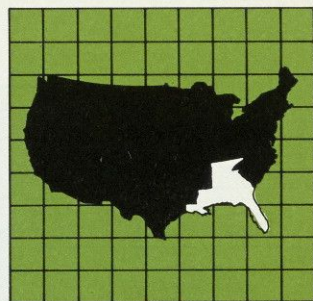


Economic Review



FEDERAL RESERVE BANK OF ATLANTA

JULY 1982

THRIFTS Coping with Change

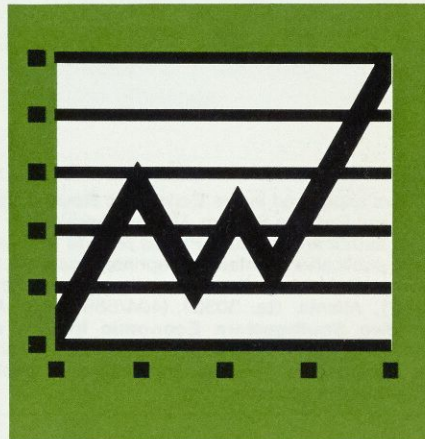
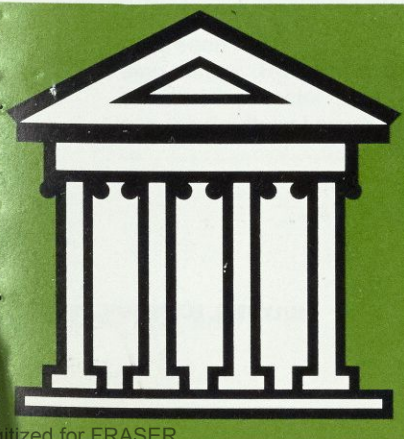
ARMs Southeastern S&Ls Cautious

S&Ls The Florida Experience

TRUCKING Deregulation's Impact

BANKERS Fear of Flying?

SOUTHEAST Key Role for Small Business



Economic Review



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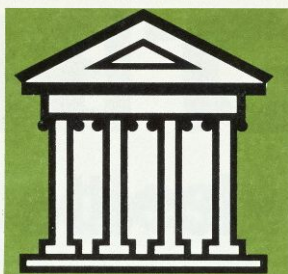
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A Changing Era Challenges Thrift Industry. 4

Mismatched maturities of assets and liabilities, together with high interest rates, have created serious problems for thrift institutions. This article briefly reviews the thrifts' problems in the light of regulatory structures and introduces three subsequent articles on aspects of deregulation in the thrift industry.

Florida S&Ls' Use of Expanded Powers. 7

Several legislative proposals are under consideration to give thrift institutions broader lending and deposit authority. If the proposals are enacted, will thrifts rush to use their expanded powers? If they do, will they achieve the hoped for benefits?

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"The bricks and mortar system of delivering banking services is dying," according to John Fisher, senior vice president of BancOne Corporation. The new delivery system holds some unknowns, but bankers must accept the challenge.

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S&Ls: MEETING

Thrift Industry Must Hurdle New



An introduction to three articles dealing with legal and regulatory efforts to attack the problems facing thrifts.

Thrift institutions have serious problems resulting from a combination of mismatched maturities of their assets and liabilities and inflation-generated, high interest rates they must pay in order to acquire funds.¹ Thrifts' traditional reliance on long-term, fixed-rate mortgages has limited their ability to increase the returns on their assets rapidly enough to keep up with their cost of funds. The spread between savings and loan associations' costs of funds and their return on mortgages went from a small positive .37 percent in 1980 to a negative .59 percent in the first half of 1981 and has continued negative since.

The shift in returns from positive to negative has been related in part to thrifts' greatly increased reliance on short-term liabilities on which market interest rates are paid. The proportion of these deposits at savings and loan associations has risen from 2.4 percent in 1977 to 65.7 percent in February of this year. Over the same period the average maturity of savings and loan deposits has fallen. Mutual savings banks have fared similarly. The thrifts have had to face the market to get a

Table 1. Average Cost of Funds and Average Return on Mortgages, Insured Savings Associations, 1971-1981

Year	Average Return on Mortgages	Average Cost of Funds
1971	6.81	5.38
1972	6.98	5.41
1973	7.16	5.60
1974	7.43	6.14
1975	7.66	6.32
1976	7.95	6.38
1977	8.21	6.44
1978	8.47	6.67
1979	8.83	7.47
1980	9.31	8.94
1981	9.87	10.92

Source: Federal Home Loan Bank Board: **Savings and Home Finance Source Book, Journal**

THE CHALLENGE

Obstacles in Changing Era

greater proportion of their deposits and to refinance their positions more often as rates rose.

On the other side of thrifts' balance sheets, mortgage specialization has caused two problems for the thrifts. They have depended on a very volatile industry—residential real estate—to generate most of their assets. When interest rates were high and long-term assets more attractive, fewer new mortgages were generated. The thrifts also used long term, fixed-rate mortgages which limited their ability to adjust to higher costs of funds.

Specialization in long-term, fixed rate mortgages has severely limited thrifts' ability to respond to problems generated by inflation and changes in their liability structure. Thrifts have found mortgages hard to come by at inflation-bloated rates recently prevailing. Old fixed-rate mortgages have been a drag on earnings.

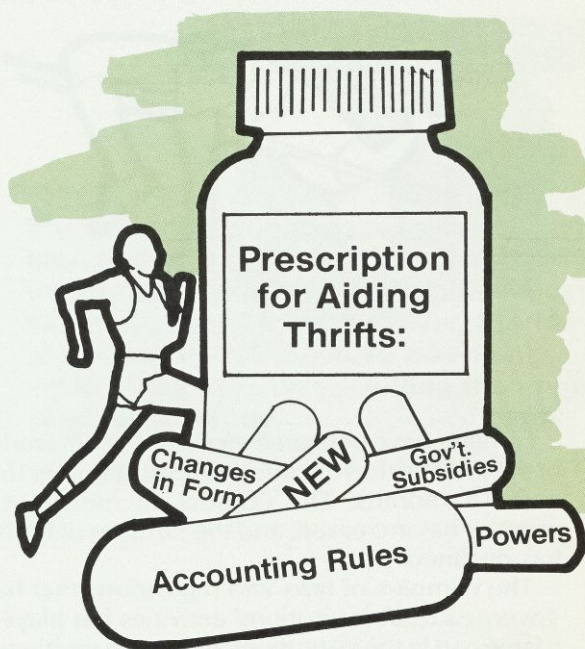


Table 2. Distribution of Deposits at Insured Savings and Loan Associations

Accounts Earning More Than Regular Rate

Period	Accounts Earning Regular Rate or Less	Large Certificates (\$100,000 or More)	6-Month Money Market Certificates	2½ Year Variable Ceiling Certificates	Other Certificates
1977	37.9	2.4			59.7
1978	30.5	3.6	13.7		52.3
1979	25.3	5.9	27.6		41.1
1980	21.0	8.0	36.4	9.9	24.7
1981	19.4	9.3	35.8	18.7	16.8
1982					
Jan.	19.2	9.6	35.6	19.6	16.0
Feb.	19.0	9.7	35.8	20.2	15.3
Mar.	19.1	9.6	35.3	21.0	15.0

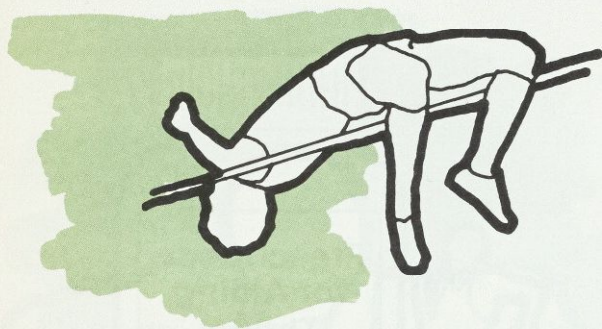
Source: Federal Home Loan Bank Board, Savings and Loan Activity Report - February.

Table 3. Net Worth and Earnings as Percentage of Assets, Insured Savings and Loan Associations

Year	Net Worth to Assets Year End	Earning to Average Assets
1977	5.44%	0.77%
1978	5.51	0.81
1979	5.60	0.67
1980	5.23	0.13
1981	4.24	-0.73

Source: Federal Home Loan Bank Board

Response and flexibility will be crucial for thrifts to survive in the long-run.



Earnings have been negative and the net worth of the industry has declined very sharply over the past 18 months. The number of emergency mergers has increased, and the number of thrifts has declined.

The complex of laws and regulations that has governed thrift institutions' activities has played a large part in the institutions' mismatch problems, even though the institutions have generally supported many of these regulations. Limitations on asset powers have induced mortgage specialization and a complex of state and federal laws and regulations limited the substitution of variable rate mortgages for fixed-rate instruments throughout the 1960s and 1970s.

Table 4. Number of Thrift Institutions, 1977-1981

	Savings and Loan Associations	Mutual Savings Banks
1977	4761	467
1978	4725	465
1979	4684	463
1980	4613	463
1981	4347 P	448 P

P - preliminary

More recently many proposals for aiding the thrifts have been put forth. The proposals come from many quarters and have a broad range of objectives from accounting rules to government subsidies, new powers, and changes in form. The President's Commission on Housing reporting in April recommended broader investment and deposit powers, easing restrictions on mutual-to-stock conversions, greater deposit insurance on IRAs and Keogh accounts and a review of subsidies for first-time buyers.

The three papers in this section discuss three legal or regulatory changes designed to address problems of the thrifts. The first reviews the experience of Florida's state chartered savings and loan associations with more flexible powers granted in July of 1980. The second describes the process and record of savings and loan conversions from the mutual to the stock form—a form that increases the associations' options for raising capital funds. The third deals with southeastern thrifts' adoption of new powers to use adjustable rate mortgage loans. These powers were liberalized for federal savings and loan associations in April of last year.

Each of these changes addresses basic thrift industry problems. The new adjustable rate mortgage regulations promulgated by the Federal Home Loan Bank Board give federal savings and loan associations flexible powers to design mortgages with returns that move with market rates. The speed with which such instruments are offered and the extent to which new flexibility is used will be important in determining the ability of thrifts to survive volatile conditions in the long-run. Evidence on the way in which Florida's state chartered savings and loan associations have used new powers to accept corporate deposits and make corporate loans should give some indication of how the industry as a whole would react to new powers. And our description of the complex process of conversion from mutual to stock form and of the result of some conversions should provide insight into the efficacy of this way of raising capital and improving thrift performance.

—B. Frank King

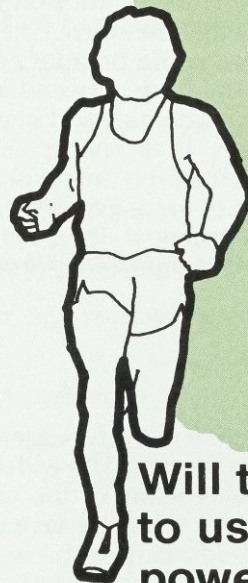
Florida S&Ls' Use of Expanded Powers

Most of us are aware of our nation's savings associations' current financial problems. As operating losses continue to reach post World War II record highs and net worth positions become alarmingly low, talk of offering the savings associations expanded deposit and lending powers is becoming more intense. The expanded powers most often referred to would narrow the gap of competitive inequality between savings associations and commercial banks. Diversified lending and deposit authority would allow the currently disadvantaged savings associations to reduce their dependence on mortgage lending and to attract non-consumer deposits.

The most publicized proposal for expanded savings and loan association powers is the so-called "Garn Bill" being considered in the current Congress. Last October Senator Jake Garn, R-Utah, introduced the "Financial Institutions Restructuring and Services Act of 1981." Among the provisions of the bill, still stalled before the Senate Committee on Banking, Housing and Urban Affairs, are much broader deposit and lending powers for federal savings and loan associations.

In testimony before the Senate Committee on Banking, proponents of the bill hailed it as long needed, comprehensive legislation to deal with the problems of the ailing thrift industry. Edwin B. Brooks, Jr., legislative vice chairman of the United States League of Savings Associations, referred to the bill as ... "overall a great beginning for the process of modernizing the laws which govern our associations." Critics claim the bill addresses only the long run but does little to alleviate the thrifts' current earnings problems. Llewellyn Jenkins, president of the American Bankers Association, stated, "It is important to recognize that this proposed expansion of thrift powers will do

Florida thrifts won expanded deposit and loan authority (closely resembling those under consideration nationwide) almost two years ago. So far, however, Florida state-chartered S&Ls have taken only small steps towards exploiting their new regulatory leeway.



Will the thrifts rush to use broader powers?

nothing in the near term to offset earnings problems. It does nothing about the low-yielding mortgages currently held in thrift portfolios." In addition, Federal Reserve Board Chairman Paul Volcker expressed concern the bill would give rise to competitive inequality with banks because thrifts would have bank powers, but considerably less stringent regulations.

There is also much speculation over the potential harmful effects of expanded powers in the short term. Thrift associations would be allowed to enter new competitive markets in which they have no experience. Some fear the associations would rush aggressively into new markets requiring substantial investments in personnel and marketing. This initial cost plus the likely losses incurred because of a lack of expertise in new lending activities might only exacerbate the savings associations' earnings problems in the short-run.

Policy makers need to know the likely short-term effects of expanded savings and loan powers in their consideration of laws extending these powers. Will the thrifts rush to use these powers? And if they do, will earnings be adversely affected? In order to get some insight into the possible impact of expanded powers, we took a close look at state chartered savings associations in Florida—a group of thrifts that got extended powers almost two years ago. Since July 1, 1980, Florida state-chartered associations have been able to operate under a new and quite liberal law—one that has very important similarities to the proposals in the Garn bill. Our study of the Florida state associations indicates that they have taken only small steps towards using the broader deposit and loan powers. They are proceeding cautiously into new lending activities and have made no sweeping changes. If all savings and loans behave like the state chartered savings and loans in Florida, the granting of expanded powers would neither provide substantial short-term benefit nor pose a substantial short-term threat to the industry.

The Garn Bill

The current plight of the thrift industry suggests that some type of change is needed. The widely publicized Garn bill contains many of the expanded powers considered for federal savings associations. It would extend many of the well recognized commercial banking powers to savings



Expanded powers would narrow the competitive gap between S&Ls and commercial banks.

associations by allowing (1) acquisition of short term assets from sources not presently permitted, (2) reduced dependence on real estate lending, and (3) use of additional sources of funds.

The Garn bill proposes much broader deposit powers for federal associations. Currently, the associations are prohibited from offering any demand deposit accounts. The Monetary Control Act of 1980 provided thrift institutions authority to offer interest-bearing transaction accounts (NOW accounts); however, NOW accounts have a 30-day statutory notice-of-withdrawal and are only available to individuals, not businesses. Associations aren't required to enforce the notice-of-withdrawal period, however. The Garn bill would amend federal statutes to allow an association to offer any customer, **individual or corporate**, a demand account. The similarity between NOW

Table 1. Comparisons between the Garn Bill and current Florida Law.

PROPOSED GARN BILL	CURRENT FLORIDA LAW
would allow Federal associations to:	allows state associations to:
<ul style="list-style-type: none"> ● Offer any customer a demand account (including corporate customers) ● Reduce the notice-of-withdrawal period for savings and NOW accounts to 14 days from the current 30 days ● Invest up to 100% of assets in loans secured by residential or non residential real estate. ● Invest up to 100% of assets in secured or unsecured loans for commercial, corporate, business or agricultural purposes ● Invest up to 100% of assets in consumer loans, including inventory and floor planning loans ● Invest up to 100% of assets in commercial paper and corporate debt securities ● Invest up to 100% of assets in obligations (general or revenue) issued by state or local governments ● Direct investment in tangible personal property up to 10 percent of assets. This would enable an association to engage in equipment leasing ● Invest in a wider variety of mutual funds ● Invest in time and savings deposits of other associations ● Invest up to 5% of assets in a service corporation subsidiary 	<ul style="list-style-type: none"> ● Offer corporate non-interest NOW accounts ● Require only 30 days notice of withdrawal ● Invest in loans, secured or unsecured, of any type or amount and for any purpose, subject only to requirement that at least 60 percent of non-liquid assets must be invested in either real estate loans or interests therein on home property or primarily residential property for terms not in excess of 40 years ● Same powers except 25% of asset limitation ● Not specifically addressed ● Not specifically addressed ● Same powers as Garn proposal ● Same powers

accounts and demand deposits is evident; however, this legislation would be presumably advantageous in expanding the associations' low cost deposit base through attracting corporate customers. The Garn bill would also lower the statutory notice-of-withdrawal period for savings accounts, including NOW accounts, to 14 days from the current 30 days. These amendments would make the depository powers of savings associations very similar to those of commercial banks.

Perhaps an even more important proposal in the bill is expanded investment authority for the federal associations. Savings and loan associations are now primarily in the mortgage lending business. They currently operate under a legal framework which limits other types of investments. Present legislation places a number of percentage-of-asset limitations on an associations' investments and prohibits business loans not secured by real estate. For the most part, the Garn bill would eliminate these restrictions. As the bill stands, a federal association could invest up to 100 percent of its assets in the following:

1. Loans secured or unsecured for commercial, corporate, business or agricultural purposes. Current law prohibits federal savings and loans from making this kind of loan.
2. Consumer loans, including inventory and floor-planning. Current law restricts investment in consumer loans to 20 percent of assets.
3. Commercial paper and corporate debt securities. The current limit on this type of investment is 20 percent of assets.
4. General revenue obligations of states, counties, and municipalities of the United States. Investment in revenue obligations is currently prohibited.
5. Investment in a wider variety of mutual funds. Current law restricts investment to mutual funds exclusively containing investments in which an association could invest directly. The Garn bill would allow investment in a mutual fund that contained primarily, not exclusively, allowable investments.
6. Time and savings deposits of other insured savings associations. Present law only allows investment in deposits insured by the FDIC.
7. Loans secured by residential or non-residential real property. Federal associations can currently invest up to 100 percent in

residential real property loans but must adhere to numerous loan-to-value ratios which the Garn Bill would eliminate.

The bill would also allow savings associations to invest:

1. Up to 10 percent of assets in tangible personal property. This would allow associations to become active in leasing.
2. Up to 5 percent of assets in service corporation subsidiaries. Current law restricts investment to 3 percent.

The expanded powers proposed in the Garn bill would give savings associations much more freedom to choose the type of investments which best suited their needs. They would have the flexibility to increase their investments in short-term, higher yielding loans and securities, allowing them to more closely match the maturity of their deposits and to decrease their dependence on the volatile real estate market.

Florida Law

Florida law, effective June 30, 1980, has significant parallels with the broader deposit and lending powers proposed in the Garn bill. Since July of 1980, the state-chartered associations in Florida have operated under less restrictive laws than have the federal associations. In fact, they have been allowed some of the expanded lending and deposit authority just now proposed for federal associations in the Garn bill.

Table 2. State Charter Activity in the State of Florida

	<u>De Novo Formation</u>	<u>Charter Conversion (Federal to State)</u>
1977	5	0
1978	0	1
1979	1	2
1980	8	4
1981	7	0
*	1	0

*As of February 2, 1982

Source: Office of Comptroller, State of Florida

The most important parallel between the two laws is in investment authority. Florida law gives very broad investment powers to its associations. A state-chartered association in Florida has the power to invest in loans ... "secured or unsecured, of any type or amount and for any purpose." The only restriction is that at least 60 percent of assets, other than liquid assets, must be invested in either real estate, home property or residential property loans. Although this investment authority is not as broad as the Garn bill proposes, it clearly allows Florida associations to have a significant investment in corporate, commercial and other nonmortgage types of lending. In fact, this restriction seems insignificant when one observes that commercial banks in the United States had on the average 20 percent of their assets invested in commercial and industrial loans on December 31, 1981.¹

In addition, a Florida association may invest up to an aggregate limitation of 25 percent of total assets in (a) general and revenue obligations of any state, county or municipality of the United States; (b) corporate obligations including commercial paper and; (c) obligations of federal agencies which are not guaranteed by the United States. The most significant point here is the permissible investment in revenue obligations. This is a direct parallel with the proposed Garn bill.

The final two parallels between Florida lending (investment) authority and the Garn bill are in time deposits in savings associations and investments in service corporation subsidiaries. A Florida association can invest in the time deposits of any insured depository institution and may also invest up to 5 percent of its assets in service corporation subsidiaries.

On the liability side of the balance sheet, the Florida associations can offer NOW accounts to individuals as may federal associations; however, Florida law goes on to permit NINOW accounts (non-interest NOW accounts). This is a significant addition to the savings and loans' deposit powers because NINOW accounts may be offered to corporate customers and thus allow the Florida associations to extend a heretofore prohibited transaction account to their corporate customers. Despite the 30 day statutory notice-of-withdrawal required for NINOW accounts, withdrawal appli-

cations are processed and paid as they are received. These accounts bear a striking similarity to the demand deposit proposed in the Garn bill.

Comparison Study

Knowing the similarities between actual Florida statutes and proposals in the Garn bill, we set out to examine the extent to which Florida associations have used their new powers. In our study we looked at the balance sheet composition of state-chartered associations in Florida as compared to federally chartered associations. Based on the premise that the expanded powers contained in the Garn bill could have a short-term and/or long-term effect on the financial condition of savings associations, we felt the impressions of the short-term may be visible in the experience of the Florida associations during the first 21 months of their new powers. The answer to this question would hopefully give us some insight into the future implications of granting expanded powers to federal savings associations.

We examined financial data on 93 federal associations and 25 state-chartered associations taken from the associations' first semi-annual report of 1981 to the Federal Home Loan Bank Board. All ratio comparisons are based on this data. However, in an attempt not to overlook recent developments, we requested all state-chartered associations to provide us with updated financial information. This information was reviewed to see if any major changes had occurred.

The addition of 16 new state associations and 4 conversions from federal charter since 1979 seems to indicate the new state-chartered associations felt they could successfully compete against other depository institutions and earn profits using broader powers of the new Florida law. During the same time period there were only 3 new federal associations in Florida. It should be noted that **de novo** federal stock associations are not permissible under current law and could be a factor in the obvious bias towards state charters.

