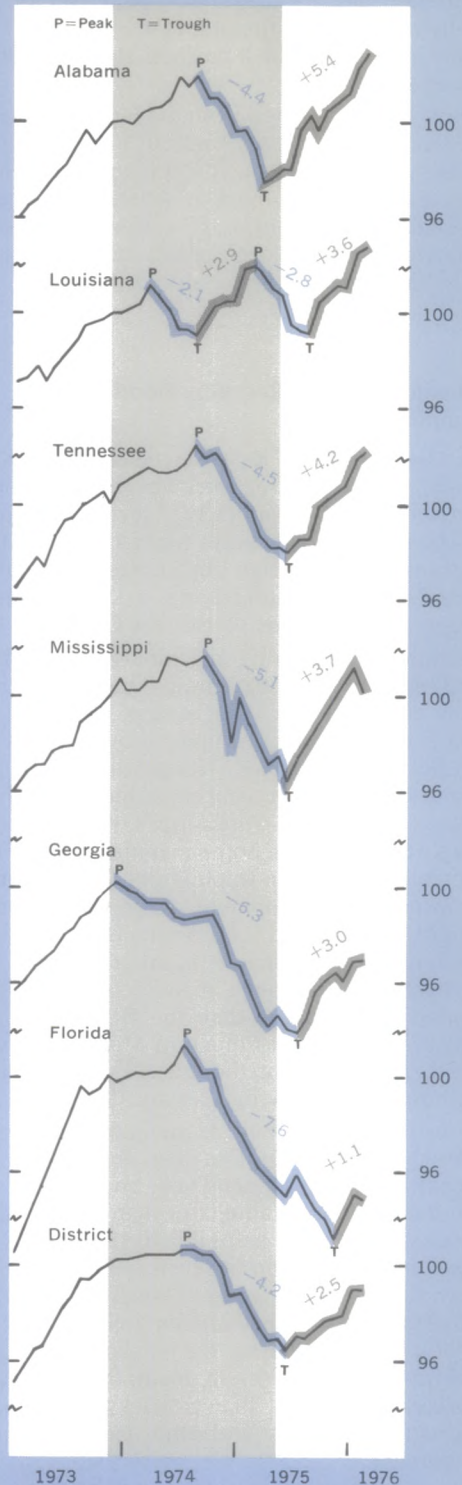
Tennessee's employment structure, with manufacturing jobs more heavily weighted than in any other District state, seems conducive to wider swings (see Chart 3). Yet this state has resisted decline and recovered extensively because gains in other sectors offset manufacturing losses (see Chart 4).

Tennessee's manufacturing sector eroded and recovered almost in tandem with the District. Important industries such as chemicals; machinery; and lumber, wood, furniture, and fixtures suffered larger job losses than in other District states. Apparel, the largest nondurable sector, paralleled the District. Total manufacturing jobs, as a result of offsetting strength, nearly equaled the District average. A loss of 6 percent in manufacturing remained in early 1976, up from the 12-percent deficit in mid-1975.

Construction has been stronger in Tennessee than in other Southeastern states and accounted for only a small proportion of job losses. As in Louisiana, employment shows two troughs separated by several months of recovery (see Chart 5). The intervening increase limited the construction decline's impact and also helped counteract the weakness in manufacturing. Then, as construction turned down again in early 1975, these losses were absorbed by gains in other nonmanufacturing industries and then by upturns in manufacturing. Thus, gains and losses in construction were well-timed to serve as a buffer for changes in manufacturing employment. Tennessee's experience is unique in this respect; in early 1976, construction employment, as in Louisiana and Alabama, remained only slightly below the prerecession level.

CHART IV  
Sixth District Total Nonagricultural Employment

Nov. 1973 = 100



Note: Shaded area represents U.S. recession.

Tennessee's total nonmanufacturing employment has shown the greatest strength of any District state. Besides a limited decline in construction, growth in other nonmanufacturing fields, including government, services, and trade, paralleled or slightly exceeded District increases. The state's rapidly increasing tourist business strengthened services and trade.

Thus, losses expected from the large manufacturing component were realized but have been offset by timely changes in construction and by stable or increasing employment in several other nonmanufacturing businesses. The decline in total employment has been marginal, and peak job levels have nearly been restored.

### **Mississippi: Rapidly Receding Flood of Unemployment**

In Mississippi, job losses exceeded the District average, but a rapid recovery has raised employment above the November 1973 level (see Chart 4). The state's job mix includes two factors which foster instability—a high percentage of manufacturing and, within manufacturing, a larger-than-average durable goods sector (see Chart 3).

Within manufacturing, machinery and lumber, wood, furniture, and fixtures lost more jobs than in any other District state except Tennessee. Apparel employment remained above average until 1975 but then weakened. Transportation equipment was the key sector showing consistent strength. Unlike other states, Mississippi's job losses in auto parts and mobile home manufacturing were offset by large gains in shipbuilding. These gains in transportation equipment, aided by relative strength in paper and food products, helped offset some of the weaknesses in other types of manufacturing. Although manufacturing jobs dropped slightly more than the District average, they have improved as much in Mississippi as in any other District state, though still slightly below the prerecession mark in February 1976.