The best way to determine the degree of the state associations' involvement in certain investment or deposit activities was through ratio comparisons. A ratio comparison eliminates any prejudice due to actual dollar amount. All associations, regardless of size, are put on equal terms when determining their relative involvement in various activities. In the study, we consolidated the financial statements of all the

¹Federal Reserve Bulletin, January 1982.

Table 3. Comparisons of Savings Associations in Florida by Charter

As A Percentage of Total Assets	Federal	State	New State Since 1979	Charter Conversion (Federal to State)
	(93)	(25)	(14)	(4)
Total Loans	88.48	83.98	44.97	81.72
Mortgage Loans	86.83	80.75	43.01	79.59
Other Loans	1.65	3.23	1.96	2.12
Consumer Loans	1.62	2.53	1.89	2.12
Corporate Loans	0.03	0.70	0.07	0.01
Liquid Investments	6.24	6.57	37.37	9.97
Non Liquid Investments	1.33	3.15	3.68	2.96
Investment In Service Corporation	0.42	0.77	0.62	1.59
Net Inc (Loss)	(0.09)	0.02	0.29	(0.07)
As a Percentage of Deposits				
NINOW Deposits	0.01	0.10	0.69	0.27
Savings in Excess of Regular Rate	79.24	80.41	78.33	81.49

savings associations in any particular group. Ratio comparisons were then based on combined balance sheet data for each group, thus giving an average weighted by association size. During the study we actually made comparisons of four separate groupings of Florida associations. In the first comparison we split all of the associations in Florida into two groups, state-chartered and federally-chartered, and compared the combined balance sheet statistics for both groups. This gave us an overall comparison based solely on charter selection.

This comparison showed little change in balance sheet composition. As Table 3 indicates, the state-chartered associations were slightly more involved in the areas where Florida law was more lenient than federal law. For example, loans other than mortgage loans were 3.23 percent of total assets at the state-chartered associations and only 1.65 percent of total assets at federal associations. This indicates the state associations are engaging in more corporate and consumer lending relative to the federal associations. In fact corporate loans as a percentage of assets were .7 percent at state associations and only .03

percent at federal associations.² Consumer loans at state associations were slightly higher than at federal associations and represented 2.53 and 1.62 percent of assets, respectively.³

Despite broader deposit authority, the liability side of state-chartered associations is not significantly different from that of the federal associations. NINOW deposits represent only .10 percent of all deposits at the state associations. Both groups of associations have a majority of deposits in accounts that pay in excess of the passbook rate. The deposit structure of state-chartered associations is composed of 80.41 percent of this type of deposit compared to 79.24 percent for the federal associations.

²The method of reporting lending activity does not specifically state the amount of corporate lending. Corporate lending activity would be reported as "Other, other loans." This category could also include miscellaneous loans not elsewhere specified on the semiannual report to the Federal Home Loan Bank Board. Therefore, references to corporate lending may not be an accurate approximation of actual totals. If anything, the ratios would be overstated. It is believed, however, to be relevant for the comparisons made herein.

³Consumer loans are defined as Loans on savings accounts, Improvement loans, Education loans, Mobile Home loans and other equipping and consumer loans.

Table 4. Comparisons of Savings Associations in Florida by Size and Charter

Expressed as a Percentage of Total Assets	1 bil. and over		100 mil. to 1 bil.		25 mil. to 100 mil.		Under 25 mil.	
	STATE	FED	STATE	FED	STATE	FED	STATE	FED
	3	14	4	7	6	16	12	6
Total Loans	85.47	88.23	81.44	89.10	80.82	87.29	45.97	70.76
Mort. Loans	82.01	86.55	78.95	87.77	78.02	84.62	43.33	67.91
Other Loans	3.46	1.68	2.49	1.33	2.80	2.67	2.64	2.86
Consumer Loans	2.55	1.66	2.48	1.29	2.42	2.66	2.53	2.86
Corporate Loans	0.91	0.03	0.37	0.03	0.38	0.01	0.11	-0-
Liq. Investments	4.88	6.44	10.37	5.65	9.77	6.71	35.35	24.54
Non Liquid Investments	3.15	1.36	3.11	1.41	2.77	1.41	5.65	1.53
Inv. in Service Corporation	0.76	0.49	0.92	0.92	0.06	0.33	0.95	0.03
Net Inc (Loss)	0.01	(0.12)	0.08	(0.12)	(0.06)	(0.15)	0.04	0.31
Expressed as a Percentage of Total Deposits								
NINOW Dep.	0.12	N/A	-0-	N/A	0.10	N/A	0.75	N/A
Sav. in Excess of Regular Rate	80.07	79.27	81.17	79.43	79.06	81.33	77.82	68.18

None of the ratio comparisons we have discussed has great operational significance.

In other words even though the state-chartered associations are involved in certain activities to a greater degree than the federal associations, their overall involvement is insignificant when looking at the operations of the whole organization.

In the next comparison we looked at all of the new state associations chartered since 1979 and separated them from all other state-chartered associations. There were really two reasons for doing this. First, the first comparison probably masked the performance of these new associations since their total assets represented a small portion of the total group's assets. Second, the number of new state associations since early 1980 almost tripled the total number of state-chartered associations. Prior to 1980 there were 9 state chartered associations in Florida. As of February 1982, there were 29 associations.

The degree of involvement by new associations in corporate and consumer lending was minimal. Corporate loans were .07 percent of assets and consumer loans were 1.89 percent of assets.

NINOW accounts showed no significant involvement and were .69 percent of total deposits.

Overall, the new associations were much more liquid than the other associations. Their investment in securities eligible for liquidity requirements was 37.37 percent of total assets compared to only 6.24 percent for the federal associations. The federal associations had 86.83 percent of their assets invested in mortgage loans, whereas the new state associations had only 43.01 percent similarly invested. Several new state associations indicated that they are acting basically as mortgage brokers; taking only loans that conform to GNMA and FNMA standards, and subsequently selling these in the secondary market.

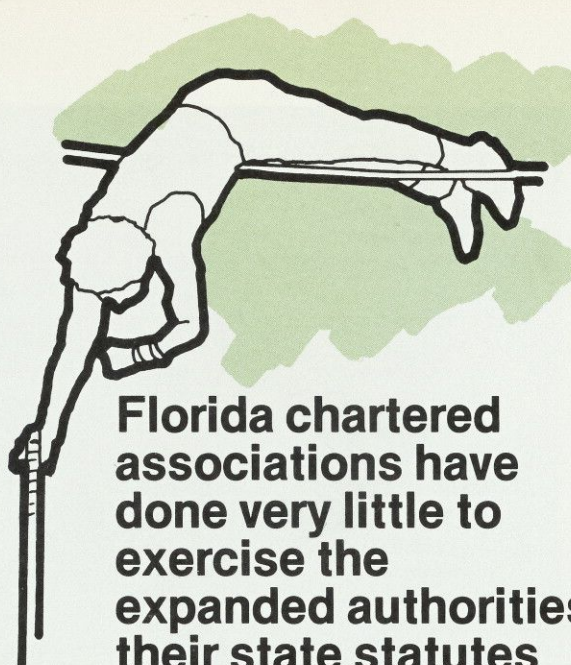
The relatively small degree of involvement by the new associations in many of the permissible activities is probably a function of several different factors. First, the amount of involvement is limited by their brief existence; many were less than a year old. Second, the demand for consumer and residential loans is weak now. High interest rates have kept many people out of the market for borrowed money.

Third, many of the associations indicated they had not really tried to "sell" their services yet. They are new and are trying to get their "house in order" first. Several associations indicated plans for increased marketing of their new services in the coming year. One indicated that its lack of expertise in corporate lending made it proceed very cautiously in this area. The association indicated many corporations considered NINOW accounts as part of a package which included corporate loans. They were not interested in one service without the other. It is likely, therefore, that cautious entry into corporate lending has hampered the growth of NINOW accounts.

The strategy of diversifying their assets and remaining very liquid seems to be working. Revenues have outpaced the increasing cost of funds. The new associations actually had a .58 percent annualized return on assets during the first half of 1981 compared to the federal associations' net loss. Several of the associations reported up-dated earnings for 1981 well in excess of one percent of total assets. As a group, the new associations are obviously outperforming federal associations.

In addition to the associations newly formed since 1979, four associations, three of which had been in business over 25 years, changed from federal to state charter during 1980.

When we compared these four "converted" associations to the newly formed associations,



Florida chartered associations have done very little to exercise the expanded authorities their state statutes provide them.

we found that they were not significantly engaged in nonmortgage lending or in taking NINOW deposits. They more closely resembled the federally chartered associations than the new state chartered ones. The resemblance included operating losses over the first half of fiscal 1981.

Just as Florida's state chartered savings and loan associations have failed to move far from the balance sheet structure of federal associations, they have not moved far toward the structure of commercial banks. Comparisons are shown in Table 5. Corporate loans at .7 percent of savings and loan assets compare with 10.2 percent of bank assets; consumer loans at 2.5 percent of savings and loan assets compare with 15.3 percent of bank assets, and mortgage loans at 80.8 percent of savings and loan assets compare with 18.6 percent of bank assets. On the liability side the savings associations had 0.1 percent of deposits in NINOWs, while banks had 41.7 percent of deposits in demand deposits.

Table 5. Comparisons of State Chartered Associations with Commercial Banks in Florida

As a Percentage of Total Assets	Commercial Banks	State Chartered Associations
Total Loans	46.4	84.0
Mortgage Loans	18.6	80.3
Other Loans	2.3	3.3
Consumer Loans	15.3	2.5
Corporate Loans	10.2	0.7
Investments	29.4	9.7
Demand Deposits as a Percentage of Total Deposits	41.7	0.1

Source: FDIC 1980 Bank Operating Statistics.

The Maine Experience

The Maine experience offers a second look at forecasting the short-run impact of expanded powers of the federal savings and loans. On October 1, 1975, state-chartered thrifts in Maine were given authority to offer a wider range of

banking services. They were allowed to invest up to 10 percent of their assets in consumer loans, commercial loans and other "prudent loans." In addition they received authority to offer personal checking accounts and in February of 1976, all depository institutions in Maine were allowed NOW accounts.

A study conducted by McCall and Peterson found Maine thrifts had made significant competitive gains in the areas of consumer lending and NOW accounts.⁴ However, the thrifts' involvement in commercial lending was very small. The Maine study did not look at the savings associations' use of their new lending and deposit powers relative to alternative investment and deposit choices (as this present study did for the Florida associations) but rather at their penetration into the market share of the respective lending and deposit areas.

The study indicated that from June, 1975 to December, 1977 consumer loans increased 26.7 percent at savings and loans, 77.3 percent at savings banks and 29.7 percent at commercial banks. During the same time period the share of commercial loans at savings and loans and savings banks increased from slightly less than one percent to only 1.8 percent at December 1977.

The Maine study concluded commercial banks could expect to face increased competition from thrift institutions for financial services. Consistent with what one might expect of any firm entering a new market, the thrifts priced

their services aggressively and undercut commercial bank prices. Slow growth in corporate lending was attributed to the inability of Maine savings banks to accept business demand accounts, an integral service along with corporate lending. Overall, the short-run results of the Maine associations appear consistent with what we found in Florida. They are indeed taking steps to utilize their authorized powers, but we see no evidence of sweeping changes. Their involvement in non-traditional lending activities has increased since October 1975 but is still considered minimal in relation to the overall operation of the organization.⁵

Summary

We have seen that in the short-run Florida chartered associations have done very little to exercise the expanded authorities their state statutes provide them. Based on the Florida experience, the hope that broader powers will allow a significant improvement in savings and loans' current state seems unfounded. The fear that the associations will make a sudden ill-fated surge into new activities is not supported either. Any benefits from the broader deposit and lending powers are likely to be realized only in the long-run.

In summary, the expanded powers proposed for federal savings associations may provide relief for the long-run performance of the thrift industry but will do little to ease the current pain of low yielding mortgage portfolios.

—Robert Baker

⁴"Changing Regulation in Retail Banking Services: The Evidence from Maine," *Journal of Retail Banking*, Sept. 1980, p.46.

⁵For a good discussion on consumer response to the restructured financial institutions in Maine, see Neil B. Murphy and Lewis Mandell, "Consumer response to Restructured Financial Institutions: The Case of Maine," *Journal of Money, Credit, and Banking*, Vol. II, No. 1, pp. 91-98.

Mutual-to-Stock Conversions by S&Ls

S&Ls convert from mutual to stock forms of ownership primarily because it allows them to go to the market for capital. The evidence suggests that markets do a good job of appraising value in these conversions. A complex set of regulations guards against abuses in the conversion process, and proposals for reducing some regulatory inhibitions could encourage more conversions in the future.

Mutual savings and loans must normally accumulate net worth solely from earnings; associations converting into the stock form receive capital from the initial sale of stock in their conversion, and may raise additional capital with subsequent stock offerings. This advantage of stock associations is particularly important in this period of negative returns and eroding net worth. It gives them an additional source of funds and a way to replenish the buffer stock of capital that protects them from insolvency. During 1981, fully 37 associations across the nation completed the mutual-to-stock conversion process and in the process raised \$127 million in equity capital. That trend appears certain to accelerate because the Federal Home Loan Bank Board (FHLBB), recognizing the need to remove regulatory impediments from the conversion process, liberalized its regulations in several respects in April.

Why Convert?

Mutual-to-stock conversions are motivated primarily by the stock association's ability to go to the market for capital and the incentives

available to stock association management. Both of these motivations have public and private dimensions. Even in years when associations enjoy strong earnings, they still may want to convert to improve net worth. In the middle and late 1970s, when earnings were generally excellent, associations achieving substantial asset and deposit growth often experienced difficulty meeting regulatory net-worth benchmarks. This situation occurred as aggressive mutuals' assets grew faster than their additions to net worth from earnings.

Conversion also has been encouraged by gradual deregulation by federal legislation and regulatory agencies. This has generated needs for new capital to support new products and services. Dividend policies at most stock associations generally involve no cash dividend or a dividend rate typically in the 4-to-6 percent range. Equity capital, in terms of cash outflow, is thus a relatively low-cost source of funds to the association and is attractive as a way of financing new products and competitive activities.

The need for equity funds to bolster net worth and to support new services is illustrated by the experience of two Florida-based mutual associations currently involved in the conversion process. One of the associations was chartered in the late 1970s. With growth a major corporate objective, this association adopted a marketing strategy designed to attract substantial deposit inflows and penetrate markets: It established boards composed of community leaders to advise management of the community's needs to provide feedback on service quality, and to promote the association informally in the community. It encouraged its personnel to seek new deposits actively, while providing a community room with a kitchenette for meetings of

local service organizations. In addition, it opened one successful branch office and soon will open two additional offices.

This association has experienced impressive asset growth, topping \$30 million in assets after only two years of operation. Yet its growth created a critical need for equity funds to strengthen net worth, and its directors voted to reorganize the mutual firm into a stock company.

In sharp contrast to this young association is an institution about 20 years old, with a loan portfolio dominated by relatively low-yielding loans and with modest net worth. In 1978 this association adopted an operating strategy designed to boost earnings sharply and to improve the yield performance of its loan portfolio.

Since successfully implementing this strategy, this mutual association has registered substantial asset growth, with record-high earnings in 1980 but a loss in 1981. Despite the association's

addition to net worth from 1980 earnings, its ratio of net worth to assets declined in 1980, reflecting robust asset growth. During 1981, the net-worth ratio declined even further, as the association posted a net loss for the year while continuing to experience asset growth. This association also is converting in order to replenish its net worth.

In addition to raising funds for an association, the conversion from mutual to stock ownership may have other motivations. It may be designed to foster monetary reward in the form of stock options for key management members. Federal Home Loan Bank Board regulations permit such stock-option plans in mutual-to-stock conversions, involving shares of stock up to 10 percent of the total shares to be sold at the time of conversion. With successful management, a converted association should experience asset and earnings growth, except during cyclical declines, and an increase in the value of stock options.

Public interest motivation for association conversions comes also from the improved ability of stock associations to raise capital to buffer against losses and to finance expansion. Some evidence also indicates that stock associations have management advantages. Stock associations become more closely accountable to owners of the firm's shares. These investors expect to earn a profit and their investments aren't insured by the Federal Savings and Loan Insurance Corporation (FSLIC). They can be expected to keep a closer, more active rein on management than would depositors in a mutual association. Stock associations are often managed differently from mutual associations. Most analyses comparing mutual and stock associations find that stock associations generally tend to be more aggressive, more cost efficient and more profitable than their mutual peers.



37 mutual S&Ls converted to stock associations in 1981.

Background on Conversions

Although conversions appear likely to have some advantages for the public, they have been severely inhibited by strict controls that have existed in various forms for a quarter of a century. Opponents argue that widespread conversions could alter the conservative, mutual characteristics of the savings and loan industry and increase borrowing costs to home buyers.

They also warn that insiders of converting associations could reap windfall profits by controlling (1) pricing of the stock to be issued, (2) private placement of shares not subscribed to by account holders, and (3) resale of stock in the aftermarket.

The FHLBB long ago recognized these concerns. To allow itself time to study the conversion process and prepare necessary supervisory regulations, the board established two moratoria on mutual-to-stock conversions, the first from 1957 to 1961 and the second from December 1963 to July 1972.

In July 1972, the Bank Board eased its stand responding to several mutual associations that wanted to convert, by inviting "study applicants" in July 1972. In January 1973, the Congress adopted a statutory moratorium on mutual-to-stock conversions in general, with "study applicants" the only exceptions. In 1974 the FHLBB adopted regulations to control a limited number of study applications. That same year Congress enacted legislation both reaffirming the FHLBB's authority to regulate conversions and extending the moratorium until June 1976.

At the end of the legislative moratorium in mid-1976, opponents of mutual-to-stock conversions challenged the FHLBB's authority to continue supervising them. This opposition to the FHLBB's authority was substantially reduced in 1980, when two federal appellate courts upheld that such regulation was valid. Moreover, the Internal Revenue Service (IRS) provided a boost to stock conversions by ruling that such stock qualified as nontaxable. Prior to this IRS ruling, converting associations had relied on an attorney's opinion.

In an attempt to balance concerns about abuses with the need for mutual associations to have the option to go public, the Bank Board established an extensive set of regulations governing mutual-to-stock conversions. These regulations require (1) extensive disclosure to the general public and association voting members regarding the decision to convert and the impact on the converting association, (2) extensive safeguards against windfalls to insiders in the converting association, and (3) protection against changes in control of the converted institution.

HOW A CONVERSION IS ACCOMPLISHED

Mutual-to-stock conversions for savings and loans generally follow the procedures used in most stock offerings. However, FHLBB regulations require that savings-account holders receive conversion information and that they have an opportunity to purchase stock. The reorganization begins with preparation of a conversion plan and ends with the sale of share of stock. Other key steps in this process include:

- **Prefeasibility Analysis and Conversion Decision**
The conversion decision involves assessing how the association, management, and directors would be affected if the association were to go public. Based on positive results of a prefeasibility analysis, the management selects a conversion plan, which must be adopted by a two-thirds majority of the association's directors.
- **Fair-Market-Value Appraisal**
As part of the conversion plan, the value of the converting association must be appraised by a professional firm independent of the association. Based on market and financial factors, the appraisal establishes a price range for the stock to be sold. Before the stock is offered through subscrip-

tion rights or public offering, the appraisal results are updated to account for changes at the association or in market conditions that have occurred since the original valuation.

- **Filing and Receiving Approval from the FHLBB**
The plan of conversion and the appraisal reports are filed with the FHLBB, a step which begins a review/comment period. Amendments to the plan incorporating any changes that have occurred since the original filing may be filed during this period.
- **Special Meeting**
Once the conversion has been federally approved, the association holds a special meeting in which the majority of members must also approve the conversion. The converting association may also vote on proxies obtained through the proxy statement.
- **Subscription Offering**
After a majority of members approve the plan, the stock is sold in a subscription offering to three groups with priority rights: (1) eligible account holders, (2) supplemental account holders, and (3) the management group.

The regulations require that members of the mutual association be informed about the decision to convert and details of the conversion plan. Members must also approve the reorganization by proxy or vote at a special meeting.

Several rules guard against windfalls. Regulations now prohibit windfalls to savings account holders in the form of "free distributions" of stock. This type of conversion once allowed depositors holding a savings account as of a specified date to receive shares of stock free, based on account size. Prudential Federal Savings, based in Salt Lake City, Utah, converted in 1976 from a mutual to a stock company, distributing stock to approximately 27,000 Prudential Federal account holders. The association received no proceeds from the sale but did incur conversion expenses of \$950,000.

As a further guard against management windfalls, FHLBB regulations and subsequent amendments have sought to distribute stock widely among savings-account holders and the general public, while restricting purchases by directors and management. To achieve a broad-based

sale of stock, the regulations specify that any one person, or group of persons acting in concert, may purchase only 5 percent of the total shares issued during the conversion.

The stock is first sold during a subscription offering to three groups that have priority: eligible account holders, supplemental account holders, and the management group. Eligible savings-account holders have first priority based on account size as of an eligibility date, but subject to the 5 percent maximum purchase limit. Since conversions generally take a long time to complete, the FHLBB also established a supplemental category of account holders based on a more current record data: the end of the calendar quarter immediately prior to the FHLBB's approval of the conversion. These persons have second priority to purchase the association's stock. However, supplemental subscription rights are subject to a 200-share upper limit.

The management group has third priority for subscription rights, subject to a 25 percent upper limit for the group as a whole. Individual members of management are still subject to the 5 percent maximum purchase, including

- **Sale of Unsubscribed Stock**

Based on the size of the stock issue, the converting association may sell unsubscribed shares through either a direct community marketing program or a public offering through an underwriter. As a general rule, only those associations with public offerings in excess of \$3 million retain an underwriter.

- **Management Control/Anti-Takeover Provisions**

The conversion plan often includes provisions to help maintain continuity in management control: (1) The 25 percent management set-aside – The management group may purchase and control a large block of stock, up to 25 percent of the converting association's stock. (2) Anti-takeover provision – A Federal Savings and Loan Insurance Corporation mandates that there shall be no takeovers for a three-year period after conversion. (3) Charter provisions – The converted association's charter may include provisions prohibiting the purchase or control of large blocks of stock by companies engaged in unrelated business activities. (4) Stock options and employee stock-ownership plans – These arrangements may be

used to increase management's stock ownership after the conversion. (5) Staggered director terms and employment contracts – Directors may be appointed for three-year, staggered terms, and key management members may have employment contracts and termination-of-payment agreements.

The entire conversion process, from the plan's adoption to the sale of stock, often takes from 12 to 18 months or more to complete, depending upon several factors: (1) whether the association's internal records are up-to-date enough for the proxy statement and the appraisal, (2) the quality of conversion documents filed with the FHLBB and members, and (3) market conditions for new savings and loan equity shares. Besides the time needed to prepare conversion documents, to allow the FHLBB to review and approve the conversion, and, if necessary, to wait for the market to improve, the plan must provide time to notify members of the special meeting and the public of the stock offering.

subscription rights that may be based on their individual savings accounts as of the eligibility date. However, subscription rights for management members based on **increases** in their account balances during the year before the eligibility date are subordinate to the subscription rights of others.

After the subscription offering, unsold shares are offered to the general public in either an underwritten offering or a direct community marketing program; 1979 regulations prohibit private placement of unsubscribed stock. During the public offering any one person, or group of persons acting in concert, may purchase a maximum of two percent of the total shares originally offered during the conversion. The regulations also seek to discourage management from purchasing shares for speculation during the conversion by stating that they may not resell such shares for three years after the conversion is completed.

The impact of the pre-1976 moratoria and the strict regulations on conversions has been to limit the number of mutual-to-stock reorganizations. Recently the Bank Board proposed amendments to its regulations which would remove some inhibitions to conversions. The Bank Board would allow current management to purchase a greater proportion of the converting associations' stock, thus removing a source of hesitancy for managements afraid of losing control. It would permit larger holdings by individual parties, giving some incentive to stock purchasers who seek control. It would allow purchasers to sell the stock of a converted association one year after the conversion rather than three years as now required. The proposed changes would also remove and simplify requirements for informing association members and the public, reducing the costs and complexity of conversions.

Appraisal of Converting Associations' Market Value

Central to the conversion process is an appraisal of the converting firm. An appraiser is charged with finding the association's market value. A low estimate reduces the capital that can be raised by conversion and leaves open possibilities for insider windfalls; a high estimate means an incomplete sale of the firm's stock.

The appraiser's method relies on the fundamental assumption that potential purchasers of the stock will reward earnings and punish risk. His valuation of the stock is thus related to the association's future income level and income stability.

To arrive at an appraised value, the appraiser first analyzes the subject association to establish an earnings base and to decide how risky these earnings are—that is, how variable they are likely to be. This analysis includes a study of the association's financial statements and management reports during the most recent five-year period. It focuses on asset and liability holdings, level of earnings and growth experienced, stability and quality of sources of income, and capital adequacy.

In order to project from the earnings base, the appraiser also discusses the association's strategic plans with management. These plans may include how the association is adjusting to federal deregulation of its industry and to accompanying expanded asset powers. Additionally, the appraiser reviews with management the plans and activities of subsidiary corporations to determine the importance of real-estate operations and profits (losses) on joint ventures.

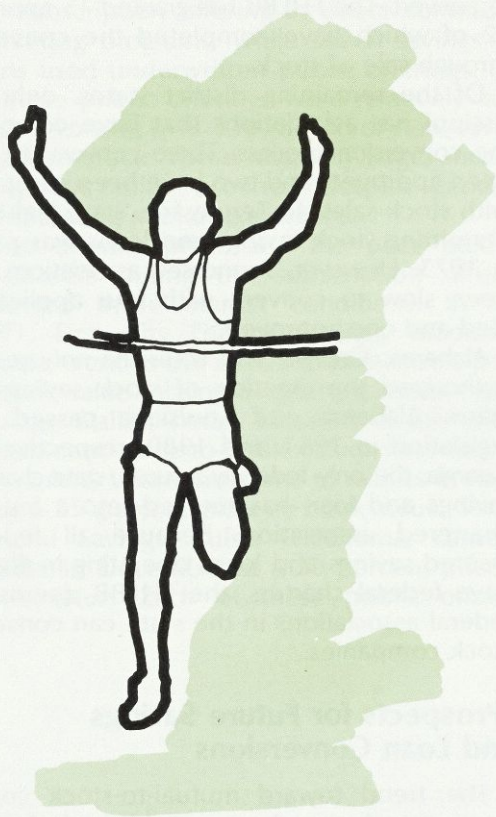
In the next phase of the appraisal process, 10 or more publicly traded savings and loans are selected to provide market price information to estimate the value of the converting association. Here the projected earnings and risk characteristics of the converting association are compared with the market value of stock associations with similar characteristics. There are about 60 publicly traded companies listed on the National Association of Security Dealers Automated System (NASDAQ). Through annual reports, FHLBB reports, and Securities Exchange Commission documents, the appraiser can obtain operations information on these public savings and loan companies. This information often is supplemented through telephone conversations with key management officials at these companies.

The appraiser is most interested in the operational strategies of the companies listed on NASDAQ and their financial characteristics: asset sizes, sources of income, levels and stability of earnings, and loan and deposit portfolios. In addition, geographical location generally is a guide in the selection process because stock in existing public associations often are traded primarily in local markets and these shares provide

potential investors in the proposed stock issue with alternative investment options.

After studying the universe of public savings and loans listed on NASDAQ, the appraiser selects a sample of 10 or 12 comparable firms. The market prices of these firms' stock reflect how investors appraise the value of firms that are financially and operationally similar to the converting association.

The appraiser uses financial information on the converting association and market price data in **pro forma** P/E and P/B equations to provide preliminary indications of value. The P/E approach



The appraiser's method relies on the fundamental assumption that potential purchasers of the stock will reward earnings and punish risk.

basically multiplies estimated post-conversion earnings (the earnings base plus after-tax returns on estimated net proceeds) by an appropriate P/E value. The equation for this valuation is:

$$FMV = P/E (Y + r(PMV - EXP))$$

Where: FMV=fair market value

P/E=the assumed price-to-earnings ratio for the subject association

Y=the earnings base

r=the net after-tax rate of return on the conversion net proceeds

EXP=the anticipated conversion expenses, including accounting, appraisal and legal fees, printing postage and underwriting commissions.

FMV, found on both sides of the equation, can be solved algebraically. In the P/E valuation, two judgemental areas critical to the appraisal are the earnings base for the latest 12-month period and the appropriate P/E value. The earnings base should stem from sources of income and expenses that reflect the association's ongoing operating strategy.

The ratio of market price to book value provides an alternative approach to valuation and is especially useful during periods of very low or negative earnings, when P/E ratios are distorted. The price-to-book value formula is:

$$FMV = P/B (B + FMV - EXP)$$

Where FMV and EXP represent the values previously defined in the P/E formula, and B equals book value of the converting association.

The key area involving judgement in the book-value approach is the price-to-book values of the comparable firms at the date of the appraisal, after adjustments to reflect special characteristics of the subject firm that may not closely match the characteristics of the comparable firms.

The appraisal results are updated prior to the subscription and public offerings and adjusted for changes that may have occurred since the original appraisal was made. This updated value considers changes in the operations of the converting association and also recognizes fluctuations in market conditions for savings and loan shares in general.

The marketplace provides the final approval or disapproval of the appraiser's estimated value of the new shares of stock. Often, during the subscription offering, only a small percentage of the shares are purchased by account holders and management, leaving most of the stock to be sold in a public offering. In 1981, seven converting

associations held underwritten public offerings in which an average of 78 percent of the shares were sold. In at least one public offering, market conditions deteriorated rapidly at the time of the public offering and the offering price, based on the appraisal, was too high. Another appraisal update was required, taking into consideration changes in market conditions and the trend of prices of savings and loan stock. Generally, however, public offerings sold out at appraised fair market value.

Conversions in the Sixth District

From July 1972 through year-end 1981 the FHLBB received 253 applications, including five study applications, for associations seeking approval to convert to stock companies. Of that number, the FHLBB has approved 137 applications, and 104 of these approved associations have completed the conversion with sale of stock.

Each state in the Sixth Federal Reserve District now permits stock savings and loan companies. The FHLBB permits federally chartered savings and loans to convert to stock when either state-chartered associations have the authority to convert by state law, or when there are no federally insured, state-chartered associations

in the state. Within the six states wholly or partially in the Sixth District, 50 savings and loan associations have applied to the FHLBB for permission to convert from mutual to stock. The FHLBB has granted 18 approvals; 14 of these associations have issued stock.

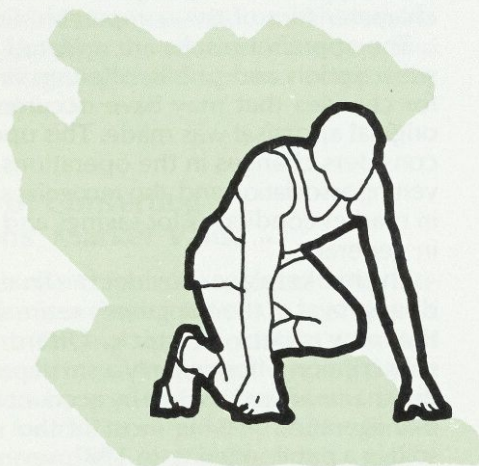
Conversion activity in the Sixth District has been concentrated in Florida, mainly because Florida's savings and loans experienced vigorous growth during the 1970s with an accompanying need for additional capital.

Florida passed legislation permitting state-chartered stock associations in 1973. During the 1973-to-1981 period, 32 Florida-based associations filed applications with the FHLBB to convert. The FHLBB has granted 15 approvals, 12 of which have completed the conversion through sale of stock.

Of the remaining district states, only Mississippi has associations that have completed the conversion process. Three conversions have been approved, and two have been completed with stock sales. In Tennessee, state legislation permitting stock savings and loans was passed in 1973. However, Tennessee associations have been slow to convert, with four applications filed and one approved.

Alabama, Georgia, and Louisiana only recently authorized the creation of stock savings and loans. Alabama and Louisiana passed such legislation in 1981 and 1980, respectively. In Georgia, the only federally insured, state-chartered savings and loan has merged into a federally chartered association. Because all federally insured savings and loans operating in Georgia have federal charters, the FHLBB deems that federal associations in the state can convert to stock companies.

The trend toward conversion should accelerate.



Prospects for Future Savings and Loan Conversions

The trend toward mutual-to-stock conversions already has been established. At year-end 1981, fully 2,989 of the 3,786 federally insured savings and loan associations operating in the U.S. were mutual firms. From 1976 to 1981, 104 savings and loans completed the conversion process with stock sales. Thirty-seven of these converted in an environment of depressed earnings and stock prices in 1981. With 2,989 mutual firms in the savings and loan industry, this trend should accelerate, reflecting the following factors.

The controversy that surrounded the conversion issue during the late-1970s has been sharply reduced. The FHLBB has adopted regulations seeking conversions on an equitable basis and virtually eliminating the potential for "windfall" gains. Federal legislation and two appellate courts have reaffirmed the FHLBB's authority to supervise conversions of all federally insured savings and loans and the IRS has ruled that mutual-to-stock conversions qualify as a nontaxable reorganization. Proposals for reducing regulatory inhibitions should promote conversions if adopted.

Of the 37 associations that converted last year, 30 sold the shares of stock remaining after the subscription offering in direct community marketing programs, while seven savings and loans used underwritten public offerings. Four of these public offerings were relatively large, each involving over \$10 million of new savings and loan stock. These relatively large, successful public sales occurred despite generally deteriorating market conditions.

The offering price, and the price paid by purchasers during the subscription offering, reflected these market conditions. In May 1981, First City Federal Savings, Bradenton, Florida, went to the public market with a price-to-book value totaling 41 percent. Texas Federal Savings, Dallas, Texas, followed in July with a 33 percent price-to-book value. First Savings, Milwaukee, Wisconsin, came to market in August with a 25 percent price-to-book value. Sooner Federal Savings, Tulsa, Oklahoma, came to market in December at a 29 percent price-to-book value. Each of these public offerings

occurred at a time when the respective associations reported negative earnings for the three months immediately prior to the public offering. Moreover, the savings and loan industry has received much media attention concerning generally distressed earnings and troubled associations. Despite the extremely adverse climate for new savings and loan equity shares, the markets for shares remained open; the shares still had a positive value.

While many savings executives are reluctant to convert when faced with 1981 price levels, savings and loan prices are quite responsive to changes in interest-rate levels. Easing interest rates in the first half of 1980 triggered a sharp increase in savings and loan equity prices, and when interest rates come down again, savings and loan equity prices, based on past relationships, should respond favorably with improved market conditions for the stock issues of converting associations.

Deregulation of the financial services industry offers a final motivation for stock conversions. While money-market funds are a new source of competition for consumer deposits, continued deregulation will probably bring increased competition by institutions for home loans. Thrift acquisitions across state lines became reality in 1981, with assistance from federal regulatory agencies. As deregulation occurs, and the financial services industry becomes increasingly competitive, a greater number of savings associations will probably convert to obtain a new source of capital.

—J. Michael Arnott

Arnott is Vice President for Corporate Planning, Fulton Federal Savings and Loan Association, Atlanta, Ga. (This article was prepared while the author was senior economist at Plantec Corporation, Jacksonville, Fla.)

Adjustable Rate Mortgages: Southeastern S&Ls Interested But Cautious

The adjustable rate mortgage (in many variations) is one of the devices intended to help thrifts adjust in a deregulating environment. The ARMs are designed to provide returns that move with market interest rates. But an Atlanta Fed survey showed that southeastern S&Ls have been cautious in their use of the new instrument.

Despite broad new authority granted to savings and loan associations last year, the adjustable rate mortgage has a long way to go before it replaces the long-term, fixed-rate loan that's been the standard in housing finance since the 1930s.

That's one conclusion of a Federal Reserve Bank of Atlanta survey that sampled southeastern savings associations to determine how rapidly and how extensively they are utilizing the new powers granted them under the Adjustable Mortgage Loan Regulation of April 1981. The responses indicate some hesitancy on the part of smaller S&Ls to exercise those powers in introducing new mortgage instruments.

More than a quarter of the associations we surveyed hadn't offered an adjustable loan as of March. What's more, the features chosen by those that did offer the loans generally didn't go as far as regulations permitted to adjust the return on loans to market costs of funds. No association changed its rate more often than every six months, for instance, and a majority changed only annually. And 30 percent of the associations limited the per period rate adjustment.

However, the survey indicated that more southeastern associations are likely to adopt adjustable loan powers. Most associations that didn't offer adjustable loans told us they planned to introduce such loans in the near future. Indeed, four of these lenders had taken a large step in that direction by offering balloon mortgages.

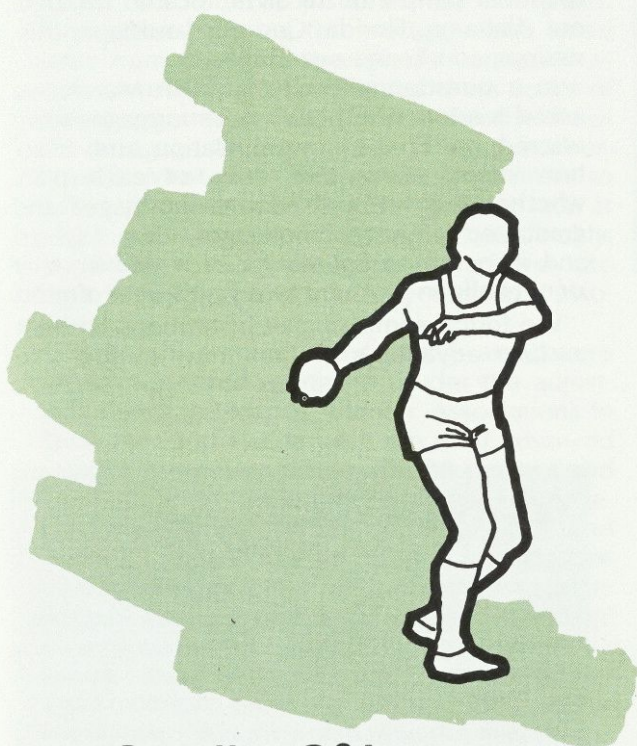
Clearly, the long-term, fixed-rate mortgage common since the 1930s presents problems for both borrowers and lenders in an era of volatile interest rates and rising inflation. Its return to the lender will not change as rapidly as the lenders' costs to raise funds through short-term instruments. In such cases, lenders' earnings will fluctuate widely. In severe cases of rising inflation, downward earnings swings may threaten to wipe out lenders' net worth. The disadvantage of the long-term, fixed-rate mortgage to lenders is being demonstrated graphically in the plight of thrift institutions today.

The long-term, fixed-rate mortgage also holds disadvantages for many borrowers in periods of high inflation. Inflation drives up interest rates and monthly payments along with them. Borrowers thus pay high monthly payments early in the life of their loans. True, if continued inflation drives up borrowers' wages and the value of their real estate, it will reduce their monthly payments as a percentage of income and increase their homeowners' equity. So borrowers make lower real payments in the later years of their mortgage than in earlier years. Yet for younger borrowers, whose real income can be expected to rise, the time patterns of income and payments are mismatched, a major impediment to buying homes if they must be financed with a long-term, fixed-rate mortgage.

Alternative mortgage instruments are designed to alleviate one or more of the problems inherent in the long-term, fixed-rate mortgage. Each alternative

adjusts features in the mortgage contract to appeal to some disadvantaged group or groups in a volatile, inflationary economic environment.

The graduated payment mortgage, for example, fits young borrowers' income patterns by providing low monthly payments in the early years of the mortgage and gradually increasing payments in later years. Other alternatives, aimed at the lenders' needs, allow the interest rate paid on the mortgage to vary with market interest rates so that mortgage rates and costs of money to fund them may be more closely matched and profits stabilized. They include variable rate mortgages and renegotiable rate mortgages as well as other plans. Still another group of alternative mortgages attempts to address the needs and problems of both borrowers and lenders. The shared appreciation mortgage, for instance, gives the borrower a break on interest rates and monthly payments while giving the lender a share of the appreciation of the property used to secure the note.



**Smaller S&Ls were
hesitant to exercise
their new powers.**

Only within the past 10 years have most of these mortgage instruments been introduced, and they have met with varying success. Most of the mortgage plans subject to federal or state regulation have had to comply with fairly stringent guidelines. Privately generated plans have also been quite specific in their characteristics. Thus both types of plans are inherently limiting in their applications.

Adjustable Mortgage Loan Regulations

Perhaps the most significant advance in regulation of alternative mortgage instruments is the Adjustable Mortgage Loan Regulation announced by the Federal Home Loan Bank Board in April 1981. The regulation applies to the savings and loan associations, the nation's major mortgage lenders. Unlike the majority of other regulations, this approach attempts to accommodate differing needs of many institutions by stating only broad limits. It addresses many of the concepts underlying alternative mortgage instruments such as variable rate and rollover mortgages, but instead of laying down a set of rigid regulations and restrictions, the new framework requires each institution to develop plans that best suit its needs and the needs of its customers. There are guidelines which safeguard consumers, of course, but the adjustable mortgage loan regulation remains very open and adaptable to most circumstances.

This flexible new regulation allows the interest rate on the mortgage to adjust to any index the borrower and lender agree on so long as the index is not controlled by the lender. No restrictions limit the frequency of adjustments; however, the rate may go up by no more than the index and must go down as much as the index. Adjustments may occur either in the amount of payments or in maturity of the instrument so long as maturity does not exceed 40 years. This feature places no prohibitions on negative amortization, which occurs when monthly payments are insufficient to cover interest costs. If negative amortization does occur, increasing the amount a borrower owes a lender, the loan must be rewritten after five years to take the higher principal into account.

Lenders, then, maintain ample flexibility to structure loan programs under this regulation. They are allowed to keep returns on their assets close to current returns in the market by the

AML: ADJUSTABLE MORTGAGE LOAN

The AML regulation provides a very flexible type of mortgage loan which leaves each savings and loan association considerable flexibility to tailor the plan and the terms of its loan to its specific needs and the needs of its customers. Adjustments may be made through changes in the payment amount, the outstanding balance and/or the term of the loan. The AML regulation became effective on April 30, 1981.

TERMS:

- There is a 40 year maximum until maturity of the loan, inclusive of adjustments.
- Interest rate adjustments are based on an index agreed upon by the lender and borrower; it must be beyond the control of the lending institution.
- No fixed adjustments. Adjustments upward cannot exceed the amount of change in the index. Adjustments downward must equal the downward change
- No restrictions on how frequently the index may be changed.
- There is no limit on the amount of negative amortization, though the mortgage must be re-structured every 5 years if negative amortization occurs.
- The borrower may not be charged for any adjustment.
- Full disclosure is necessary.
- Notice of adjustments is required 45-30 days prior. The present status of the loan must be included in the notice.
- No prepayment penalty is allowed.
- After the borrower reaches age 65, a long term, fixed-rate mortgage may be offered; however, it is not a required option.
- The AML regulation automatically preempts any state law that would serve to restrict or disallow AMLs.

unlimited frequency of payments changes, the ability of the lender to choose the payments index and the absence of limits on rate adjustments at any one time or over the life of the mortgage. Negative amortization is allowed for up to five years to add more flexibility to design a contract that appeals to borrowers.

In adopting a specific design or designs for adjustable mortgage loans under this broad regulation, lenders must balance their needs for a mortgage instrument that adjusts to market rates against borrowers' fears of changes that would threaten their ability to continue mortgage payments. Lenders naturally want adjustments to occur often, to be unlimited, and to be reflected

in the size of monthly payments (thus adjusting cash flow and avoiding negative amortization). Borrowers hope to avert the risk of large changes in payments or in the maturity of their loans, particularly after experiencing a decade and a half of generally rising interest rates.