Construction jobs fell 32 percent from peak to trough (see Chart 5). This deep decline was concentrated in a comparatively brief period, since the downturn came later than in any other District state. Despite gains in late 1975, a 16-percent deficit from the peak—9 percent below the prerecession level—existed in February 1976. These sharp losses partly reflect a cut in homebuilding. However, the decline came after employment downturns in major Mississippi industries, suggesting that cutbacks in business construction of plants and other facilities were a key element.

Fortunately, manufacturing and construction losses were ameliorated by vigorous, well-sustained

growth in other nonmanufacturing. Services, wholesale and retail trade, and finance, insurance, and real estate led the District; jobs dropped only briefly and by February 1976 had exceeded their previous peaks. Transportation, communication, and public utilities declined slightly but outperformed the District, while government employment has grown steadily. As a result, the losses in construction and manufacturing have been largely offset, bringing total employment within 1 percent of its previous peak. The outstanding feature of Mississippi's employment has been the stabilizing role played by nonmanufacturing, cushioning and offsetting losses in more volatile sectors.

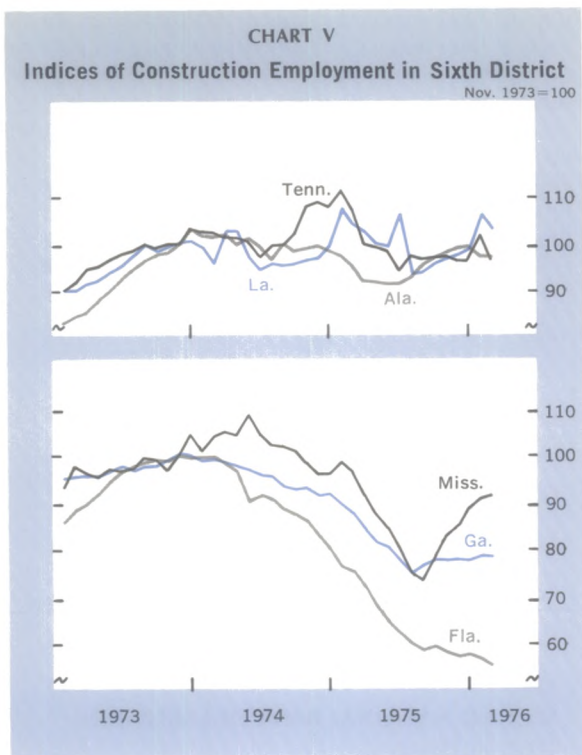
### **Georgia: Too Much Mortar, Too Many Bricks**

Georgia has felt the recession's effects much more keenly than the states already surveyed, despite structural characteristics ordinarily conducive to stability (see Chart 3). Total employment dropped more than 6 percent, of which a 3-percent deficit remained in February 1976 (see Chart 4).

Georgia's problems revolve about construction. Jobs dropped 25 percent and have recovered by only 3 percent in early 1976 (see Chart 5). There have been significant problems in other areas too. Manufacturing is weaker than in any other District state, having fallen by 14 percent at the trough and having restored only about half of these jobs by early 1976. Apparel was weaker than anywhere in the District, with losses of 20 percent more recently pared to 6 percent. In textiles, Georgia also lagged, with jobs down 17 percent; half had been restored as of February 1976. Losses in the carpet industry, highly concentrated in Georgia and deeply affected by the construction decline, played a major role.

In turn, the severity of the construction and manufacturing declines seems to have weakened nonmanufacturing sectors which in other states provided stable or increasing employment. This erosion indicates the unusually severe effects of the recession on the state's economy. Although government and services jobs continued to expand, significant losses occurred in wholesale and retail trade; finance, insurance, and real estate; and transportation, communication, and public utilities. Instability in these sectors compounded losses in cyclically sensitive construction and manufacturing, producing the large decline in Georgia's total employment. Some of these areas recovered slowly and others continued to decline, impeding the recovery in nonmanufacturing. This, in turn, has caused total employment to rebound more slowly than in most other Southeastern states.





### Florida: Hard Freeze Hits Construction

Florida's employment experience has been similar to Georgia's. The state's job decline was the deepest in the Southeast, with a loss of over 7 percent at the trough. Recovery has only recently begun (see Chart 4). The only compositional clue to such instability is the unusually high proportion of construction jobs—10 percent of the total. The impact of an above-average proportion of durable goods jobs is blunted by manufacturing's low percentage of total employment (see Chart 3).

As in Georgia, construction suffered the worst problems, with an ongoing decline amounting to 45 percent in February 1976 (see Chart 5). An excessive inventory of homes and condominiums as well as commercial, warehouse, and office space is at the core of Florida's construction problem, as in other states. The inventory remains so large that it threatens to curtail jobs for months to come, leading some construction workers to seek employment in other states.

Manufacturing losses have compounded the declines in construction. The sector has followed about the same course of decline and slow recovery as in the District as a whole. Durable goods have dropped more than in any other District state

and remained severely depressed in early 1976. In sharp contrast, nondurable goods led the entire District. The moderate decline has been completely eradicated by the subsequent recovery. Food products and apparel, which provided support for employment, recovered their peak levels.

Nonmanufacturing only partially offset the slide in construction and manufacturing. As in Georgia, losses of jobs and purchasing power in cyclical industries adversely affected major nonmanufacturing sectors other than construction. Retail trade and services have also suffered from declines in tourism in certain areas. Real estate and finance have been hurt by the problems affecting construction. Without job stability and growth in nonmanufacturing, the full impact of declines in construction and manufacturing was felt. These are the primary factors responsible for the precipitous decline and tardy recovery in Florida employment.

### Conclusions and Implications for Future Growth in Employment

Job composition during the most recent recession and recovery exerted its expected influence. Manufacturing, particularly durable goods, contributed to employment variability. Construction shared this attribute. Nonmanufacturing other than construction afforded employment stability.

Deviations from these normal cyclical patterns were found where area economies were subjected to severe shock. For Florida, Georgia, and Mississippi, this took the form of drastic drops in construction activity and jobs. These losses, in turn, undermined employment in normally stable nonmanufacturing sectors. Furthermore, declines in construction adversely affected employment in construction-related manufacturing such as lumber, furniture, and carpets, concentrated in Southeastern states. Thus, the reversals of relative strength within District states, as well as between the Southeast and the nation, are traceable in large part to construction.

Why was construction in particular Southeastern states so much more seriously affected than in other parts of the District and nation? The principal weakness lay in overbuilt real estate inventories in certain rapidly growing areas. Particularly in Florida and Georgia, the depth of the declines resulted from excessive speculative construction, combined with slowing real estate demand related to the energy crisis and the effects of the recent recession.

Based on the previous description and analysis of trends, what is the most likely course for employment in the Southeast? A normal cyclical expansion process is well under way in most sectors of the District economy, except for con-

struction where there have been only limited gains. These divergent trends should continue in the short run. Time will be required to absorb the large inventory of structures concentrated in some areas of the region. This process is likely to restrain construction activity in these areas for the near term.

Yet, in the long run, one should expect the Southeast to return to its previous pattern of economic growth relative to the nation. The advantages of location and operating costs which

have been conducive to economic growth here remain unchanged. Barring a recurrence of shocks such as the energy crisis, previous migration patterns of businesses and individuals should reassert themselves. Expanding demand should eventually absorb the current oversupply of structures. Tempered by increased restraint on the part of lenders and investors, construction activity should then return to normal throughout the region, and the Southeast's traditional pattern of growth, at least in its major outlines, should reemerge. ■

## Bank Announcements

March 12, 1976

### **FIRST STATE BANK OF PENSACOLA**

*Pensacola, Florida*

**Opened for business as a member.** Officers: Jack L. Fiveash, chairman; R. Pierre Brown, president; C. David Walker, executive vice president and cashier; Richard D. Youd, vice president. Capital, \$500,000; surplus and other funds, \$500,000.

March 12, 1976

### **SECOND NATIONAL BANK OF LAKELAND**

*Lakeland, Florida*

**Opened for business as a member.** Officers: Rodger P. Doyle, president and chief executive officer; Harold J. Webre, Jr., senior vice president and cashier; Mary D. Barrett, assistant cashier. Capital, \$400,000; surplus and other funds, \$600,000.

April 1, 1976

### **THE FIRST NATIONAL BANK OF HARALSON COUNTY**

*Buchanan, Georgia*

**Converted to a national bank from Haralson County Bank.**

April 1, 1976

### **WHITE COUNTY BANK**

*Sparta, Tennessee*

Opened for business as a par-remitting nonmember.