Lenders must balance these lender and borrower needs in their plans. This is particularly true if they operate in areas where competing lenders also are designing plans under the adjustable mortgage loan regulation and are offering other types of mortgages that may be more attractive to borrowers.

Survey on Use of New Plans

In order to see how quickly the new powers are being adopted and what types of instruments are being offered, the Atlanta Fed studied the actual status of the adjustable mortgage loan at southeastern savings and loan associations. We selected a representative cross-sectional sample of 56 S&Ls, located throughout Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee (Table 1).

In a questionnaire circulated in March, we asked lenders whether or not mortgages were offered under the new regulation and, if so, how many plans; the terms of each plan, whether long-term, fixed-rate mortgages and graduated payment mortgages were offered and, if so, the current rate for each, and whether or not balloon payment mortgages were offered.

We found some smaller institutions hesitant to take advantage of their new freedom to

Table 1. Number of Savings and Loan Associations Sampled

Asset Class (\$ millions)	Sixth District	State					
		AL	FL	GA	LA	MS	TN
1,000 or more	4	0	2	2	0	0	0
500-999	4	1	1	0	0	1	1
100-499	23	3	4	5	4	3	4
50-99	14	4	2	2	3	2	1
0-49	11	1	1	3	2	2	2
Total	56	9	10	12	9	8	8

Table 2. Types of Mortgages Offered

<u>Mortgage Type</u>	<u>Number of Lenders</u>	<u>Percent of Lenders*</u>
Adjustable loan only	17	30
Adjustable loan and fixed-rate loan	17	30
Adjustable loan, fixed-rate loan and other loan type	3	5
Adjustable loan and graduated payment loan	1	2
Adjustable loan and balloon loan	1	2
Total offering adjustable loan	39	70
Fixed rate loan exclusively	10	18
Fixed rate loan and balloon loan	2	4
Balloon loan exclusively	2	4
No mortgage offerings	3	5
Total in sample	56	100

*May not add to 100 because of rounding

design and offer adjustable rate mortgages. Associations offering the mortgage also shied away from changing the rate as frequently as they were allowed. Few limited the amount of rate changes at any one time or over the life of the mortgage, and few allowed negative amortization. Most plans offered the same index to adjust the loan rate, but the original rate at which loans were made varied considerably. Adjustable loans generally carried a lower rate than fixed-rate loans made by the same institution.

Almost 70 percent of the savings associations surveyed offered mortgages under the adjustable mortgage loan regulation. Associations in Tennessee and Florida were the most advanced in using the new powers, with 88 percent and 80 percent of associations offering them, respectively, in those states. Mississippi and Louisiana provided the fewest associations offering adjustable loans. Indeed, two associations in Louisiana and one in Mississippi offered no loans of any kind at the time of our survey. Most savings institutions questioned which do not presently offer any adjustable loans stated that they plan to in the near future. Most said they had begun planning along those lines (Table 2).

Most lenders offered a limited menu of adjustable loan plans. The 39 lenders that had

introduced adjustable loans offered a total of 52 plans from which borrowers could choose. Thirty-three lending institutions offered only one plan, while six offered more than one. One Mississippi association offered nine different plans, while savings associations in the other states offered no more than two. Twenty-seven percent of the sampled institutions offered just one adjustable mortgage loan plan, while 25 percent offered a combination of one adjustable loan and one fixed-rate loan plan. Graduated payment mortgages, offered either alone or with other options, were uncommon.

Just 17 of the 56 surveyed associations offered contracts only under the adjustable mortgage loan regulation, and 17 offered no such plans. Most of the remaining associations offered both long-term, fixed-rate loans and adjustable loans, with a few offering graduated payment or balloon notes also.

The proportion of associations offering adjustable mortgages varied with association size. All eight of the associations with assets greater than \$500 million offered the loans, yet only six of the 11 with assets of less than \$50 million had adopted alternative mortgage loan programs. The percentage of lenders offering declined in the intermediate classes also (Table 3).

The ability of a lender to match costs of funds and returns on mortgages under the adjustable mortgage loan plan depends vitally on the frequency of payment adjustments and the limits to payment adjustments written into the mortgage contract. Few limits on these features are found in the adjustable loan regulation, but the lenders surveyed took a fairly conservative

Table 3. Associations Offering Adjustable Rate Mortgages, by Size

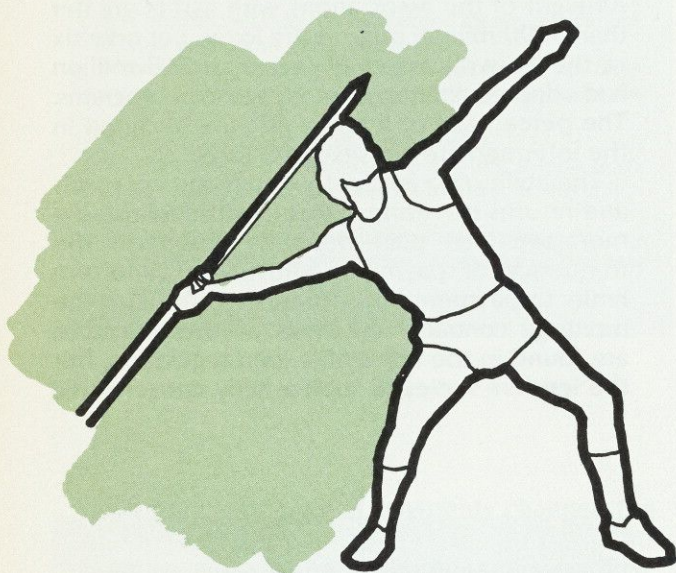
<u>Asset Class</u>	<u>Offering</u>	
<u>(\$millions)</u>	<u>Number</u>	<u>Percent in Size Class</u>
1000 or more	4	100
500 - 999	4	100
100 - 499	17	74
50 - 99	9	64
0 - 49	6	55
	40	

approach to the frequency of adjustment. The shortest period of adjustment was six months, found in only 13 percent of the 52 plans reported. Most plans—73 percent—had yearly adjustments. Seven plans adjusted less than once a year; two made adjustments only every five years (Table 4).

In the absence of adjustment costs, one would suppose that lenders would adjust mortgage returns more frequently than once in six months in order to keep up with costs of funds. Less frequent adjustments may reflect a variety of factors. Most important of these is certainly the secondary market for adjustable mortgages. Both the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage

Table 4. Frequency of Rate Adjustments

Frequency(months)	Number of Plans	Percent of Plans
6	7	13
12	38	73
24	1	2
30	2	4
36	2	4
60	2	4



Each alternative adjusts features in the mortgage contract to appeal to some group disadvantaged in a volatile, inflationary environment.

Corporation (FHLMC) have established arrangements to purchase adjustable mortgages conforming to standard designs. The shortest interest rate adjustment period for adjustable loans bought by FNMA under one of its standard loan designs is six months; the shortest adjustment period under FHLMC standard designs is one year.

The apparent distaste of borrowers for frequent adjustments may also have influenced lenders, particularly in areas with several competitors. Costs of changing payments and/or maturities more frequently may have been higher than benefits from such frequent changes to income. Further, many associations may have continued to tailor plans to the older variable rate mortgage regulation which limited associations to annual adjustments. Others may be in a market testing phase.

In contrast to fairly conservative behavior in setting frequency of rate changes, the surveyed associations generally set liberal limits to rate adjustments. Per period limits were the same up and down in all plans. Almost 60 percent of the plans had no per period adjustment limits. Another 30 percent had limits of 2 percentage points. Of the remaining plans, most limited adjustments to less than 2 points. Fully 92 percent of the plans contained no adjustment limits over the lifetime of the loan. The remainder limited lifetime adjustment to 5 points.

The index used by a majority of the sampled plans to determine rate changes was the national average effective mortgage rate on existing homes computed by the Federal Home Loan Bank Board each month. Three-quarters of the

Table 5. Adjustable Mortgage Loan Index

Index	Number of Plans
National average mortgage rate	39
National cost of funds	4
Six-month Treasury Bills	4
Three-year Treasury yield	2
One-year Treasury yield	1
Five-year Treasury yield	1
FNMA commitment auction yield	1
Total plans	52

plans tied changes to this index. Four associations used the Bank Board's National Cost of Funds Index also published monthly; four used the six-month Treasury bill auction rates. The remaining plans used other Treasury securities rates, with the exception of one lender that adjusted its rate to the rate on four-month mortgage commitments at the FNMA weekly auction (Table 5).

Lenders were faced with another trade-off between their interests and those of borrowers in structuring their approach to negative amortization. The spread between the value of the lenders' security and the principal of a loan on that security declines when monthly payments are insufficient to cover interest payments on a loan. The lender thus assumes greater risk of being unable to collect the principal of the loan in case of default. On the other hand, borrowers' apparent preference for level payments indicates their preference for being allowed negative amortization should rates jump. But lenders may also have some additional risk if payment increases made to avoid negative amortization tend to increase defaults.

Lenders that we surveyed generally allowed no negative amortization on adjustable loans. Four-fifths of the reporting institutions allowed no negative amortization and would thus raise monthly payments enough to avoid negative amortization. Most of the other lenders imposed no limits.

Although most plans covered in this survey used the same index to indicate changes in rates, there was a wide range in beginning rates charged on the adjustable mortgage loans.

Table 6. Beginning Rates Charged on Adjustable Mortgage Loans

Rate (percent)	Number of Plans
13	1
14.5	1
16 – 16.99	15
17 – 17.99	12
18 – 18.5	7
	36

Lenders reported rates as low as 13 percent and as high as 18.5 percent. Rates clustered around the median of 17 percent (Table 6). Attempts to adjust for offering rates for closing costs were not very successful. Although the questionnaire included inquiries concerning closing costs, the data received indicate an inconsistency in the definition of "closing costs." In other words, the wide range of responses suggests that some institutions included an estimation of various fees as part of their closing cost quote, while others merely quoted an origination fee. Although this apparent inconsistency makes any comparison of current rates to closing costs somewhat shaky, there does not appear to be any correlation between low current rates and high closing costs.

Borrowers using adjustable mortgages bear more interest rate risk than those using long-term, fixed-rate instruments if the fixed-rate instruments have no prepayment penalties. For this reason one would expect adjustable mortgages to carry lower offering rates than fixed-rate mortgages. The discount on the adjustable loans would be what is paid to the borrower for assuming the increased risk that interest rates will rise. Our survey indicated that the 20 associations offering both adjustable and fixed-rate loans generally priced the adjustable loans at a lower rate. Only three priced fixed-rate loans at lower rates and four priced adjustable and fixed-rate loans at the same rate.

—Kathleen M. Auda
and B. Frank King

Small Business: Linchpin for the Southeast?

About 58 percent of all jobs in the Southeast are in small businesses. What's more, small businesses create a large portion of all new jobs each year. The Southeast's many service-oriented small businesses are faring better than housing and auto related businesses during the recession.

Most newspaper accounts paint a worrisome picture of how small businesses in the Southeast are faring during the recession. Lumber mills, building material suppliers, and carpet mills have been forced to pare employment and have cut back on hours worked. Real estate offices have consolidated to gain strength, and some residential construction firms have gone out of business altogether.

On the other hand, certain service-oriented small businesses appear to be holding up well. For example, dry cleaners, printing and copying firms, or small computer software companies appear to have escaped the troubles of the housing-oriented small manufacturers. In fact, for some service firms business is as good or is better than ever. What role do small businesses play in the Southeast's economy, and what is the likelihood of an improved outlook for small businesses in the future?

How Important is Small Business in the Region?

Approximately 58 percent of the Southeast's employment falls within the small firm range (see Graph 1).¹ It is clear that the small firm is a major economic force in the Southeast. As Chart 1 points out, the relative importance of each sector varies considerably with firm size. Trade establishments play the leading role in the small business sector, although growth in this area lags the nation. Medium- and large-sized firms appear to have a firm hold on the manufacturing sector, however, when compared

¹Since only numbers of establishments are reported in the latest census "Country Business Patterns," the employment data gap was bridged by using a ratio of employment to establishments in previous census data and applying it to the current report to arrive at an approximate figure. In this article, the "Southeast" refers to the six states all or partially within the Sixth Federal Reserve District—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.



to other divisions; Table 1 reveals that, in the region, small manufacturing firms are growing three times faster than in the nation.² Florida's explosive growth leads the region, but every state in the Southeast also exceeds the national rate. Manufacturers, trying to find locations with relatively low-cost labor and a favorable business climate, have in many cases chosen southeastern sites.³

Individual service establishments tend to maintain fewer employees than manufacturing establishments but are numerous enough to occupy the second most important position for small establishments. The finance, insurance, and real estate category represents one of the fastest growing areas for small business concerns in the Southeast. Florida dominates the region in the industry; the number of small firms in the field grew 22.8 percent from 1974-79.

The total number of small business establishments is growing faster in the Southeast than in the nation as a whole (see Table 1). High-growth industries for small business in the Southeast compared to the nation include services, manufacturing, and finance, insurance, and real estate. The subsets of these broad categories indicate that concentrations of particular industries vary widely across the region.

²1974 was chosen for tracking and comparison because, prior to 1974, a different reporting method was used, making the more recent data inconsistent with previous records.

³See August 1981, **Economic Review**, statistics. "The Sunbelt's Growth: Industrial Decentralization."

SMALL BUSINESS PROFILE

Small firms employ about half of the nation's work force and create 40-50 percent of the new jobs.

They are highly competitive and produce a wide variety of products and services.

Their operations are, for the most part, local in nature.

Their few owners generally retain a personal stake in the business.

Their owners actively participate in the day-to-day operations of the firm, in many cases, dealing face to face with customers and suppliers.

Sources include: David Birch, "The Job Generation Process," C. Arrington, "Sources of Employment Growth," and "Small Enterprise in the Economy," Small Business Administration, December 1978.

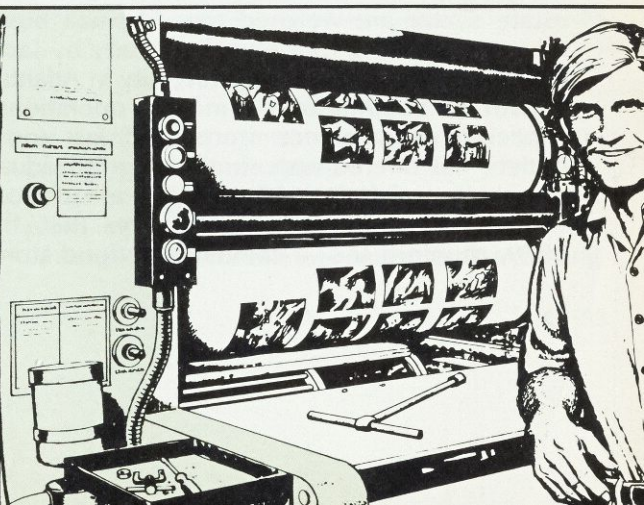
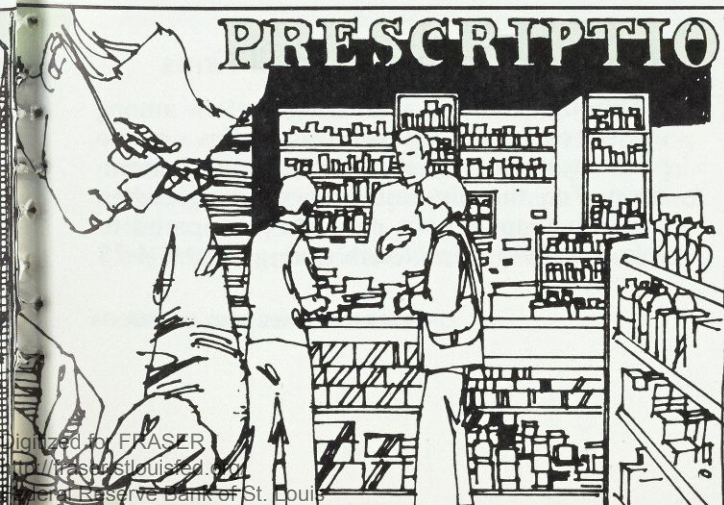
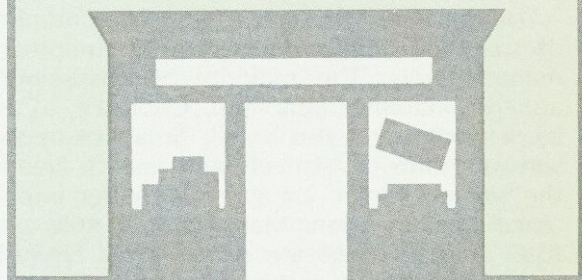
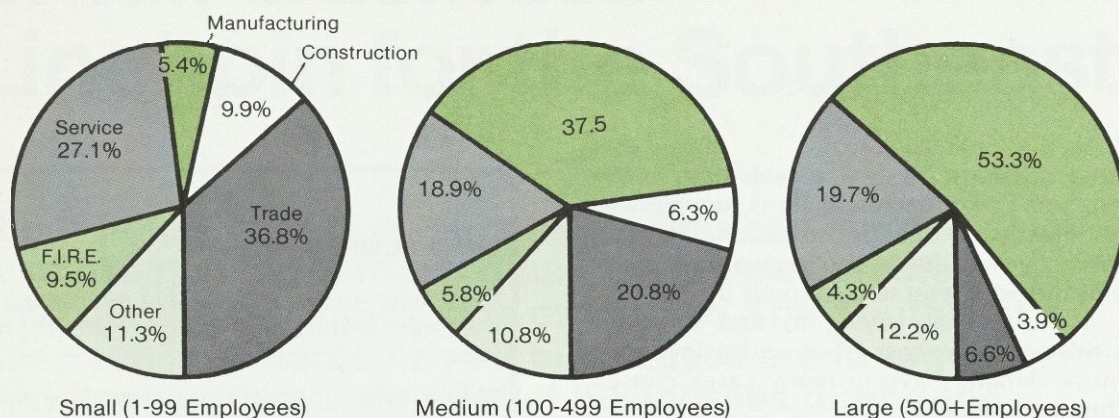


Chart 1. Most small businesses operate in the service producing sectors.

Share of District Establishments by Employment, Industry, 1979



For example, Florida's small manufacturing specialties include electronic component-making firms and boatbuilders. In fact, Florida outpaced all states in the region for small business growth in manufacturing, services, and trade. The Sunshine State had 36 percent of the region's small business establishments in 1979. Travel and tourism provide incentives for regional growth in the service sector. For example, motels and nearby restaurants and service stations have provided numerous opportunities for small businessmen.

Louisiana and Alabama count a large number of small oil field machinery and equipment manufacturers. The majority of Mississippi's apparel manufacturers and Georgia's tufted carpet mills are also small. Small computer software firms, a relatively new growth area in the service sector, are gaining greater importance in the region. Many lumber mills and food manufacturers are examples of typically small firms dispersed throughout the region.

Service establishments must often be located close to customers, one reason why the service sector and the finance, insurance, and real estate sector are weighed toward small businesses. According to a revealing study by Jack Blinksilver at Georgia State University in Atlanta, growth in Southeastern franchise operations, especially convenience stores and fast food outlets, has offered opportunities for individual owners to minimize risk through association with a large national firm. He notes that, by 1979, Munford Inc., a convenience food store

chain based in Atlanta, had grown to 1,300 outlets. The 7-Eleven chain, based in Dallas, has also expanded rapidly in the Southeast. The study points out that, by the mid-1970s, Georgia supported 1,207 fast food restaurants, only 150 fewer than New York state. Dry cleaners and laundries, car and truck leasing firms, and printing and copying firms are also high on the list of small business establishments in the region.

Sole proprietorships are a form of business organization used almost exclusively by small businesses. Often, these are small family-run establishments passed on from generation to generation. Table 2 gives a state-by-state breakdown of sole proprietorships by industry. It is clear that trade and services comprise the bulk of sole proprietorships. Residential construction firms rank in third position. The statistics also reflect state specializations in this type of business organization, with Alabama exhibiting a high share of manufacturing compared to other states, Georgia specializing in construction, and Florida in finance, insurance, and real estate.

Recession's Impact on Small Firms

Although there is a differing pattern among the states, Internal Revenue statistics on sole proprietorships reveal an interesting phenomenon. For the six states as a whole, when nonfarm employment growth is compared to sole proprietorship growth during the 1974-75

Table 1. Growth of Small Business¹ Establishment by Industry

Alabama	Total Small Establishments	Manufacturing	Construction	Trade ²	Services	Finance, Insurance and Real Estate
1974	58,980	4,096	5352	24,450	14,794	4,487
1979	65,065	4,244	6,331	15,338	16,610	5,580
Percent Change	10.3	3.6	18.3	3.6	12.3	24.4
<u>Florida</u>						
1974	173,131	8,901	18,177	62,422	48,304	17,354
1979	205,298	10,087	21,421	71,333	59,226	21,310
Percent Change	18.6	13.3	17.8	14.3	22.6	22.8
<u>Georgia</u>						
1974	91,735	6,204	9,198	37,627	23,102	7,944
1979	101,429	6,501	9,560	39,888	26,818	9,101
Percent Change	10.6	4.8	3.9	6.0	16.1	14.6
<u>Louisiana</u>						
1974	65,273	3,128	5,502	25,623	16,627	6,055
1979	74,611	3,213	7,141	24,986	19,579	7,128
Percent Change	14.3	2.7	29.8	2.5	17.8	17.7
<u>Mississippi</u>						
1974	38,822	2,257	3,484	16,638	9,161	3,090
1979	42,522	2,387	3,910	16,818	10,378	3,758
Percent Change	9.5	5.8	12.2	1.1	13.3	21.6
<u>Tennessee</u>						
1974	74,622	4,412	7,214	30,269	19,414	6,171
1979	81,549	4,641	8,138	31,754	22,014	7,226
Percent Change	9.3	5.2	12.8	4.9	13.4	17.1
<u>District</u>						
1974	502,563	28,998	48,927	197,029	131,402	45,101
1979	570,474	31,073	56,501	210,117	154,625	54,103
Percent Change	13.5	7.2	15.5	2.1	17.7	20
<u>United States</u>						
1974	4,024,763	272,772	367,803	1,536,705	1,087,026	365,036
1979	4,434,020	280,370	442,817	1,600,502	1,239,572	418,793
Percent Change	10.2	2.3	20.4	4.2	14.0	14.7

¹Defined as less than 100 employees.

²Trade = Wholesale + Retail.

recession, employment growth fell more rapidly than proprietorship growth (see Graph 2). Following the recession, proprietorships expanded faster in region than employment. It can be argued that proprietorships help stabilize cycli-

cal swings, an important consideration in fast-changing economic times.

Business brokers report that their business picks up during adverse economic times. Unemployed workers are interested in buying

Table 2. Share of Sole Proprietorships
By Industry and State (Percent)

	AL	FL	GA	LA	MS	TN
Construction	11.8	12.0	14.3	11.6	13.0	14.1
Manufacturing	4.4	2.0	2.8	2.2	2.2	2.5
Trade	30.1	25.7	30.9	28.2	32.9	32.2
Finance, insurance and real estate	9.7	15.6	9.4	9.3	8.3	11.7
Services	36.0	36.3	35.6	37.7	32.8	33.5
Other	8.0	8.4	7.0	11.0	10.8	6.0

Source: Internal Revenue Service, Statistics of Income.

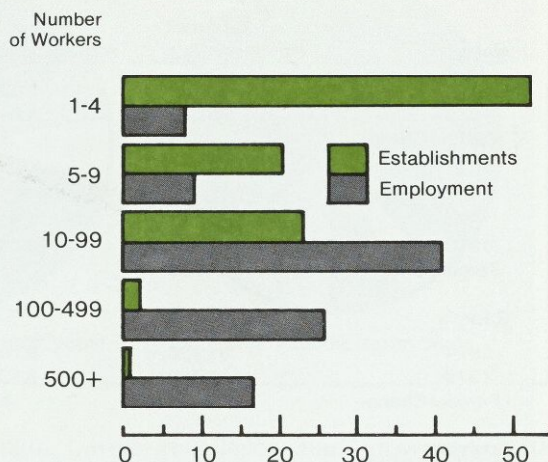
a business to provide themselves a job; on the other hand, people are selling their businesses because they are worried about the economy. The net effect in many cases is that ownership changes while a firm continues to function. The new owners may bring fresh ideas and capital to stimulate a marginal business.

One indicator of how small business is faring is the level of business failures. Reports do not define failure filings by size of business but since small businesses vastly out-number large ones, it is reasonable to assume that most failures are small businesses. Dun and Bradstreet figures indicate that business failures are increasing sharply in the region, following the national trend. The balancing effects of new starts should also be considered (see Graph 3). However, starts have been trending downward since the mid-70's. Another discouraging sign is that lending by the Small Business Administration in the Southeast is down substantially. The number of loans in 1981 fell 63 percent from the fiscal year ending in September 1980, according to an official at the agency.

The March 1982 Heller/Roper Small Business Barometer, a survey of chief executive officers of more than 1,000 small firms, gives some interesting insight. According to the survey, the recession has hit small businesses least severely in the South when compared to other areas of the country. Retailers have been hurt the most and service firms the least. Executives of young

Chart 2. Small firms dominate.

Percent of Employment and Establishments
by Size of Work Force
District, 1979



firms are much more optimistic about future prospects than those of older firms.

What are Some of the Problems of Small Businesses?

Until recently, inflation was considered the single most important problem facing small business; interest rates now occupy the number one position according to a National Federation of Independent Business survey. Other problems are also now beginning to attract more attention. Small businesses have always been able to provide jobs for teenagers, part-time workers, the elderly, and the disabled, but the current minimum wage level plus severe inflation in other costs along with sluggish economic activity has forced small business owners to cut back such hiring drastically. These restraints were undoubtedly related to the fact that the small business share of GNP has slipped from 43 percent in 1963 to 39 percent in 1976.

The major sources of start-up capital available to the small business entrepreneur are loans against personal assets, funds from friends and relatives, or money from private investors. Access to U. S. capital markets generally has been open only to the nation's big companies. Institutional investors, the primary purchasers

Chart 3. Proprietorship growth is a stabilizing influence.

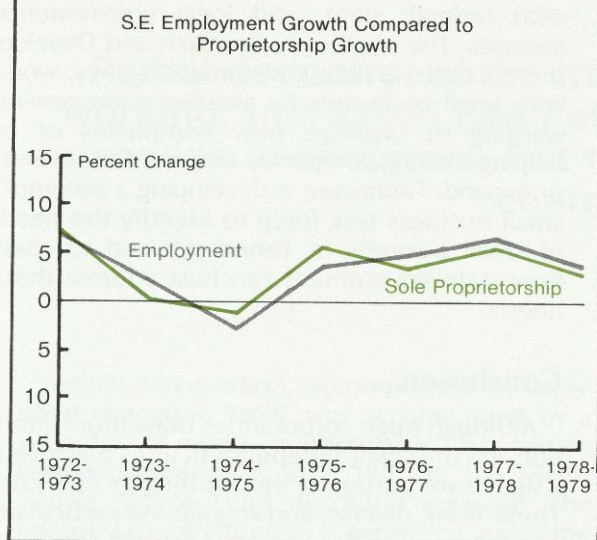
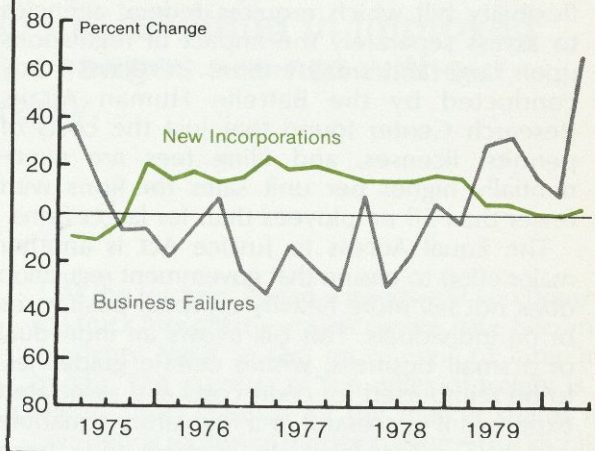


Chart 4. New incorporations help offset failure rate in Southeast.



of equity securities, rarely consider investing in small- and medium-sized companies. The potential small businessman, having limited access to conventional sources of capital, may face severe problems in establishing a business. Once established, a distressing fact is that about 80 percent of all businesses in the United States slip into bankruptcy or receivership within 10 years of their founding.⁴

Inflation has hit small businesses particularly hard, given their limited means for absorbing the impact of increasing costs and prices. Credit is vital for the established small firm. The SBA estimates that one of two small businesses borrows regularly and depends on bank and trade credit for their cash flow. Liquidity problems (lacking enough cash to pay bills when they are due) are a leading cause of small business failures. Small businesses are often thinly capitalized and have slim profit margins that are quickly eroded when credit costs rise sharply. Inflation multiplies the need for cash, and at the same time pushes up the cost of financing.

Credit availability as well as credit cost has become an urgent problem. An increasing number of bankers are reluctant or refuse to lend to

financially strapped, and therefore high risk, small firms. Firms with typically high inventory levels such as retailers, wholesalers, and manufacturers, fall in this category. Adding to the problem, a number of small independently operated banks, which account for a significant portion of the credit to small businesses, have merged with larger banks.

The small firm's lack of economic power prevents it from exerting any substantial control over its prices and cost and, therefore, its returns. The need for slowing the inflationary spiral is especially urgent since years of inflation have sapped the vigor of small business.

The labor intensity of small businesses makes them especially vulnerable to increases in the Social Security tax. Since this is a payroll tax, it applies directly to the number of people employed. Because small businesses typically are labor intensive, they are hit particularly hard by what is in effect an increase in the cost of labor.

Hope for the Future

Some positive steps have been taken at the national level recently to deal with small business problems. Tax reforms, for instance, include reducing corporate income tax rates at the two lowest brackets; reducing the capital gains tax to

⁴See H. Hand and J. Ray, "Taxes, Inflation, and the Smaller Business," *Business Horizons*, May/June 1981, p. 65.

make capital gains more attractive to the investor and therefore channeling funds into new "start ups"; simplifying the depreciation schedule to encourage investment in capital equipment and easing the use of L.I.F.O. accounting procedures.

In addition, Congress has passed a regulatory flexibility bill which requires federal agencies to assess separately the impact of regulations upon large and small entities. A recent study conducted by the Battelle Human Affairs Research Center found that just the costs of permits, licenses, and filing fees are exponentially higher per unit sales for firms with fewer than 50 employees than for larger firms.

The Equal Access to Justice Act is another major effort to ensure that government regulation does not fall more heavily on small businesses or on individuals. This bill allows an individual or a small business, within certain guidelines, to be reimbursed for court costs and associated expenses if successful in a regulatory squabble with the government. In contrast to a large corporation with an in-house staff of lawyers, a small firm is ill-equipped to deal with a possibly lengthy court battle. Finally, another law will enable small firms, hurt by the high cost of liability insurance, to form pools to self-insure or buy group coverage. Since many small firms deal one-on-one with the public (restaurants for example), the probability of problems is high, and insurance is costly.

At the state level, small business programs have been expanding quite rapidly. Most states in the region have a procurement program specifying that a fair portion of their purchases, contracts, or subcontracts will be placed with small business. In Florida, a division of the State

Department of Commerce is charged with such responsibilities as providing information and assisting small businessmen in dealing with federal, state, and local governmental agencies. The Mississippi Research and Development Center, a state government agency, works with small businesses by assisting entrepreneurs wanting to organize new companies or by helping existing companies that want to diversify or expand. Tennessee is developing a governor's small business task force to identify the needs of small business in Tennessee and to study how state government can best address those needs.

Conclusion

Although huge corporations draw more attention, it is the small, independent firms that create a significant portion of the Southeast's new jobs. These firms, diverse, and volatile, are particularly concentrated in the service sector, a speciality of the region. It can be argued that any policy that would encourage and stimulate the development of small business would help ease the unemployment situation and boost productivity. It may be that small businesses are benefited most by policies that control inflation and stimulate growth. Because small business is so important to the Southeast, such policies would be likely to produce benefits throughout the region's economy.

—David Avery

Partial decontrol of the trucking industry seems to be working. Increased competition is resulting in improved service to shoppers. But the changes are not without controversy.

Airline deregulation, accomplished by legislative change in 1978, was accompanied by a great deal of media attention. Much less fanfare heralded passage in June 1980 of the Motor Carrier Act of 1980 decontrol measure. The relative lack of attention is surprising, given the economic importance of the trucking industry to the nation.

As the truckers' slogan suggests—"if you bought it, a truck brought it"—motor carriers have become a mighty force in the movement of intercity freight. The number of ton miles of freight is a widely used measure of the market shares of competing modes of transportation—trucks, railroads, pipelines, water carriers, and airlines. Since 1930, trucks have expanded their share of total

Trucking Deregulation in the Southeast



ton miles from 3.8 percent to 22.5 percent in 1980. This gain has come at the expense of railroads (see Chart).

Why Has Trucking Grown So Rapidly?

Some have argued that the failure of regulated railroads to adopt flexible, competitive pricing gave the truckers an initial "market" in the 1930s. Factors often cited for the rapid growth of the trucking industry after World War II are the growth and dispersion of the nation's economy and, more recently, construction of the interstate highway system. In short, trucking has benefited from the profitability of shifting from centralized production with national distribution to regional production and distribution.

Of course, improved vehicle technology and the availability of cheap fuel also encouraged economic diversification. This interdependence between the nation's economy and growth of the trucking industry is quite strong. Traditionally,

there has been a high correlation between changes in industrial production and motor carrier tonnage.

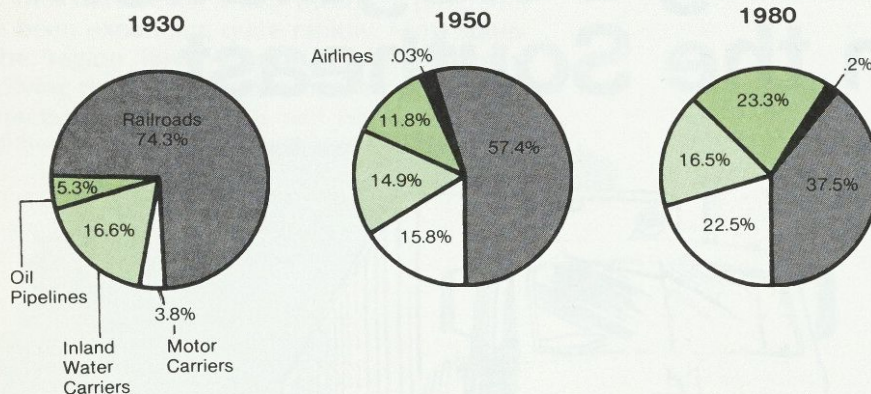
The Southeast's surging economy suggests that the importance of trucking to the region, already vital, is also increasing. Pockets of people and manufacturing sites are more dispersed in the Southeast than in the more industrial North and Midwest; thus, accessibility to markets via the interstate highway system substitutes here for better railroad connections elsewhere in the nation. Trucking's importance also grows as the Southeast develops industrially because trucking has an advantage over short hauls and small shipments compared to railroads. By locating in this fast-growing region, many firms can save on the total cost (production costs plus distribution costs) of delivering goods to this market.

How is the Trucking Industry Organized?

The motor carrier industry is large and complex (see Box 1). There may be up to 150,000 trucking

DISTRIBUTION OF INTERCITY FREIGHT, 1930-1980

Percent of Ton Miles by Intercity Freight Carriers



Source:

1980 data from Transportation Association of America **Facts and Trade**, 17th Edition, 1981.

1950 data from the Interstate Commerce Commission (in Statistical Abstract of the U.S.)

1930 data from "The Trucking Industry: Outlook," United California Banks, 1975.

BOX 1

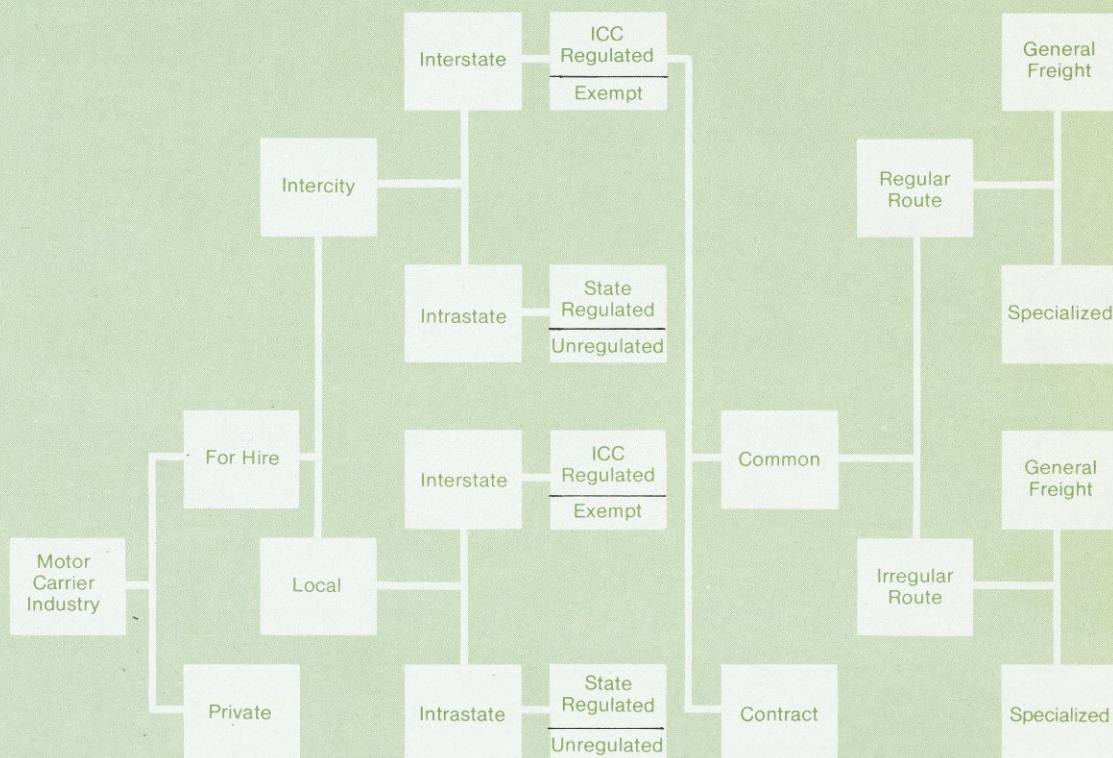
The Interstate Commerce Commission classifies motor carriers engaged in interstate operations into four categories:

- common carriers are for-hire by the general public and carry a wide variety of commodities, usually manufactures.
- contract carriers specialize in moving specific commodities, or have long-term contracts with shippers, but do not offer services to the public at large.

- exempt carriers move commodities that are exempt from regulation, primarily agricultural products.
- private carriers include all firms that use owned or leased vehicles to move their own goods.

The ICC regulates only common and contract carriers. Private and exempt carriers have no ICC operating authority and, therefore, generally may not carry regulated commodities on a for-hire basis.

LEGAL STRUCTURE OF THE MOTOR CARRIER INDUSTRY



companies, which range in size from an individual owner who operates a single tractor¹ to industry giants like Roadway, Consolidated Freight and Yellow Freight operating thousands of tractors and trailers. Altogether, motor carriers haul thousands of different commodities, generating over 1.2 million jobs and industry operating revenues in excess of \$100 billion.

More than 18,000 common and contract motor carriers, with revenues of more than \$40 billion, are regulated by the Interstate Commerce Commission (ICC). Regulation of truckers began with the Motor Carrier Act of 1935. That law requires that regulated motor carriers secure a "certificate of public convenience and necessity" from the ICC. The ICC regulates the rates a common carrier may charge, the commodities it may carry and the routes over which it may operate via "operating authorities" contained in the certificates it issues. The regulated segment of the trucking industry accounts for about 40 percent of total intercity ton miles of truck freight.

It is no coincidence that trucking came under federal regulation during the Great Depression. During the 1930s trucking became a significant competitor to the railroad industry. Ensuing rate wars, "excessive" competition, and mounting bankruptcies brought pressure for regulation of motor carriers, particularly from the railroads and their regulator, the ICC. A number of large truckers also favored government control as a device for stabilizing the industry.

Why Deregulate Trucking?

Over the past 20 years economists, in particular, have become increasingly critical of transport regulation. The basic argument for deregulation is that competition serves the public interest better than regulation. Various economists have argued that trucking regulation stifled healthy entry into the industry, that the route structures imposed unnecessary and fuel-wasteful restrictions on carrier operations, and that the cartelized system of rate-making prevented innovative and efficient pricing of services.

The Congress passed the MCA of 1980 as part of the current effort to reduce unnecessary

government regulation. This legislation followed congressional hearings which found trucking regulations outdated compared to the transportation needs and realities of the 1980s. Specifically, Congress found that:

"...historically, the existing regulatory structure has tended in certain circumstances to inhibit market entry, carrier growth, maximum utilization of equipment and energy resources, and opportunities for minorities and others to enter the trucking industry; that protective regulation has resulted in some operating inefficiencies and some anticompetitive pricing."²

What Are the Major Provisions of the Motor Carrier Act of 1980?

As signed into law, the act liberalized regulation in the following important ways:³

- Regulatory barriers to entry were lowered.
The ICC was directed to issue operating permits if an applicant is found to be fit, willing, and able" to provide service and the service would serve a public purpose. Previously, the standard required a trucker to prove that its proposed service met a public need that other truckers were not providing.
- Regulated firms' operations became more flexible.
The ICC was directed to eliminate rules that required carriers to make stops at specific intermediate points or to take circuitous routes, to authorize carriers to provide service to intermediate points on a carrier's routes, and to broaden categories of commodities that may be hauled by carriers.
- Unregulated food haulers' operations became more profitable.
Additional commodities were exempted from ICC regulation and independent truckers were permitted to back-haul

² Public Law 96-296, 96th Congress, p. 94 Stat. 793.

³ Actually, regulatory reform began at least as early as 1977, when President Carter named a decontrol advocate to head the ICC. During Carter's administration, the ICC, on its own, took significant administrative steps to make entry freer and prices more flexible.

¹ *Owner Operator* magazine, in its May/June 1981 issue, estimates the owner operator population at 250,000 individuals operating 343,000 vehicles to account for one-fourth of U. S. domestic truck sales.

regulated commodities after delivering unregulated commodities, thus reducing empty (freightless) miles.

- Other unregulated carriers gained new freedoms.

A subsidiary was allowed to charge for hauling for other members of the corporate family and contract carriers could serve more shippers.

- Pricing flexibility was increased.

The ICC lost its veto power over price changes (up or down) of 10 percent and provided for the elimination of collective ratemaking by January 1, 1984.

These decontrol measures were legislated despite the strong opposition of major regulated trucking firms and labor representatives. Opponents argued that deregulation would introduce "excessive competition" and "cutthroat pricing". The competition, they said, would bring chaos, bankruptcy, job losses, eventual monopolization of the industry, and reduced service to rural communities.

How Has Deregulation Worked?

In general, reform appears to be creating a more competitive and more efficient industry. New firms have entered the industry, rate levels are falling, shippers are being offered a wider range of price-service options, and service to small communities continues to be adequate.⁴ A still more efficient and competitive industry seems likely to emerge—after a shakeout of less efficient large and small firms.

New Firms Have Entered the Industry.

So far, decontrol has significantly increased the number of new common carriers (for hire by the general public), and many established common carriers have expanded their service areas and added contract-haul operations (contracted for long-term to specific shippers).

During the 12 months following passage of the Motor Carrier Act, 3,500 new carriers applied to enter the industry. In addition, established carriers filed more than 15,500 requests to expand service; over 4,000 of the requests were for

increased contract carrier authority. Mason-Dixon lines of Kingsport, Tennessee, as an example, expanded from exclusively east coast operations to a 31-state network.