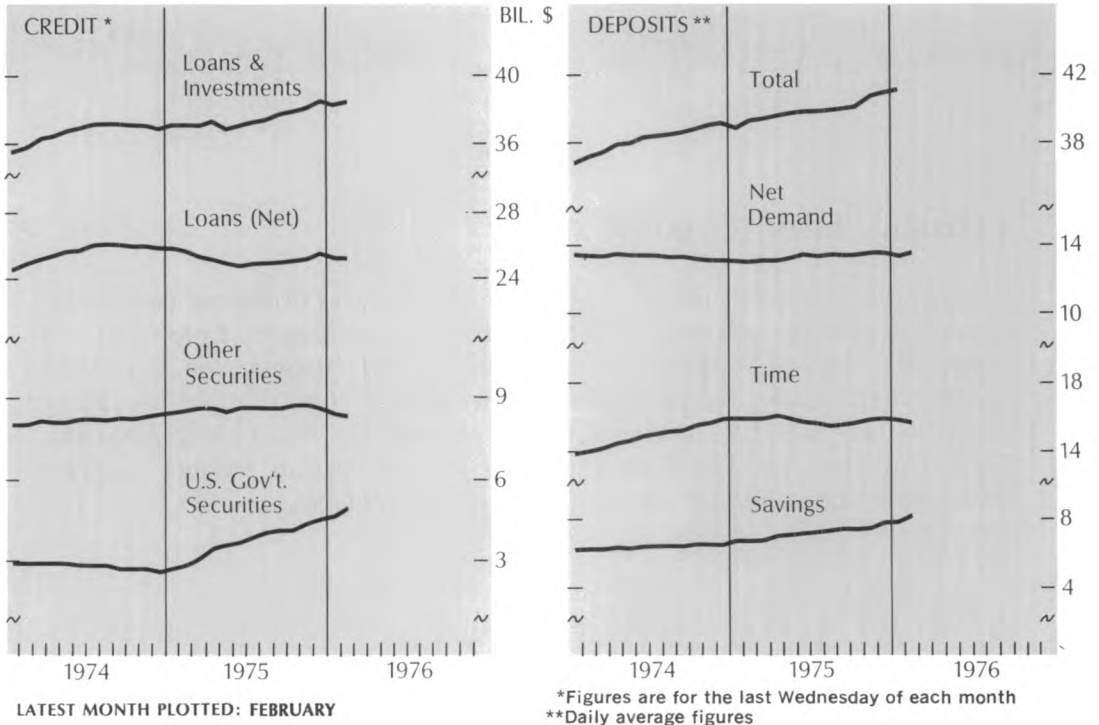
## **CARIBBEAN BASIN ECONOMIC SURVEY**

*A bimonthly newsletter which summarizes and analyzes economic conditions, issues and specific industries in the Caribbean Basin (Mexico; Colombia; and Venezuela; Central America, including Belize and Panama; the Caribbean Islands; and Guyana, Surinam, and French Guiana). If you would like to be placed on the free subscription list, please notify the Research Department, Federal Reserve Bank of Atlanta, Federal Reserve Station, Atlanta, Georgia 30303. Multicopy and bulk subscriptions are not available.*

## **THE IMPACT OF HOLDING COMPANY AFFILIATION ON BANK PERFORMANCE: A CASE STUDY OF TWO FLORIDA MULTIBANK HOLDING COMPANIES**

*Available as the first in a series of Federal Reserve Bank of Atlanta Working Papers. Single copies are available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303. Those interested may have their name placed on a subscription list for future studies in the Series. Such requests should include name, street address or post office box number, city, state, and ZIP code and should be sent to the above address.*

BANKING STATISTICS



SIXTH DISTRICT BANKING NOTES

# Treasury Securities Expand Rapidly

**U. S. GOVERNMENT SECURITIES**  
(Sixth District Member Banks)

DISTRICT	December 1974 (\$ million)	December 1975 (\$ million)	% Change Dec. 1975 from Dec. 1974	DISTRICT	December 1974 (\$ million)	December 1975 (\$ million)	% Change Dec. 1975 from Dec. 1974
DISTRICT	2701	4525	+ 67	Savannah	21	28	+ 33
<b>ALABAMA</b>	403	562	+ 39	South Georgia	11	19	+ 73
Anniston-Gadsden	20	26	+ 30	<b>LOUISIANA*</b>	572	828	+ 45
Birmingham	175	268	+ 53	Alexandria-St. Charles	52	97	+ 87
Dothan	19	27	+ 42	Baton Rouge	104	160	+ 54
Mobile	78	91	+ 17	Lafayette-Iberia-Houma	53	76	+ 43
Montgomery	72	101	+ 40	New Orleans	364	503	+ 38
<b>FLORIDA</b>	986	1979	+101	<b>MISSISSIPPI*</b>	161	234	+ 45
Jacksonville	80	159	+ 99	Jackson	80	115	+ 44
Miami	551	999	+ 81	Hattiesburg-Laurel-Meridian	63	85	+ 35
Orlando	94	276	+194	Natchez	13	20	+ 54
Pensacola	33	59	+ 79	<b>TENNESSEE*</b>	336	524	+ 56
Tampa-St. Petersburg	227	486	+114	Chattanooga	44	98	+123
<b>GEORGIA</b>	243	398	+ 64	Knoxville	92	143	+ 55
Atlanta	169	303	+ 79	Nashville	211	299	+ 42
Augusta	15	25	+ 67	Tri-Cities	20	25	+ 25
Columbus	29	26	- 10				
Macon	11	11	0				

NOTE: Figures shown are for trade and banking areas, which include several counties surrounding central cities. Boundaries of some areas include counties in two states. Some data are partly estimated.

\*Represents that portion of the state in the Sixth District.

Commercial banks acquired an almost unprecedented amount of U. S. Government securities in 1975, reversing a trend of reductions which started in the late 1960's. From December 1968 to December 1974, U. S. member banks reduced total holdings of Treasury securities by 19 percent; District member bank holdings fell 21 percent. In contrast, during 1975 District member banks' holdings of U. S. Government securities grew three times as fast as they had fallen, up \$1.8 billion, or 67 percent. District banks' percentage of investments in these securities declined notably more than did the nation's as a whole from 1968-1974 and increased more rapidly in 1975.