The greater price flexibility available to contract operations and the increased number of customers contract carriers can now serve have encouraged expansion of the contract carrier segment of the industry. In some instances, such as Atlantic Transportation Co., of Atlanta, Georgia serving Atlantic Building System, Inc. and Bert-Haul, Inc. serving Berk Small, Inc. of Mobile, Alabama, expansion of contract carrier operations has supplemented or replaced private carriage (where firms use their own trucks to move their own goods).

Private carriage has also been growing, particularly intra-corporate activity. More than 700 private carriers had registered their intent to charge a fee for intra-corporate family members as of October, 1981. Meanwhile, some other private fleets have converted to common carrier status as a way to improve their efficiency rather than restricting their operations to intra-firm movements.

Another development has been the increase in agricultural and general commodity cooperatives who have filed for ICC permission to expand their transportation of regulated goods. Agricultural cooperatives help shippers in low density traffic areas form not-for-profit associations. By banding together to co-load shipments, members can save significantly on freight charges; similar benefits can accrue to small shippers' associations in metropolitan areas. Spokesmen note that the associations "have kept rates and costs down," but emphasize that their growth "depends upon good management and the willingness of participants to work together."

Services Have Expanded.

Eliminating circuitous routings and other restrictions which wasted fuel or created other inefficiencies has helped trucking firms to save on costs. Removal of commodity restrictions and the growth of competition and price flexibility, together with the elimination of the route restrictions, have provided an opportunity for innovative marketing changes. Carriers' ability to balance traffic flows also has improved.

Carriers of products exempt from regulation—such as agricultural goods—provide perhaps

⁴ It is not yet possible to evaluate all of the consequences of the Motor Carrier Act of 1980 for shippers, truckers, workers, and others affected by decontrol of trucking because the industry is in the midst of adjusting to the freer environment.

the most dramatic example of improved traffic balance. Before decontrol, these carriers delivered agricultural products to food processors but could not carry manufactured or processed foods on their back-haul. Exempt carriers can now back-haul produced food products and, thereby, eliminate wasteful empty miles.

Freight Rates Have Fallen.

ICC reports from a variety of sources show real rate declines around the nation totaling 10 percent or more since decontrol. These price cuts typically have been made by individual carriers. They vary from across-the-board cuts to cuts based on the size or commodity class of the shipment or on the number of shipments to be picked-up at a location. Some carriers offer discounts if delivery is delayed, while others give discounts to customers on their new routes. Frequently, rate changes are accompanied by innovative marketing strategies which offer new price-service options to customers.

There is little question that firms are, in some instances, passing on to customers some of the cost savings permitted by decontrol. For example, "multiple tender discounts" have become common. These discounts provide for lower freight charges when a shipper consolidates shipments headed for different places into a single pick-up for the carrier.

But it is too early to conclude that the falling prices observed so far represent permanent benefits of increased freedom and competition. Some carriers have complained to the ICC that rivals sometimes offer below-cost rates which they must match to retain business. Conceivably, some of these price cuts could be temporary "cutthroat" tactics designed to drive smaller competitors out of business. Or perhaps the national recessions account for the easing of prices, as some have argued.

A key question in determining the legislation's impact on freight rates is whether there are substantial economies of scale in the trucking industry. Can large firms provide services at a lower unit cost than small firms? If so the industry might eventually be populated by a few large carriers who might then charge high prices and share implicit cartel profits. (Prices still might be lower than in the pre-deregulation period if a few large firms can offer services at a lower unit cost.) On the other hand, if there are

no cost advantages to large firms, then rates can be "permanently" lowered as a consequence of competition.

Several economic studies of the industry's cost structure have been conducted in recent years trying to answer this question. The most recent, comprehensive analysis argues that any economies of scale currently observed are more likely due to regulatory practices than to the technological structure of the trucking industry. The authors conclude that the cost structure of general commodities carriers indicates workable competition is a reasonable possibility in a deregulated environment.⁵

Service to Shippers Improves.

Service to smaller communities might seem in jeopardy as carriers redesign routings to cut fuel costs. Yet the bulk of informal evidence available shows that there has not been any significant decline in service to small towns.

In a preliminary survey by the ICC in small communities around the country, shippers responded that more service was available now than before passage of the Motor Carrier Act of 1980. More shippers who perceived changes in service quality said that on-time performance improved than said it has worsened. Freight loss or damage, they think, has been reduced, although settling claims has become more burdensome. Finally, shippers believe that there are more service options than before 1980.

This experience may be due to the current excess capacity in the industry, estimated at about one-third, due to industry adjustments to decontrol and to the national recession. Whatever the case, this issue is important to the Southeast because a key to the continued development of dispersed rural areas is access to labor and markets. Partly for this reason, the ICC is monitoring rural service on a continuing basis. Meanwhile, increased competition has improved service to urban areas, as expected.

Union Employment is Falling.

This is a particularly important year of transition for the trucking industry, the first year of union

⁵ Ann F. Friedlander and Richard H. Spady, *Freight Transport Regulation*, MIT Press, 1981, p. 201.

bargaining since decontrol. The International Brotherhood of Teamsters (IBT) represents about 300,000 over-the-road and local drivers plus terminal workers associated with the movement of general freight; adding in members who work in other sections of the regulated trucking industry brings the unionized work force to approximately 500,000. An IBT survey of employment in the general freight segment of the industry showed 20 percent of its membership on layoff in April 1981. Altogether, the IBT estimated union unemployment totaled 100,000 at that time. The IBT attributed these layoffs to the state of the economy and to deregulation.

In 1979, following a 12-day strike, the Teamsters won a three-year wage increase of 35 percent, raising union truck drivers' salaries to the \$30,000 to \$40,000 range. Critics of regulation argued there was little incentive for management to limit concessions because firms could pass on the wage increases by collectively increasing freight rates. They also argued that liberal wage increases to truckers helped set trends for the whole union movement and, thereby, contributed to inflation.

This year the Teamsters have settled for a dramatically modest agreement which seeks to save and restore jobs through a wage freeze, fewer inflation adjustments and major concessions in the area of work rules. This modest trucking settlement could set the tone for important negotiations coming up this year in the rubber, electrical and other industries. Should unions in these industries similarly agree to moderate contracts, another skirmish in the battle against stubborn inflation will have been won.

Inefficient Firms Are Leaving the Industry.

Trucking firms can leave the industry by declaring bankruptcy, by merging with or being acquired by another firm or by ceasing operations for financial or other reasons. No accurate records document the firms that close. Nevertheless, based on data which are available, the ICC believes that closings in the industry have risen since deregulation, accelerating as the national recession has deepened.

Clearly some carriers have been weakened financially by the recessions of 1980 and 1981 and by competition from new carriers. Union

carriers, in addition, face stepped-up competition from non-union carriers. For example, Overnite Transportation Co. of Richmond, Virginia, introduced an across-the-board rate cut on less-than-truckload (LTL) shipments in the fall of 1980. Because its non-union workers earned 20-25 percent per hour less than unionized workers, Overnite was able to lower prices and increase its market share. Owners of unionized trucking companies have also set up separate non-union firms that use lower-paid owner-operators; these firms are growing rapidly at the expense of unionized firms.

Union and non-union carriers are adjusting to competitive changes which are restructuring the movement of truckload and LTL shipments in the industry. Large companies, which dominated truckload shipments before decontrol, have been rapidly losing their share of this market segment. "Truckload" shipments, which are direct hauls of a full load of goods (generally 10,000 pounds) from a shipper in one locality to a receiver elsewhere, require no overhead facilities—such as terminals. Thus, most of the new companies, independent and non-union, are highly competitive for this business.

The larger companies, meanwhile, have expanded their share of LTL freight shipments, which do require terminal facilities for consolidation and distribution purposes. In general, those large truckers that have extensive terminal networks and finances for expansion and can control their costs are growing and competing successfully in this market. Other firms are struggling.

In both segments of the market for general freight, industry experts agree, the efficient firms—large or small, union or non-union—stand the best chance of surviving the current shakeout period.

What's Ahead for the Trucking Industry?

In the years ahead we can expect continued change in the trucking industry as carriers adapt to the more competitive environment created by decontrol. Even in this uncertain environment there are at least general guideposts which hint at the future implications of decontrol for trucking firms, their customers and employees, the industry, the Southeast, and the nation.

Successful firms will be those that can cut costs and increase productivity while offering service combinations which meet shippers' needs. Partial removal of the protective shield of regulation will require innovative management, including the use of computer-based costing systems to compare expenses to revenues. Bulldog Trucking of Georgia, Inc., of Carneysville, Georgia, now uses a computer to determine profitability by truck in order to pay drivers on an incentive basis and increase profits. Dudley Trucking Co., of Atlanta, uses a computer to analyze cost and revenue per mile for each trip. Profit per mile is calculated and adjustments are then made to increase profits. A company spokesman says that "use of the computer as a tool makes things simpler and more efficient, with fewer mistakes."

Shippers will remain under pressure to find ways to run their distribution systems more effectively. They will also likely turn to computers as a management tool in negotiating freight rates and improved service, and in developing transportation plans. They will probably take more control of their distribution by using private or contract carriers.

Intermodal use among truckers will increase, as truck-water, truck-air, and truck-rail ("piggy-backing") linkages are made. The industry is likely to develop networks similar to the airlines—with national, regional, and local carriers carving out more efficient route and product segments than at present. As the industry stabilizes and grows, employment will expand.

The Southeast may benefit greatly from changes in the trucking industry. Small, non-unionized carriers dominate the South compared to other parts of the nation. Attractive prices and services on truckload shipments will favor shippers and thus enhance manufacturing in the Southeast. The outlook for maintenance of service to rural communities is less certain.

At the national level, evidence is persuasive that decontrol is achieving a better utilization of resources and an accompanying reduction in upward price pressures. Better resource utilization will permit an expansion of output and increase the competitiveness of American-made goods in world markets. The reduction in

price pressure will yield similar benefits and will help curb inflation as well.

A Summing Up.

Evidence currently available suggests that partial decontrol of the trucking industry is working. The easing of entry requirements has attracted newcomers to the industry. There is widespread evidence of increased price competition and fleet utilization and route restructuring are adjusting in a flexible and efficient manner to provide enhanced service to shippers. Truckers are rethinking who their customers are, what kinds of freight and services they want to sell and how they will price their products. Some short-run adjustment costs are accompanying the move to a more competitive environment, but there is mounting evidence that the industry needed overhauling.

Despite these trends, important uncertainties about other aspects of trucking industry changes remain. Carriers and shippers have expressed opposition to the phasing-out of rate bureaus scheduled under the decontrol act. Carriers argue that collective rate-making prevents pricing chaos, while shippers believe the rate bureaus serve a useful information clearinghouse purpose. The desire for "stability" on the part of carriers, combined with shippers' belief that the bureaus are useful, could jeopardize the provision in the act to phase out collective rate-making by 1984.

There is also mounting opposition from established carriers against what they perceive as ICC administrative actions that have "gone far beyond" the intent of the Congress in passing the Motor Carrier Act of 1980. On the other hand, advocates of decontrol argue that the new commissioners are interpreting their role conservatively and many fear that deregulation will be slowed down.⁶

However aggressively the ICC exercises its discretionary powers, it is clear that 1980 marks a significant watershed year in the regulation of the trucking industry.

—William J. Kahley

⁶ See Michael Wines, "If You Thought the Battle Over Truck Deregulation Has Ended, Look Again," *National Journal*, September 5, 1981.

BOX 2

Intrastate Trucking Deregulation in Florida

The Transportation Division of Florida's Public Service Commission (PSC) disappeared on the same day that trucking reforms became effective at the federal level. Florida's sunset law requires periodic reenactment of regulatory powers; in the case of trucking regulation, the Florida legislature surpassed the U.S. Congress by failing to reenact any regulatory powers for the PSC's Transportation Division. What have been the consequences of total decontrol of intrastate trucking in Florida?

An early-Fall 1980 report on the initial experience of decontrol in Florida by a national business magazine quoted trucking firms' assertions of "disarray, if not total chaos" in the industry.⁷ More recently, the ICC has monitored the first-year effects of Florida's deregulation and suggests the following summary results:

"... long term results are still uncertain, but the industry has already seen new entry, aggressive cost cutting, and operational restructuring by management, as well as extensive rate innovation and numerous rate reductions. Deregulation has allowed carriers to utilize their fleets and resources flexibly and efficiently to provide shipper satisfaction equal to or better than pre-deregulation."⁸

Thus, the ICC review of the initial response of motor carriers to decontrol supports some important predictions of reform proponents.

Specifically, proponents have argued that decontrol would lead to restructured, simplified tariff schemes which are more cost-based.

The ICC study also found evidence of effective price competition in all markets (by geographic size or size

of shipment), just as proponents of deregulation predicted. In particular, widespread real price declines were observed. Additionally, rate reductions were reduced in ways that seem to reflect cost considerations—rates on shipments of large, high rated goods fell most.

Opponents of deregulation might reply that the evidence thus far is incomplete or that it is temporary. In fact, the findings are incomplete in terms, say, of a rigorous cost-benefit framework of analysis. It is possible, moreover, that the results are temporary—possibly the intermediate results on the way to monopolization of the industry. Or, these consequences may be due to some other factor, such as the national recession or discriminatory pricing of inter- and intra-state pricing of trucking services (where high interstate prices provide a cross-subsidy to intrastate services).

Perhaps the most severe criticism of the total deregulation of trucking in Florida is that some consumers are unaware regulations have been eliminated. As a consequence, "fly-by-night" operations, particularly in the household goods segment of the industry, have victimized unknowing customers by price-gouging or by non-performance of service agreements. There is also widespread concern over the lack of vehicle safety and insurance requirements, omissions which existing carriers, former regulators and consumer advocates fear is against the public interest. Thus, "caveat emptor" appears to be a warning that customers should heed.

On balance, there is clearly a need to analyze evidence on pricing, service, and resource use in the industry more completely as time goes on. Then, perhaps, it may become evident that regulation is preferred to unregulated competition. Until that time, however, we should "score one" for decontrol.

⁷*Business Week*, September 22, 1980, p. 125.

⁸Office of Policy and Analysis, Interstate Commerce Commission, *Initial Carrier and Shipper Responses to Interstate Trucking Deregulation in Florida*, June, 1981, p. 1.


Rapid Growth and Construction: Ups and Downs for the Southeast

Many cities in the Southeast are experiencing either deep cyclical employment declines or sharp downturns in employment growth as a result of the current recession. Some metropolitan areas have suffered larger changes in employment between peaks and troughs than others. Why do some cities take a wilder ride on the business cycle roller coaster? What role does the construction sector play in cyclical employment changes?

Traditionally, the construction industry is one of the hardest hit during any recession. Of the major sectors in the economy, only the durable goods sector is more cyclical than construction. As Sunbelt cities enjoy rapid growth in total employment, will larger accompanying construction sectors make these cities more vulnerable to recession? High growth usually encompasses expansion in the downtown business district, in

manufacturing or service facilities, and in new residences for in-migrating workers—all of which means development of a larger construction sector in both absolute terms and as a share of total employment.

Of course, financing of construction makes the construction sector very sensitive to interest rate fluctuations and, so the generally held theory goes, therefore very cyclical. Growth and construction are widely believed to produce such cyclicity in a local economy. But do faster-growing metropolitan areas actually have relatively larger construction sectors? Is the construction sector more volatile than the overall economy? In turn, are high growth areas—with supposedly larger shares of employment in construction—actually more cyclical than slow-growth cities? Finally, what are some characteristics of the construction sector that determine its cyclical behavior?



Cities which have experienced rapid population growth have also enjoyed robust construction employment growth. But many fast-growing cities in the Southeast should expect more volatility in employment during the '80s.

JULY 1982, ECONOMIC REVIEW

Table 1. The proportion of total employment engaged in construction tends to be higher in those cities with higher growth rates in total employment.

	Total Empl. (S. A.) Ave. Monthly Growth Rate (Annualized %)	Construction Employment as a Percentage of Total Employment (Data Not Seasonally Adjusted)		
		Peak During 73-74	Trough During 75-76	1/80*
Alabama				
Mobile	3.95	7.95	7.26	7.84
Montgomery	3.81	8.70	6.24	8.50
Birmingham	2.91	7.26	5.91	5.49
Huntsville	2.86	4.92	3.42	3.18
Tuscaloosa	2.26	7.69	5.30	4.40
Florida				
Ft. Laud. - Hollywood	6.12	15.46	6.46	9.02
W.P.B. - Boca Raton	5.93	14.38	6.92	10.23
Orlando	5.66	14.52	5.29	6.79
Tampa - St. Pete.	4.72	11.28	5.92	7.41
Pensacola	3.37	10.82	6.51	7.01
Miami	3.14	8.08	3.93	5.19
Jacksonville	2.91	8.52	5.37	5.37
Georgia				
Atlanta	3.76	6.91	3.98	4.70
Augusta	3.20	6.52	5.41	4.81
Savannah	2.36	8.12	6.11	6.23
Macon	1.77	6.19	4.21	4.97
Columbus	1.53	7.55	5.37	4.95
Louisiana				
Lafayette	7.89	9.09	6.71	6.83
Baton Rouge	5.72	12.94	9.87	11.52
Alexandria	3.26	7.16	5.28	7.25
New Orleans	2.94	7.43	6.06	6.22
Monroe	2.88	11.16	7.83	7.57
Mississippi				
Jackson	4.38	8.25	4.54	4.95
Tennessee				
Nashville	3.41	7.46	5.21	4.98
Knoxville	2.89	7.06	5.07	5.50
Memphis	2.24	6.71	4.17	4.38
Chattanooga	1.82	4.95	3.42	3.71
Sample Population				
Mean	3.62	8.78	5.62	6.26

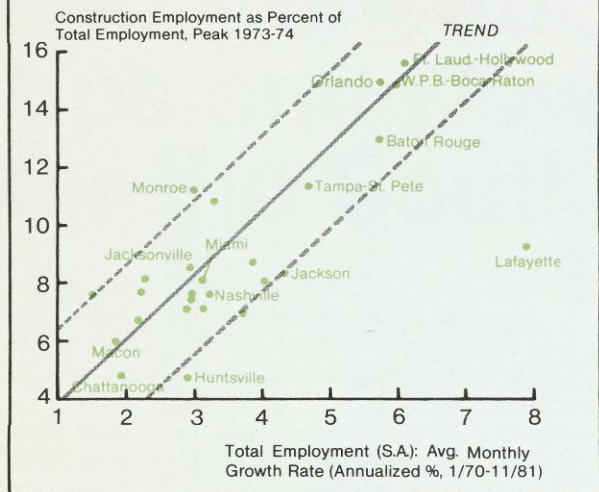
*1/80 is chosen as a date representative of a "trend period" in levels of total employment. Of course, each SMSA may be closer than others to the trend value of each SMSA's employment level for this particular date. Similarly, the years 73-74 and 75-76 typically represent years that are generally considered the strongest and weakest time periods respectively for construction activity during 1/70 through 11/81.

Employment growth and the relative size of the construction sector. Why would one expect to find metropolitan areas, which are experiencing rapid growth in employment, to also have larger shares of employment in construction? The "classical" developing economy—local, regional, or national—requires larger percentage infusions of

"capital" into the economy.¹ High-growth economies require greater amounts—in fact, greater

¹See Ensey D. Domar, "Capital Expansion, Rate of Growth, and Employment," *Readings in the Modern Theory of Economic Growth*, ed. Joseph S. Stiglitz and Hirofumi Uzawa (Cambridge, Massachusetts: The MIT Press, 1969), pp. 34-44.

Chart 1. As the growth rate of total employment increases, the percentage of employment in construction tends to increase also.



rates of investment—than do slow-growth economies. In concrete terms, high-growth developing economies require the capital goods of new manufacturing plants, new office buildings, public goods such as roads and schools, and also housing. In terms of growth rates for total employment and the associated size of the construction sector, what has been the experience of the Southeast?

From 1970 through 1981, average annual growth rates for total employment in individual southeastern cities have varied considerably. Average annual growth rates have ranged from just over 1.5 percent to almost 8 percent (see Table 1, first column).² The rest of Table 1 shows that the proportion of total employment engaged in construction tends to be higher in those cities with higher growth rates in total employment. This relationship is further confirmed by Chart 1 which relates growth rates and the share of employment made up by construction (for the highest peak of construction shares during 1973-74). Each "plus sign" represents an individual

SMSAs average growth rate for total employment (horizontal scale) and also the share of total employment in the construction sector (vertical scale). This "scatter diagram" does show that faster-growing areas have relatively larger construction sectors. The upward slope of the trend line indicates that cities lying in the upper right-hand segment of the chart have both higher growth rates and larger construction sectors than cities in the bottom left-hand section of the chart. Metropolitan areas such as Fort Lauderdale-Hollywood, Orlando, and Baton Rouge do have relatively larger construction sectors. Hence, it is probably widely recognized that growth results in—and is facilitated by—the addition of office space, new residences, new highways, and other physical signs of urban growth.

Of course, the share of employment in construction may vary between cities with the same growth rate. Growth in some sectors of the economy, such as the service sector, may require less construction than others, such as manufacturing, which requires physical plant facilities. Past developments in construction can also make a difference. One might expect that some cities may have "overbuilt" in earlier time periods (previous to January 1970 for the purpose of this study) and were already prepared for office expansion, new home buyers, and heavy increases in highway traffic as growth means relatively higher levels of construction for the "physical accommodation" of employment growth. In the Southeast, such has occurred to some degree.

The cyclical influence of the construction sector on the overall economy. Faster-growing cities have been shown to have relatively larger construction sectors than their slower-growing counterparts. One would expect construction growth to be destabilizing on the overall economy only if the construction sector is more cyclically volatile than the total local economy. Why should one expect construction to be more cyclical? And is construction, in fact, actually more volatile than the overall economy? The reason for expecting cyclical volatility in construction should be self-evident to most home buyers. Most construction is financed through borrowing and, for home buyers, the mortgage rate is the price of credit. Naturally, home buyers and businesses which would otherwise be expanding tend to put off investment in construction as interest rates rise during the "heated peaks" of economic activity in cyclical expansion. Construction is long-term

²Employment data—January 1970 through November 1981—were obtained from the U. S. Bureau of Labor Statistics and were subsequently seasonally adjusted. For this study, only SMSAs with data available from the U. S. Bureau of Labor Statistics going back to at least January 1970 were used. Though not always stated, all references in Table 1 and throughout this paper to "total employment" are for total **nonagricultural** employment.