Several factors account for this recent acquisition of U. S. Government securities. First, District banks have experienced a large inflow of time and savings deposits in 1975; these deposits are interest-bearing. To generate income during slack loan demand, banks purchased U. S. Government securities to add earning assets until loan demand increased.

Banks also moved strongly into Treasury securities because of much lower profits, which reduced the advantage of municipal bonds. With large loan write-offs cutting into net income, the tax-free advantage of municipals is not as significant as when profits are high.

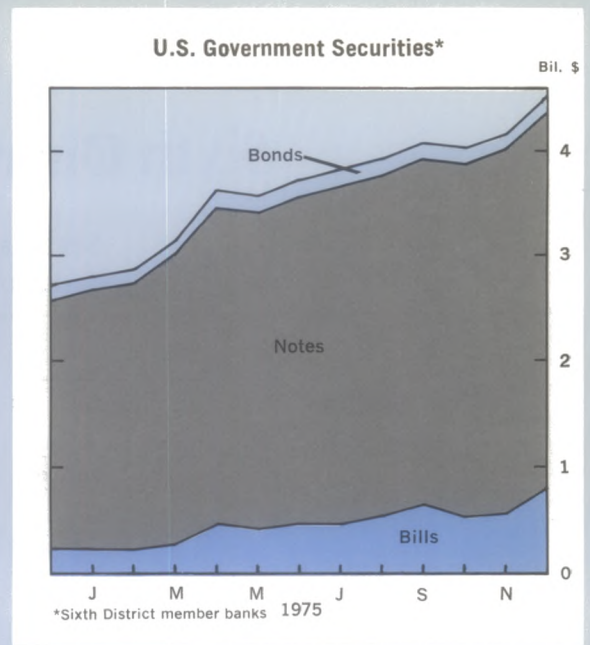
Another factor has been the general drop in demand for all types of loans. The decline in business activity in general, especially in the business loan sector, led banks to purchase U. S. Government securities with funds normally used in lending.

Finally, banks appear to have been more quality conscious and to have sought to reduce risk in portfolios. With loan demand sluggish and loan losses unusually large, many banks have avoided any but the highest quality investments, Treasury securities.

All of this happened in 1975 as banks restructured portfolios toward more liquidity. At the same time, the U. S. Government had to finance a massive deficit.

Bank investments in Treasury obligations developed an interesting pattern in 1975. This pattern, that of investing in short- and medium-term obligations, is evident in all types of Treasury securities. For example, District member banks' investments in Treasury bills (all of which have maturity dates of one year or less) increased over \$575 million in 1975 and now total more than three times the December 1974 holdings. Bills with maturities of three months or less rose the most rapidly, from \$91 million at the end of 1974 to \$409 million a year later. The remainder of the growth in bills came in maturities between three to six months, up \$138 million; in bills maturing in six to nine months, up \$61 million; and in maturities between nine months and one year, which increased \$60 million.

The trend continues when analyzing longer-maturity Treasury notes (one to seven years), where banks obtain a higher return balanced against less



liquidity. Notes maturing in one to three years rose over \$1.3 billion, up 79 percent in 1975. Four- to five-year maturity notes fell just over \$235 million, a 42-percent decline. U. S. Government bonds with maturities of less than five years grew slightly more than 3 percent over 1974. However, bonds with maturities between five and 25 years grew less than 1/2 of 1 percent during 1975.

By holding short-term obligations, banks have maintained a liquid portfolio while foregoing the higher rates offered on the longer-term securities. Since banks expect to obtain a higher return on loans, funds invested in short-term Government obligations will be available for lending rather quickly should loan demand increase. By selling or allowing securities to run off at maturity, banks have available funds for loans.

Among Sixth District states, Florida had the sharpest increase in Government securities, and, in fact, these banks more than doubled their holdings from December 1974 to December 1975. In particular, banks in the Orlando and Tampa-St. Petersburg areas added large amounts of securities relative to other areas in the state. Orlando also had the sharpest relative decline in loans, while Tampa-St. Petersburg had the largest dollar increase in deposits. In other District states where 1975 loans increased or deposit inflows were somewhat smaller than Florida's, banks bought proportionately fewer Treasury securities.

U. S. Government securities are "in style" again at District banks for several reasons. While banks wait for an increase in loan demand and continue to experience large time-deposit inflows, Treasury obligations are an important source of income. As banks begin making more loans, the boom in Governments should taper off.