Table 2. Total Employment and Construction Employment: Comparison of Cyclicity Measures

Construction employment is considerably more cyclical than total employment.

	Cyclicity Measure For Total Empl. (S. A.) 1/70-3/81	Cyclicity Measure For Constr. Empl. (S. A.) 1/70-3/81
Alabama		
Birmingham	1.46977	4.76164
Huntsville	1.37700	1.82629
Mobile	1.19322	1.18306
Montgomery	1.69766	5.68286
Tuscaloosa	1.74736	4.76309
Florida		
Ft. Laud. - Hollywood	3.06307	12.21276
Jacksonville	1.58788	6.14492
Miami	1.71766	9.44708
Orlando	3.51709	10.60320
Pensacola	1.30133	4.32439
Tampa-St. Pete	2.34176	8.35592
W.P.B. - Boca Raton	2.21080	11.14086
Georgia		
Atlanta	1.91131	6.03740
Augusta	1.26897	3.92050
Columbus	1.15655	3.93440
Macon	0.71272	1.38600
Savannah	1.65996	4.54395
Louisiana		
Alexandria	1.46819	3.98970
Baton Rouge	0.98278	3.09804
Lafayette*		6.34007
Monroe	1.60978	4.45483
New Orleans	0.70429	2.51536
Mississippi		
Jackson	1.66063	7.72170
Tennessee		
Chattanooga	2.27138	4.47516
Knoxville	0.87653	3.79521
Memphis	1.85297	3.75046
Nashville	2.09061	5.92350
Sample Population		
Mean	1.67120	5.41972

*The model for deriving the cyclicity measures requires that employment for the SMSA basically follow the cyclical patterns of employment for the U.S. Since total employment for Lafayette "ignores" U.S. cyclical changes as a result of oil industry build-up, this measure of cyclicity was not available for Lafayette.

investment which usually can be deferred until the cost of the investment is most favorable. Home buyers in particular are more likely to be affected by budget limitations on financing long-term debt. Whereas businesses might, to some degree, "pass on" to customers the interest costs, home buyers cannot. Logically, SMSAs with large percentages of employment in the construction sector (which depends very much on cyclically volatile interest rates) should experience relatively large fluctuations around trend

levels of employment. Various studies support the hypothesis that the construction sector is very cyclical.³ But what is the evidence for the Southeast? According to the data in Table 2, construction employment is considerably more

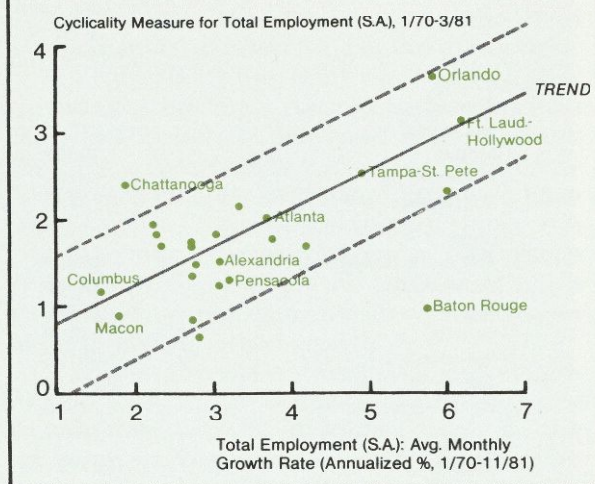
³Howard Friedenber and Robert Bretzfelder, "Sensitivity of Regional and State Nonfarm Wages and Salaries to National Business Cycles, 1948-79," **Survey of Current Business**, U.S. Department of Commerce, May 1980, pp. 15-27, and also Edward Yardeni, "Is the Housing Industry Still Cyclical?" **Federal Home Loan Bank Board Journal**, February 1980, pp. 16-23.

cyclical than total employment. In this study's sample of SMSAs, only Mobile has a measure of cyclicity⁴ which is smaller for construction employment than for total employment. However, this difference is not statistically significant. Higher-growth areas tend to have larger shares of employment in the construction sector. Construction employment—as expected—is more cyclically volatile than total employment.

Higher growth rates in total employment and increased cyclical volatility. As the share of employment increases in the more volatile construction sector, logically, total employment in the high growth areas should also become more cyclical. Furthermore, changes in construction employment can greatly affect local employment in other sectors. "Services-related" employment (such as in gas stations, restaurants, insurance, and retail sales) all depend partially on the income from employees in construction. Business in other sectors can decline as construction employment declines and, in turn, employment erodes further.

But the question remains: are faster-growing cities in the Southeast, in fact, more cyclical than cities experiencing slower growth in employment—and can this increased cyclicity be attributed to increased employment in construction? According to Chart 2, the cyclicity of total employment does indeed increase with the average growth rate of total employment. For comparison purposes, the plotting of the average growth for total employment versus a measure of cyclicity is very useful.⁵ This scatter diagram shows that high-growth Florida cities, such as Orlando, Fort Lauderdale-Hollywood, and Tampa-St. Petersburg, also have high measures of cyclicity. Furthermore, metropolitan areas with low growth rates, such as Columbus and Macon, Georgia, and Tuscaloosa, Alabama, have low measures of cyclicity.⁶

Chart 2. The cyclical volatility of employment tends to increase with higher growth rates in total employment.



To contrast the high and low degrees of cyclical movement between these two groups of cities, Chart 3 plots detrended seasonally adjusted total employment levels for Fort Lauderdale-Hollywood and for Columbus⁷. Chart 3 indicates that Fort Lauderdale-Hollywood—a high-growth city—has relatively large cyclical changes in employment around trend levels. Actual employment since 1970 has moved in large, smooth swings above and below trend. Much of the city's employment fluctuation can be explained by extreme "starts" and "stops" in construction—Florida (including Fort Lauderdale-Hollywood) in the early 1970s experienced heavy real estate speculation which resulted in overbuilding and eventual "collapse" in 1975.

On the other hand, Columbus, Georgia is a city with employment growth falling on the low end of the scale for SMSAs in the Southeast. Industrial expansion has been slow, and only a relatively small percentage of total nonagricultural employment lies in the construction sector. Manufacturing employment and construction employment—both very cyclical sectors—are

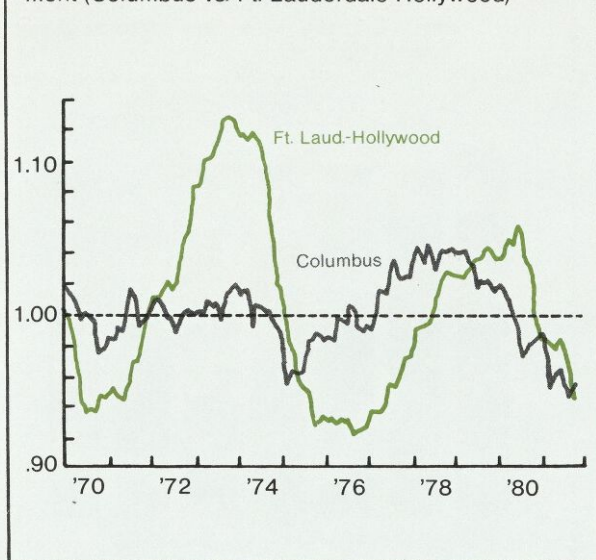
⁴The measures of cyclicity are further discussed in the "Technical Notes."

⁵For each SMSA, cyclical movement is compared against changes in U. S. total employment. This "measure of cyclicity" increases in value as total employment becomes more cyclical—that is, "1" indicates relatively low cyclicity whereas "4" is relatively high. The measure is designed to allow for differences in the timing of peaks and troughs across the Southeast and for differences in the length of cyclical deviations from trend as well as the height and depth of cyclical movement. Furthermore, since the study is concerned with only cyclical fluctuations around trend; data for each SMSA have been seasonally adjusted and detrended (growth effects have been taken into account). See "Technical Notes" for further discussion on the derivation of the cyclicity measures.

⁶The reader is reminded that this study examined cyclical fluctuations around trend levels of employment. Cities, such as those in Florida, might not have declines in employment during recession but instead have extreme slowdowns in growth. For these high growth areas, the swings between very high growth periods and slow growth periods may be larger than relatively small shifts between slow growth and slight declines in employment for other cities.

⁷Detrended employment can be thought of as the ratio of actual employment to trend employment. Any value above "1" indicates actual employment being above trend whereas below "1" indicates actual employment being below trend. Furthermore, with detrended employment expressed in this ratio form, the percent deviation from trend is relatively easy to determine (for a detrended total employment level of 1.05 or 0.95, actual total employment is either 5 percent above or below trend, respectively).

Chart 3. Ratio of Actual Employment to Trend Employment (Columbus vs. Ft. Lauderdale-Hollywood)



not overly imposing on the local economy. Furthermore, the local military installations have had a stabilizing influence on the city's economy. Detrended employment for Columbus is definitely less cyclical; peaks are not as high and troughs are not as deep as for Fort Lauderdale-Hollywood. Also, notice that employment movements in Columbus are basically pro-cyclical to that of Fort Lauderdale-Hollywood.

Other cyclical influences on the local economy. Chart 1 and Table 1 indicate that faster-growing cities, as a rule, do have larger percentages of employment in the construction sector. Furthermore, higher-growth metropolitan areas also tend to have total employment which displays greater degrees of cyclical movement than do slower growth areas. There's a strong connection between the high degree of cyclicity and the relatively large size of the construction sector in these high-growth areas, but why can't high cyclicity be attributed completely to the high growth rates in employment which imply a large share of employment in the construction sector? Chart 2 provides a clue as to why there is not a perfect fit along the trend line comparing growth rates and measures of cyclicity.

Chattanooga, Tennessee, and Baton Rouge, Louisiana, share one trait in common—neither lies on the trend line in Chart 2. Baton Rouge

lies to the “right” of the trend line—the city has high growth but employment is relatively stable along trend levels of employment. In contrast, Chattanooga lies to the “left” of the trend line in Chart 2. This SMSA has a relatively low growth rate for total employment, yet exhibits a large degree of cyclicity. According to Chart 2, Baton Rouge has consistently had larger shares of total employment in the construction sector than has Chattanooga; the share of employment in the construction sector cannot explain their differences in cyclical behavior.

However, the differences in cyclical movement can be explained by the percentages of employment in other sectors of the economy. In 1978, Chattanooga had over 55 percent of nonagricultural employment in the volatile manufacturing sector (just over 25 percent of total employment in durables) whereas Baton Rouge had only 13.2 percent in manufacturing (2.6 percent of total employment in durables). Furthermore, Baton Rouge (Louisiana's capital) has over one-fourth of its workers in the relatively stable government sector.⁸

A comparison of a more homogenous sample of cities. highly cyclical cities typically are the cities with high growth rates and large construction sectors. However, separating the effects of construction employment and manufacturing employment isn't always as easy as it was with Chattanooga and Baton Rouge.⁹ To further substantiate the claim that high degrees of cyclicity are caused by larger construction sectors (as a result of high growth), a more homogeneous sample of cities needs to be examined. The best illustration would be to have several cities across the sample with varying rates of growth for total employment. for such a sample of cities, non-construction employment should be divided in basically the same proportions among other sectors (manufacturing, services, government, etc.) for all cities in the sample. The SMSAs in Florida provide a close—but not perfect—example of such a sample of cities. In the Southeast, the

⁸Federal Reserve Bank of Atlanta, Research Department, **Economic Characteristics of the Sixth Federal Reserve District**, November 1980.

⁹Various studies indicate that durable goods employment is even more cyclical than construction employment. Since both sectors are interest rate sensitive, changes in employment in these sectors occur somewhat simultaneously. Admittedly, separating the effects of their changes in employment on total employment is not easy. See Howard Friedenberg and Robert Bretzfelder, “Sensitivity of Regional and State Nonfarm Wages and Salaries to National Business Cycles, 1948-79,” **Survey of Current Business**, U. S. Department of Commerce, May 1980, pp. 15-27, and also Edward Yardeni, “Is the Housing Industry Still Cyclical?” **Federal Home Loan Bank Board Journal**, February 1980, pp. 16-23.

Chart 4. Total Employment: Average Monthly Growth Rate on Annualized Basis, 1/78-11/81

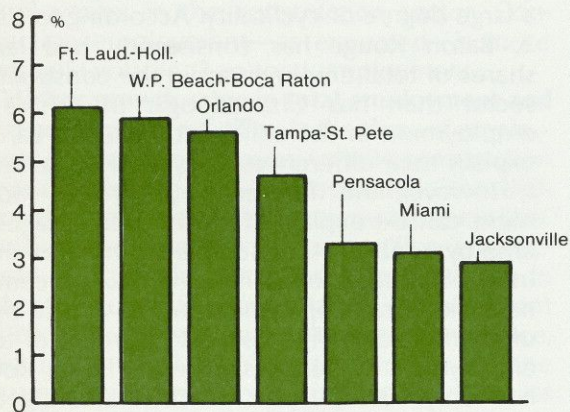
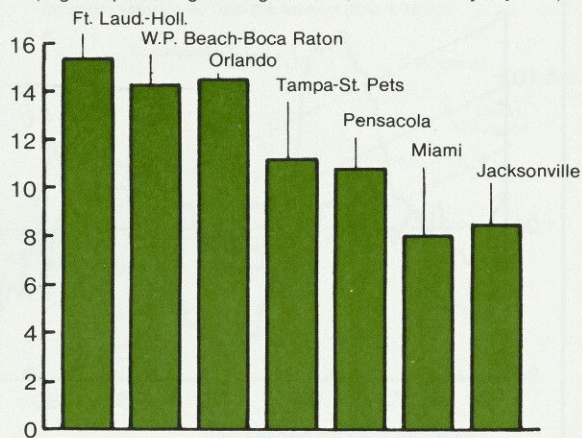


Chart 5. Construction employment as a percentage of total employment for these Florida SMSA's tends to follow the same pattern as growth rates in Chart 4.

(Highest percentage during 1973-74, not seasonally adjusted)



Florida SMSAs are about as homogeneous as can be expected. The share of employment in construction varies among these Florida cities, but the distribution of employment among other sectors is fairly similar.¹⁰

In Chart 4, all Florida SMSAs used for this study are shown with their respective average growth rates for total employment—highest to lowest are charted from left to right. Once again, listing the cities from left to right by growth rates, Chart 5 graphs each SMSA's share of employment in the construction sector (for peak share during 1973-74). The relative size of the construction sector share of employment corresponds almost perfectly to each SMSA's total employment growth rates. The relative size of construction employment increases with the rate of growth of total employment. As is expected, Chart 6 shows that high-growth cities—with the high share of construction employment—also have high degrees of cyclicity. For Florida SMSAs in general, as both the total employment rate and the relative size of the construction sector increase, the movement of total employment around trend levels tends to increase.

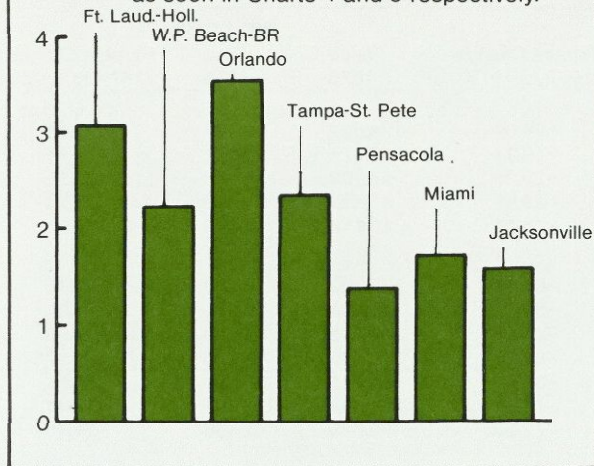
Two sets of special circumstances should be noted for Chart 6. Orlando exhibits greater cyclicity than appears warranted by the growth rate of employment and by the size of construction employment. The abnormally high measure of cyclicity is largely due to the closing of nearby military installations. Also, Pensacola is slightly less cyclical than might be expected—employment in durables is a good deal less than the average for Florida SMSAs.¹¹ Nonetheless, Charts 4 through 6 add considerable weight to the argument that the increased share of employment in construction is one of the major reasons that faster-growing metropolitan areas tend to be more susceptible to changes in the business cycle than their slower-growing counterparts.

Technically, larger construction sectors do not "cause" larger cyclical changes. Construction activity depends on the prior existence of the demand for other goods and services. Non-residential construction will occur only if businesses are experiencing upsurges in demand for their "products" while residential construction depends on the demand for labor services. However, as the nation—and local economies—enters different phases of the business cycle,

¹⁰Federal Reserve Bank of Atlanta, Research Department, **Economic Characteristics of the Sixth Federal Reserve District**, November 1980.

¹¹Ibid.

Chart 6. Though the trend is not as strong, cyclical measures of total employment (S.A. 1/70-2/81) follow the same basic pattern as the growth rate of total employment and also the percentage of employment in construction as seen in Charts 4 and 5 respectively.



the construction sector responds relatively quickly to changes in interest rates; construction purchases are "long-term" goods which typically can be deferred in the short run. (Because of the long-term nature of construction goods and because purchases usually must be financed, construction goods have relatively high short-run elasticity of demand with respect to interest rates.)

Though the construction sector doesn't "cause" changes in the business cycle, it is certainly a manifestation—as a result of interest rate sensitivity—of business cycle changes. In turn changes in construction employment have "ripple" effects on total employment in the local economy.

The cyclical influence of components of the construction sector. As discussed above, as the relatively volatile construction sector assumes a greater proportion of total employment, then, total employment in the local economy becomes more cyclical assuming all else remains the same. The increasing **share** of construction employment in total employment—as a result of expansion—is the primary reason the construction makes higher growth cities more cyclical. However, not only does the size of this sector affect changes in total employment during the business cycle but so does the degree of volatility of the construction sector.

As the construction sector becomes more volatile (other things being equal), so does total employment. But this states the obvious. Just what makes construction in some SMSAs more susceptible to changes in the business cycle than in others? Does the makeup of the construction sector provide some clue for city budget officers whether or not the local economy's employment, and therefore the city's finances, remain relatively stable?

The construction sector is comprised of basically three major categories: residential, non-residential (commercial, industrial), and non-building (roads, bridges, dams). Were data for these categories available for all relevant SMSAs for peaks and troughs in a business cycle, some comparison could be made to determine which construction component plays the greatest role in making construction so cyclical and, in turn, helps indicate which cities might have the more cyclical construction sectors in the future.

In terms of construction contracts (awards), construction data are readily available from **Dodge Construction Potentials** (McGraw-Hill) for each SMSA in this study for residential and nonresidential construction. Nonbuilding construction contract data are also available (though less readily) by SMSAs. However, a limiting feature of the data is that construction on nonbuilding jobs, such as roads, cannot always be attributed to a particular SMSA since the projects do not neatly fit geographic boundaries as do residential and nonresidential projects.

Since the nonbuilding component generally creates only a small portion of total construction employment, the residential or the nonresidential components are primarily responsible for construction employment fluctuations. Therefore, to determine which metropolitan areas have more cyclical construction sectors, this study examined residential and nonresidential construction contract data from **Dodge Construction Potentials**. Table 2 shows cumulative annual values for contract awards for each SMSA for these two construction components for the 1973 peak year and for 1975, the trough year. The percentage change figures (1973 to 1975) for each category definitely indicate that residential construction is far more volatile than nonresidential construction. In Florida, the residential sector is particularly vulnerable. Only in Pensacola (for the study's sample) did the nonresidential sector

Table 3. Construction Contracts Cumulative to Date for Year (Value in Thousands of Dollars)

Residential construction is generally more volatile than nonresidential construction as is indicated by the percentage changes from the "boom" year of 1973 to the "bust" year of 1975.

	Residential			Non Residential		
	Value 1973	Value 1975	Percent Change 1973 to 1975	Value 1973	Value 1975	Percent Change 1973 to 1975
Alabama						
Birmingham	143,402	108,929	-24.04	134,821	90,147	-33.14
Huntsville	52,356	42,298	-19.21	53,422	53,422	-0.41
Mobile	78,692	55,830	-29.05	56,903	184,513	224.26
Montgomery	74,091	51,968	-29.86	41,633	54,022	29.76
Tuscaloosa	38,492	34,193	-11.17	17,118	17,815	4.07
Florida						
Fort Lauderdale-Hollywood	1,072,750	154,900	-85.56	172,002	110,562	-35.72
Jacksonville	241,968	97,385	-59.75	148,458	108,260	-27.08
Miami	726,740	213,724	-70.59	291,275	212,739	-26.96
Orlando	416,065	78,421	-81.15	216,575	60,920	-71.87
Pensacola	75,552	45,898	-39.25	65,225	33,567	-48.54
Tampa-St. Petersburg	816,648	184,133	-77.45	278,084	309,821	11.41
W.P.B.-Boca Raton	429,515	119,882	-72.09	79,793	62,656	-21.48
Georgia						
Atlanta	788,522	373,164	-52.68	555,743	281,411	-49.36
Augusta	54,273	64,737	19.28	39,933	32,259	-19.22
Columbus	29,864	45,821	53.43	37,836	36,269	-4.14
Macon	38,814	23,950	-38.30	58,539	50,744	-13.32
Savannah	30,445	34,086	11.96	17,326	24,482	41.30
Louisiana						
Alexandria	31,677	23,808	-24.84	19,920	7,579	-60.71
Baton Rouge	151,878	106,318	-30.00	142,478	116,527	-18.21
Lafayette	37,463	24,692	-34.09	15,906	14,308	-10.05
Monroe	27,731	24,361	-12.15	10,703	68,415	539.21
New Orleans	233,560	169,938	-27.24	180,255	192,590	6.84
Mississippi						
Jackson	97,970	49,908	-49.06	48,300	59,535	23.26
Tennessee						
Chattanooga	95,248	63,144	-33.71	63,099	55,144	-12.61
Knoxville	115,443	81,148	-29.71	53,506	88,510	65.42
Memphis	340,254	120,085	-64.71	203,508	117,272	-42.37
Nashville	247,629	103,259	-58.30	213,591	144,851	-32.18

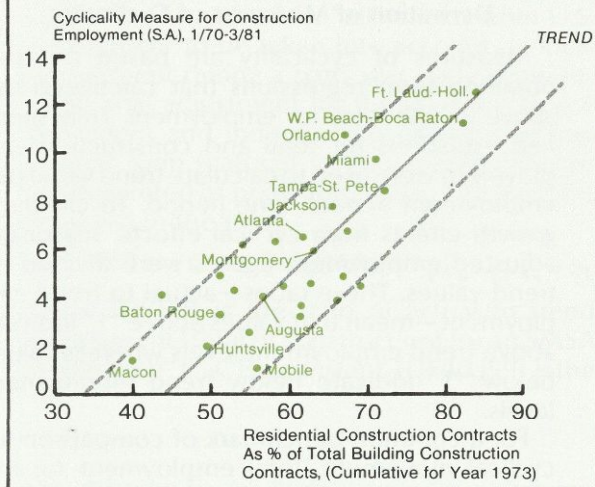
Source: **Dodge Construction Potentials**

fare worse than the residential sector during this period.¹²

¹²Part of the vulnerability of Florida's residential construction sector can be explained by the fact that the state's residential home sales depend so heavily on in-migration from elsewhere in the U. S. When potential immigrants cannot sell their homes (as a result of recession) in order to move to Florida, residential sales and eventually construction contracts suffer in Florida. See Donald L. Koch and Delores W. Steinhauer, "Florida: Dealing from Strength in Slow Year," **Economic Review**, Federal Reserve Bank of Atlanta, February 1982, pp. 14-23.