**Richard Hendrix**

# Sixth District Statistics

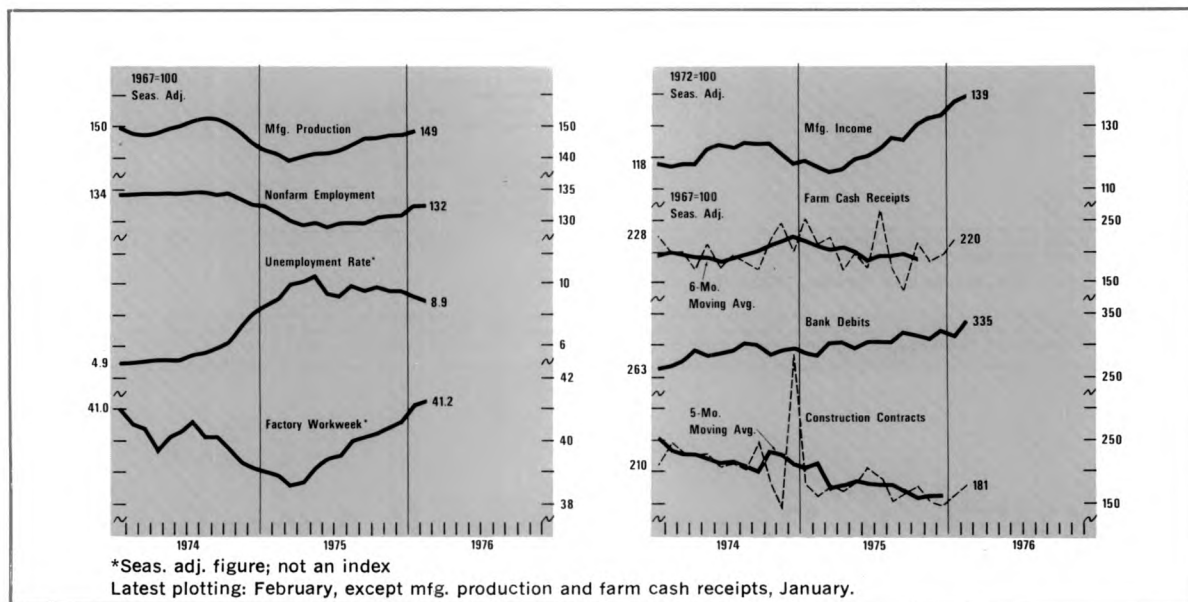
## Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

	Latest Month	One Month Ago	Two Months Ago	One Year Ago		Latest Month	One Month Ago	Two Months Ago	One Year Ago
<b>SIXTH DISTRICT</b>					<b>Unemployment Rate</b>				
<b>INCOME AND SPENDING</b>					<b>(Percent of Work Force)** . . . . . Feb.</b>				
Manufacturing Income . . . . .	Feb.	139.1	137.3	134.2	117.5	8.0	8.0	8.8	8.6
Farm Cash Receipts . . . . .	Jan.	219.5	195.4	186.9	254.3	<b>Average Weekly Hours in Mfg. (Hrs.) . . . . . Feb.</b>			
Crops . . . . .	Jan.	288.4	212.3	212.6	354.4	42.2	42.2	40.4	38.9
Livestock . . . . .	Jan.	189.5	223.1	124.4	194.4	<b>FINANCE AND BANKING</b>			
Instalment Credit at Banks*/(Mil. \$)					<b>Member Bank Loans . . . . . Feb.</b>				
New Loans . . . . .	Jan.	651	726	651	627	277	278	275	267
Repayments . . . . .	Jan.	894	748	718	718	235	231	235	212
<b>EMPLOYMENT AND PRODUCTION</b>					<b>Bank Debits** . . . . . Feb.</b>				
Nonfarm Employment . . . . .	Feb.	132.4	132.3	130.9	131.4	<b>FLORIDA</b>			
Manufacturing . . . . .	Feb.	113.9	113.4	112.4	109.5	<b>INCOME</b>			
Nondurable Goods . . . . .	Feb.	114.1	113.9	113.0	108.4	<b>Manufacturing Income . . . . . Feb.</b>			
Food . . . . .	Feb.	105.4	106.7	103.6	104.2	132.8	131.2	131.2	122.7
Textiles . . . . .	Feb.	107.3	106.3	106.6	97.0	<b>Farm Cash Receipts . . . . . Jan.</b>			
Apparel . . . . .	Feb.	115.2	116.8	114.8	106.4	219.5	195.2	228.5	229.4
Paper . . . . .	Feb.	109.8	109.9	108.0	108.0	<b>EMPLOYMENT</b>			
Printing and Publishing . . . . .	Feb.	124.8	125.1	125.3	126.3	<b>Nonfarm Employment . . . . . Feb.</b>			
Chemicals . . . . .	Feb.	109.4	109.2	109.5	108.7	148.1	148.3	146.8	151.4
Durable Goods . . . . .	Feb.	113.7	112.7	111.6	110.9	<b>Manufacturing . . . . . Feb.</b>			
Lbr., Woods Prods., Furn. & Fix. . . . .	Feb.	102.5	101.8	100.2	96.2	120.5	119.8	119.0	119.9
Stone, Clay, and Glass . . . . .	Feb.	116.3	116.8	115.1	118.2	<b>Nonmanufacturing . . . . . Feb.</b>			
Primary Metals . . . . .	Feb.	103.3	102.2	101.4	106.7	153.4	153.8	152.1	157.4
Fabricated Metals . . . . .	Feb.	122.3	121.2	122.7	123.0	<b>Construction . . . . . Feb.</b>			
Machinery . . . . .	Feb.	151.1	149.1	148.1	152.1	124.9	128.8	130.3	170.9
Transportation Equipment . . . . .	Feb.	108.1	107.9	106.1	101.1	<b>Farm Employment . . . . . Feb.</b>			
Nonmanufacturing . . . . .	Feb.	138.9	139.0	137.5	139.1	84.4	69.9	72.1	80.8
Construction . . . . .	Feb.	122.6	125.5	123.4	141.0	<b>Unemployment Rate</b>			
Transportation . . . . .	Feb.	123.6	123.5	121.6	124.6	<b>(Percent of Work Force)** . . . . . Feb.</b>			
Trade . . . . .	Feb.	136.7	136.1	133.6	136.1	11.9	12.1	12.5	10.2
Fin., ins., and real est. . . . .	Feb.	150.3	150.5	151.1	151.6	<b>Average Weekly Hours in Mfg. (Hrs.) . . . . . Feb.</b>			
Services . . . . .	Feb.	157.1	157.5	157.8	155.4	40.2	39.9	40.5	39.2
Federal Government . . . . .	Feb.	107.2	108.1	107.2	105.3	<b>FINANCE AND BANKING</b>			
State and Local Government . . . . .	Feb.	146.3	146.7	144.7	142.0	<b>Member Bank Loans . . . . . Feb.</b>			
Farm Employment . . . . .	Mar.	96.3	95.9	95.1	94.1	286	285	288	308
<b>Unemployment Rate</b>					<b>Member Bank Deposits . . . . . Feb.</b>				
(Percent of Work Force) . . . . .	Feb.	8.9	9.1	9.5	8.9	251	247	252	241
<b>Insured Unemployment</b>					<b>Bank Debits** . . . . . Feb.</b>				
(Percent of Cov. Emp.) . . . . .	Feb.	3.9	4.2	4.5	5.9	349	321r	345	295
Average Weekly Hours in Mfg. (Hrs.) . . . . .	Feb.	41.2	41.1	40.8	39.0	<b>GEORGIA</b>			
Construction Contracts* . . . . .	Feb.	181	163	148	162	<b>INCOME</b>			
Residential . . . . .	Feb.	166	137	130	117	<b>Manufacturing Income . . . . . Feb.</b>			
All Other . . . . .	Feb.	196	189	166	205	132.9	130.9	127.9	106.0
Cotton Consumption** . . . . .	Nov.	73.1	74.2	73.4	64.2	<b>Farm Cash Receipts . . . . . Jan.</b>			
Petroleum Production*** . . . . .	Feb.	87.3	87.4r	89.0r	96.3r	214.4	207.6	288.7	243.6
Manufacturing Production					<b>EMPLOYMENT</b>				
Nondurable Goods . . . . .	Jan.	151.1	149.9	149.0	144.4	<b>Nonfarm Employment . . . . . Feb.</b>			
Food . . . . .	Jan.	135.1	134.0	133.7	135.0	127.6	127.6	126.5	125.9
Textiles . . . . .	Jan.	151.6	146.8	145.0	137.0	<b>Manufacturing . . . . . Feb.</b>			
Apparel . . . . .	Jan.	140.6	134.4	133.0	125.1	106.6	106.6	105.3	98.3
Paper . . . . .	Jan.	142.4	144.6	144.2	135.5	<b>Nonmanufacturing . . . . . Feb.</b>			
Printing and Publishing . . . . .	Jan.	131.1	132.1	130.2	127.9	137.3	137.3	136.1	138.5
Chemicals . . . . .	Jan.	160.3	160.6	160.8	156.7	<b>Construction . . . . . Feb.</b>			
Durable Goods . . . . .	Jan.	144.6	143.4	144.7	139.7	118.6	119.0	117.8	132.8
Lumber and Wood . . . . .	Jan.	148.8	145.7	146.0	120.2	<b>Farm Employment . . . . . Mar.</b>			
Furniture and Fixtures . . . . .	Jan.	138.6	138.8	140.4	121.4	106.9	107.7	104.4	104.0
Stone, Clay, and Glass . . . . .	Jan.	139.0	141.3	147.0	144.8	<b>Unemployment Rate</b>			
Primary Metals . . . . .	Jan.	102.4	102.9	102.2	105.2	<b>(Percent of Work Force)** . . . . . Feb.</b>			
Fabricated Metals . . . . .	Jan.	113.3	113.4	114.5	116.1	8.7	8.9	9.3	10.1
Nonelectrical Machinery . . . . .	Jan.	154.3	150.5	147.0	156.7	<b>Average Weekly Hours in Mfg. (Hrs.) . . . . . Feb.</b>			
Electrical Machinery . . . . .	Jan.	229.9	227.3	231.3	232.4	41.4	41.2	40.8	38.5
Transportation Equipment . . . . .	Jan.	142.6	139.8	141.1	128.1	<b>FINANCE AND BANKING</b>			
<b>FINANCE AND BANKING</b>					<b>Member Bank Loans . . . . . Feb.</b>				
Loans* . . . . .					<b>Member Bank Deposits . . . . . Feb.</b>				
All Member Banks . . . . .	Feb.	267	268	272	278	243	248	250	256
Large Banks . . . . .	Feb.	223	224r	229r	239	193	189	196	190
Deposits* . . . . .					<b>Bank Debits** . . . . . Feb.</b>				
All Member Banks . . . . .	Feb.	228	225	229	217	390	377	383	325
Large Banks . . . . .	Feb.	192	191	202	188	<b>LOUISIANA</b>			
Bank Debits*/** . . . . .	Feb.	335	315r	324	287	<b>INCOME</b>			
<b>ALABAMA</b>					<b>Manufacturing Income . . . . . Feb.</b>				
<b>INCOME</b>					<b>Farm Cash Receipts . . . . . Jan.</b>				
Manufacturing Income . . . . .	Feb.	143.9	142.2	136.5	121.3	154.8	153.8	150.4	129.6
Farm Cash Receipts . . . . .	Jan.	269.2	238.8	162.9	300.0	191.3	162.8	217.6	345.9
<b>EMPLOYMENT</b>					<b>EMPLOYMENT</b>				
Nonfarm Employment . . . . .	Feb.	124.9	124.2	122.7	120.1	<b>Nonfarm Employment . . . . . Feb.</b>			
Manufacturing . . . . .	Feb.	113.7	112.8	112.3	109.5	121.8	121.5	119.6	120.8
Nonmanufacturing . . . . .	Feb.	130.0	129.3	127.5	124.9	<b>Manufacturing . . . . . Feb.</b>			
Construction . . . . .	Feb.	137.1	137.3	140.0	134.1	108.1	107.0	104.4	108.4
Farm Employment . . . . .	Mar.	125.7	125.7	128.5	113.6	<b>Nonmanufacturing . . . . . Feb.</b>			
					<b>Construction . . . . . Feb.</b>				
					<b>Farm Employment . . . . . Mar.</b>				
					<b>Unemployment Rate</b>				
					<b>(Percent of Work Force)** . . . . . Feb.</b>				
					<b>Average Weekly Hours in Mfg. (Hrs.) . . . . . Feb.</b>				
					<b>FINANCE AND BANKING</b>				
					<b>Member Bank Loans* . . . . . Feb.</b>				
					<b>Member Bank Deposits* . . . . . Feb.</b>				
					<b>Bank Debits*/** . . . . . Feb.</b>				
					<b>MISSISSIPPI</b>				
					<b>INCOME</b>				
					<b>Manufacturing Income . . . . . Feb.</b>				
					<b>Farm Cash Receipts . . . . . Jan.</b>				
					<b>EMPLOYMENT</b>				
					<b>Nonfarm Employment . . . . . Feb.</b>				
					<b>Manufacturing . . . . . Feb.</b>				
					<b>Nonmanufacturing . . . . . Feb.</b>				
					<b>Construction . . . . . Feb.</b>				
					<b>Farm Employment . . . . . Mar.</b>				
					<b>Unemployment Rate</b>				
					<b>(Percent of Work Force)** . . . . . Feb.</b>				
					<b>Average Weekly Hours in Mfg. (Hrs.) . . . . . Feb.</b>				



# District Business Conditions



Despite pauses in some sectors, economic expansion continues. Incomes and auto sales rose; department store sales ebbed. Labor markets were mixed. Construction employment continued to drop in several states. In contrast, both residential and nonresidential construction contracts moved up in March. Commercial banks and savings and loan associations continued to make strong deposit gains. Farmers are planning increased livestock production in response to lower feed costs.

**Manufacturing income rose again during February and now stands 18 percent above the year-ago level.** New auto registrations increased sharply in January to one quarter above the year-ago level. Department store sales declined moderately.

**Nonfarm employment remained unchanged in February.** The unemployment rate fell below 9 percent for the first time since January 1975. Manufacturing employment rose moderately in both the durable and nondurable sectors. There were large job gains in machinery, metal, and textiles, with offsetting losses in food and apparel. The non-manufacturing sector lost momentum; only trade, transportation, and public utilities showed job gains. Construction employment dropped in all states except Mississippi. The factory workweek continued its upward trend.

**Construction activity advanced as the value of residential contracts increased to the highest level in 16 months.** Residential advances were widespread. The value of nonresidential contracts also rose because of several large awards for engineering construction, government buildings, and hospitals.

Mortgage rates continued to edge down, and inflows at savings and loan associations were large.

**Deposit inflows at commercial banks also strengthened during March, with strong gains reported in most categories.** Many of the largest banks, however, continued to reduce the volume of large-denomination CD's outstanding during March, following a runoff of \$300 million during February. Durable goods manufacturers, textile and apparel goods producers, and wholesale and retail trade firms increased their borrowing at the large banks in March.

**After edging upward in February, prices received by farmers turned down again in March, according to preliminary data.** Lower prices for grains, soybeans, cattle, and eggs were largely responsible for the decline. Spot market prices of foodstuffs at the end of March dropped further below the year-earlier level. Production prospects are good for winter and early season crops. Broiler placements were up substantially from a year ago; pork producers plan to increase sow farrowings significantly in the spring and summer quarters. Loans at agricultural banks were up 8 percent from March 1975.