Chart 7 helps to elaborate on how the residential construction component plays a large role in determining how volatile a city's construction sector is and, in turn, total employment. As the residential component's share of building construction (residential and nonresidential combined) rises, so does the cyclical measure for construction employment. Cities in Florida, such as Fort Lauderdale-Hollywood, West Palm Beach-Boca Raton, and Miami, show

Chart 7. Construction employment cyclical volatility tends to increase as the share of residential construction becomes larger.



highly cyclical construction employment together with high shares of construction employment in the residential component.¹³ On the other hand, cities such as Macon, Huntsville, and Baton Rouge—which have relatively small shares of residential construction employment—have low measures of cyclicity for construction employment. The more cyclical nature of residential construction makes sense—businesses plan construction farther in advance than do home buyers. Businesses are usually in better financial position to continue construction plans even in the face of increased interest rates. Often, businesses can lose more by deferring expansion than by paying higher interest rates—especially since some interest cost is often passed on to consumers. In contrast, home buyers typically have more limited budgets for making monthly mortgage payments.

Summary and implications. This study has examined a large cross section of metropolitan areas in the Southeast. For the sample cities, growth rates and cyclical volatility of total employment vary considerably—with the construction sector playing a major role in affecting

cyclicity. As expected, cities experiencing rapid growth also have large shares of employment in the construction sector. Also not surprisingly, the construction sector in these cities is more cyclical—due to interest-rate elasticity—than the overall economy. Higher growth rate areas, in effect, maintain higher percentages of employment in a more cyclical sector of the economy. As a result, metropolitan areas experiencing rapid employment growth are more cyclically volatile. The cyclical susceptibility of many cities is further aggravated by the rapid growth of residential construction. These are the results of this study; what are the implications in the Southeast for the future?

Many metropolitan areas in the Southeast—as part of the Sunbelt—are slated for above-average growth during the 1980s. The region's economic growth should be accompanied by employment growth greater than the U. S. average—and large construction sectors will be a significant part of this growth.

The Southeast's experience indicates that future growth promises to bring potential problems as well as blessings. Many fast-growing cities should expect wide fluctuations in employment over the business cycle. Such fast-growing states as Florida and Louisiana can expect the business cycle and swings in interest rates to have a significant impact on construction activity, construction employment, and eventually on the overall local economy. Louisiana's oil-fueled industry, for instance, could cool as excess world oil supplies continue to lower gasoline prices. Repercussions in the construction sector might have large multiplier effects on employment in many Louisiana cities. Lay-offs in construction would affect business throughout the local economies—in retail sales, government, and the service sectors.

In Florida, real estate booms are inevitable as in-migration continues during prosperous economic times. Real estate values get additional support from foreign investment. But periods of high interest rates or other depressing factors can bring abrupt declines as well. Florida has experienced dizzying changes in the past. From November 1970 through November 1973, for instance, total employment for Fort Lauderdale-Hollywood increased at an average annual rate of 28.3 percent; but from November 1973 through April 1976, the SMSA's total employment fell at an annual rate of 24.4 percent.

¹³See "Technical Notes" for further elaboration on actual figures for the "cyclicity measures for construction employment" (figures appear in Table 2) and for the methodology used.

City planners and finance officials must learn that the phenomenal growth in employment and revenues they enjoy during cyclical expansion cannot continue without interruption. In particular, areas which are expanding with very large residential construction sectors should be wary. High-growth areas may not even have noticeable drops in employment. Yet, the percentage difference between trend employment and actual employment during recession is usually larger for higher-growth areas than for those with slower growth.

Business people, as well as government officials, must be prepared for the "downside" of the business cycle. In the private sector, business inventories rise as business is merely good rather than brisk as anticipated.

Therefore, governments and businesses in high-growth areas which "count on" continued expansionary growth rates in employment (and the ensuing revenues) may find that recession brings revenues that are substantially less than "expected." Southeastern government and business leaders must be aware of the probability that superheated growth during expansion will be accompanied by a cooling slowdown during recession. And that cooling, if unexpected, can force budget cutbacks for governments and businesses alike.

Technical Notes

Derivation of Growth Rates. Both the growth rates for total employment and the growth rate for construction employment were calculated using regression techniques. Monthly employment data for each category (seasonally adjusted) are regressed using an exponential growth model:

$E_t = b_1 T_t + C + e_t$, where E_t is the employment level (for either total employment or construction employment) at time "t" (employment is in logarithmic form for the exponential growth model), T_t is a variable denoting different monthly time periods (i.e. 1, 2, 3 ... 145), C is a constant term to pinpoint beginning levels of trend employment, e_t is a term for the error between actual and trend employment in time "t", and b_1 is the coefficient for the average monthly growth rate.¹⁴ The growth rate figures in Table 1 have been

"annualized" from actual regression results (monthly growth rates were multiplied by 12 to get a yearly growth rate).

Derivation of Measures of Cyclicity.

Measures of cyclicity are based on data obtained from regressions that calculated the above growth rates for employment. Fully specified equations for total and construction employment were used to calculate trend values for employment in each time period. To eliminate growth effects from cyclical effects, seasonally adjusted employment figures were divided by trend values. These ratios—actual to trend employment—mean that values above "1" indicate above trend employment levels whereas values below "1" indicate below trend employment levels.

For a common benchmark of comparison for cyclical movement, total employment for the United States was chosen. As were data for all SMSAs, total U. S. employment was detrended by dividing the actual employment figures by trend values. At this point, the data have been adjusted so as to eliminate seasonal and growth influences; only cyclical movements remain (and occasional random influences).

Other problems for measuring cyclicity remain—various SMSAs have slightly different timing of cyclical peaks and troughs than the U.S. In order to take this timing problem into account, the dependent variable (the ratio of U. S. total employment to trend employment) is lagged. Furthermore, the strength of the effects of changes in U.S. employment may vary over different time periods during different points in various cyclical phases; some SMSAs may have "long and deep" cyclical changes relative to the U. S. while others may have "short and shallow" cyclical changes. In order to measure the effects across an entire cyclical phase, the dependent variable is set up as a polynomially distributed lag (a third degree polynomial) using an Almon distribution.¹⁵ Recognizing that some cities may be procyclical to U. S. movements, the dependent variable is "led"—in addition to being "lagged"—by nine months. In effect, the U. S. employment variable is "led" by nine months and then "lagged"—from nine months

¹⁴For further elaboration of exponential growth models, see Alpha C. Chiang, *Fundamental Methods of Mathematical Economics*, Second Edition, (New York: McGraw-Hill Book Company, 1974), pp. 280-321.

¹⁵See Shirley Almon, "The Distributed Lag Between Capital Appropriations and Expenditures," *Econometrica* 33, January 1965): 178-196.

in the future—by 24 months. This is why the cyclical measures in Table 1 cover a smaller time span than the growth rates. The lag length of 24 months is chosen because some SMSAs require a full two-year period for “all” effects from U.S. employment to be taken into account on local employment during a particular cyclical phase.

The final adjustment for the model is to put dependent and independent variables in logarithmic form (natural) so that coefficients can be interpreted as point elasticities. The model is regressed in the form:

$$\ln(E^a/E^t)_t = C + B \cdot \ln(USA/U^{tr})_{t+9-t-14} + e_t$$

where (E^a/E^t) is the ratio of actual to trend employment (total or construction) for an SMSA form in time “t”, C is a constant, (USA/U^{tr}) is the

ratio of actual to trend total employment for the U.S. In an Almon distributed lag beginning nine months before time “t” and ending 14 months past time “t,” B is the sum of the coefficients of the Almon distributed lag, and e_t is a random error term. This Almon lag is distributed as a third degree polynomial. The ratios of actual to trend employment are expressed in natural logarithmic form for dependent and independent variables. The measure of cyclicality is the sum of all positive coefficients from the Almon distributed lag—all coefficients in a “current phase.”

All regressions were run using ordinary least squares—the Cochrane-Orcutt procedure presented multicollinearity problems between serially correlated errors and purposefully unexplained cyclical movements around time trends.

—R. Mark Rogers

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Bankers and The Fear of Flying

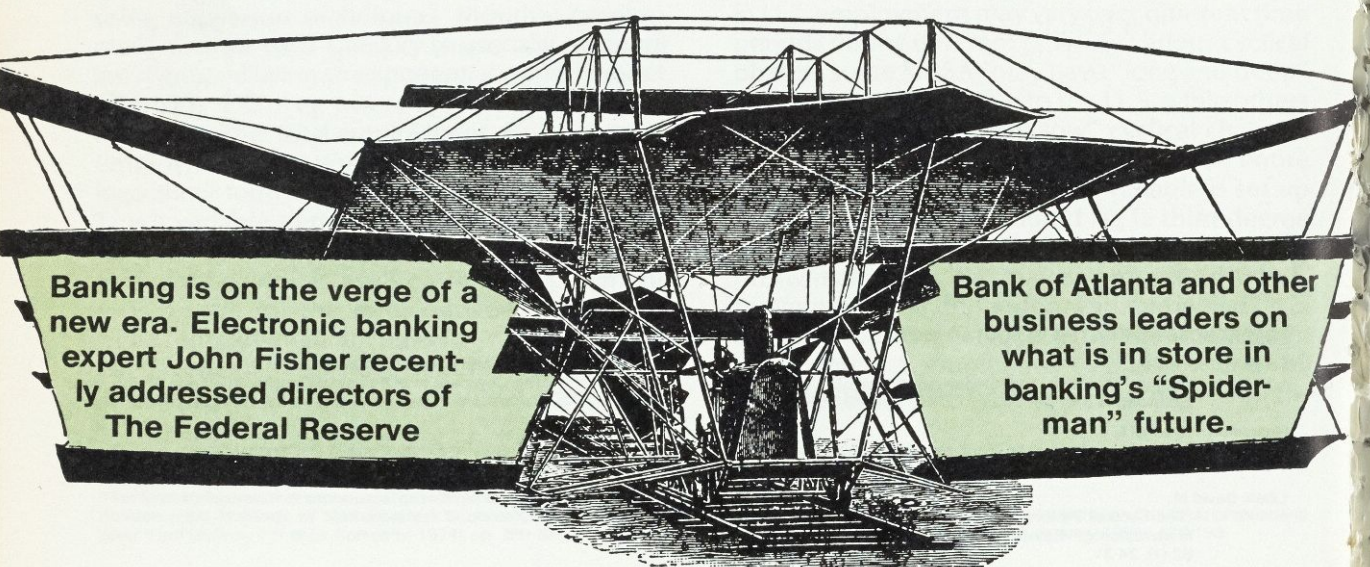
There is a life cycle of the basic delivery systems occurring in banking.

Back in the early days of banking, when people availed themselves of banking services, they basically went to the main office. And then about 1950, branching began, and soon behind branching came the advent of the most popular mechanism we have in banking today, the drive-in window. And if you'll track that life cycle, you'll see that today we are at the peak of popularity of the branching mechanism and, as a result, of the drive-in mechanism as well. At my bank today, about

55 percent of all my customer services are handled in that kind of a mechanism.

The bricks and mortar delivery system that has been so helpful in the past is dying. As we head toward the year 2000, it will decline on a toboggan ride, being replaced by electronic delivery systems starting with the automatic teller machine at the beginning of the '70s, a rise we're predicting through the early '90s. And then that too, we believe, will begin to cycle down.

The automated clearing house (ACH) continues to gain popularity in our market-place and



Banking is on the verge of a new era. Electronic banking expert John Fisher recently addressed directors of The Federal Reserve

Bank of Atlanta and other business leaders on what is in store in banking's "Spider-man" future.

is a fundamental requirement for our future success. We must, as an industry, learn how to utilize that ACH capability far beyond how we're using it today. By the year 2000 the ACH will be the second most popular method by which people gain access to their bank accounts. They will do it, increasingly, through the soon-to-be introduced home delivery which will rise very rapidly through the latter half of the decade of the '80s. Into the '90s and by the year 2000, home delivery will represent the most important method by which customers gain access to the bank.

There is still another kind of delivery system out there: the shared branch. The 100,000 storefronts the depository industry has in place in America today will not be needed in the future to the same degree as in the past. We will do something with them. We have already begun to sell them and close them down. Perhaps we will begin to share them as we push into the '80s: build a barricade down the lobby and provide a separate entrance, plant a little poison ivy on one side of the barricade, lease out space to Century 21, Merrill Lynch, Nationwide Insurance and others in the financial industry and provide services in the marketplace under the umbrella of a financial services center. Somewhere in the latter half of the '80s, this shared branching idea will begin to develop. It will be an important way for us to maximize the bricks and mortar we have today.

It was nice, back in 1950, when a banker could come to the main office at 10 and close at 2 and work on his golf handicap. That was the way banking business was comfortably done. But today there are many more competitors and the world is different. Today we are looking at a very complex picture: we must maximize the delivery system that's in place, bricks and mortar, while bringing on the new electronic delivery system that is the promise of the future. It's a little like a mechanical company trying to become an electronic company. Some make it, like NCR. They were a mechanical cash register company. Today, they're an important computer company. Some don't make it. Addressograph-Multigraph could not make it.

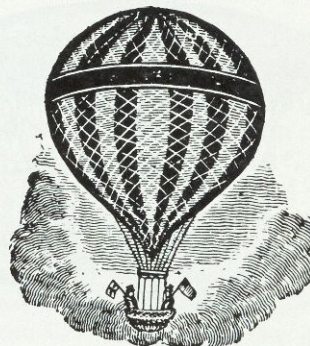
The same kind of pull and tear and gee and haw will take place in the financial industry. There will again be winners and losers as we

move from today's bricks and mortar delivery into the electronic capability of the future.

The Little Plastic Card

You could see this beginning to occur back in the '60s with the success of the spectacular delivery system developed by our industry, the little plastic card. That plastic card has not only allowed us to lend money in unique ways, but to introduce a unique payment mechanism worldwide and to guarantee transactions to the retail industry. Now, the mentality of the card and the automatic transfer of funds is allowing us to think about delivering services to the home.

All kinds of participants can now share equally in what the financial industry invented.

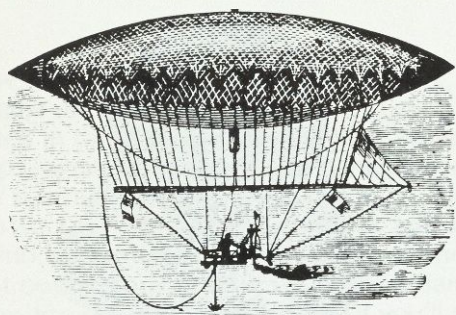


We can no longer just view this as a bank card or a credit card. We clearly have developed a new mechanism for providing financial services and new kinds of development throughout the world which promise even greater returns in the future. There is the money card with a computer chip. It's compatible with the magnetic stripe that we use, and is under test today in three important cities in France.

Your signature has about 200 unique characteristics. Those characteristics can be digitized and encoded on a magnetic stripe plastic card. So a new personal identification capability can be wedded to the plastic cards we carry in our purses and wallets today. There is a new material, laser encoded and laser read, which promises an unlimited amount of data that can be stored on a plastic card. That may become a technology we would use in the decade of the '90s. So there are all kinds of unique

opportunities for wedding technology to the basic delivery system we've been inventing for the last 50 years.

Earlier technology triggered the revolution underway in our industry today. We now have 30,000 automatic teller machines in the United States, and there are almost 100,000 of them in the world. New models will be cheaper and easier to use and perform new functions. You could walk up to a machine in a broker's office, ask for a \$2,000 check issued against your money market fund, key in the appropriate data, and have that check dispensed from a cartridge in the machine. In fact, machines coming to market will have up to four cartridges so they can dispense checks and travelers' checks and two denominations of cash.



A check should be cashable anywhere, and, therefore, if the plastic card is to displace the check, the plastic card should be good for cash anywhere and not just at one bank entering into a private arrangement with another bank. To see that, let's look back to the beginnings of the automatic teller machine and then come forward. In the first two years of operation, America installed 250 cash vendor machines. We only had credit cards to introduce them and the world was totally off-line. This is how the business began. Then a few banks began to introduce full service tellers. Every banker in every community said, "I'm gonna knock the bricks out of the wall of my bank, put the machine in and run an ad that says the bank will never close."

Finally, just within the past year or so, as we began to understand the cost associated with installing these devices, we began to push the concept of sharing. So the "doubting Thomas" period of the '70s has given way, and we now see people talking about networks, installation

off-premise, and pricing differently from a live teller. We now are talking about delivering capability into the market place, and not just gadgetry, as we had talked about in the previous 10 years. We are entering a "web-slinger" era: Spiderman's going to be out there linking us together.

The Spiderman Era

The marketplace will finally respond. It could be to bank networks. It could be to third-party installers. Merchants, grocery chains, brokerage houses, national retailers will begin to think about the business opportunity to install financial service centers and machines and to sell services to the financial industry, regardless of the kind of card the customer presents.

We are headed into a very sensitive two-year period and the third-party installer is going to be much more important to our industry than we realize at this minute.

The new family of devices will also be arriving. Devices that kick out cash only will cost less than \$10,000. So you could afford, therefore, to install simple cash vendors virtually everywhere. Other devices with sophisticated capabilities will allow customers to access their checking account statement and to have it printed from a customer-operated device. That will be another of a family of devices coming to the marketplace. We will see very rapid off-premise development during this web-slinging period.

By the time we get to the 1986-88 period, 100,000 to 125,000 terminals will be in place. The networks that survive the web-slinging era will link themselves together: any card will be used in any machine and this will create a very rapid change in the bricks and mortar facilities that deliver financial services today.

At the turn of the '80s, the marketplace will be responding very positively to what we have been inventing. Public acceptance will be widespread. Any machine will be available to any customer virtually anywhere. So in my mind, the automatic teller machine is a revolutionary tool that will allow us to introduce unique new banking services.

All this is not as exciting, however, as another opportunity before us: the opportunity to invent a way to provide financial services in

the home and allow the customer to interact with the bank account. This is clearly the most exciting and challenging opportunity facing our industry. New home information networks will begin to emerge about the turn of the decade, and the financial industry will join other information providers to help build the home information industry for our country by the end of the century. A whole new set of packages can be invented to deliver services in the home. Electronic bill-paying is the most prominent: to displace the check, to have the bill sent to the bank through the ACH on computer tape, to have it displayed on the home screen when the customer wants to see it, to bypass the costly and antiquated mail system.

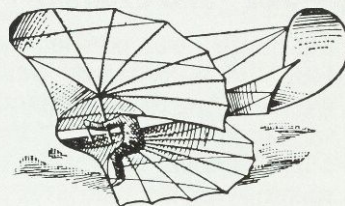
Additionally, information can be provided over these new mechanisms. The simple balance inquiry of today will not carry us far enough. The customer needs reliable data to make business decisions. Rates change every day now, and therefore the customer needs current data to make decent decisions. New accounts can be opened. You can imagine an installment loan application appearing on your home screen; you fill in a simple eight blanks; the cursor at the bottom of the screen winks at you and says back in 20 minutes with the answer." Finally, the promise of the past that the banking industry would introduce financial counseling and budgeting is likely to occur now in this electronic world.

This is the picture we are trying to invent: the home television screen, Ma Bell's simple little telephone, with a key pad that will allow the homeowner to respond to what's on the screen.

The industry is forming at the minute under the umbrella of new kinds of networks, the networks linking together the home with various communications distributors, AT&T, cable, and the various data-base suppliers such as the financial industry.

Think about the entertainment networks of today, delivering information and entertainment into your home via radio and television. The new networks will deliver data into your home, allowing any home to link up with virtually any data base. The emerging network computer is tomorrow's printing press which will be a data processing center sending data into your home over blips and wires. So the data-processing center will tie our homes

together to provide the information the marketplace will need in the next two decades, linking through the network computer to various data bases. One of these will be the banking industry. There will be a shared banking facility and a data processing center tied to the banks, credit unions, savings and loans, potentially others in the area, so every home can access any "bank" through the network that's delivering service to that home.



There likely will be competing networks. We can already begin to see competing networks in our country: coming up out of Miami is Knight-Ridder and AT&T, which will launch the first real application of video text in mid-1983; coming out of New York is CBS and AT&T; coming out of Los Angeles is The Times-Mirror effort which just has announced a joint venture with Info-Mart, a Canadian organization. Cox Cable, with the project in San Diego, could be a fourth network. There will be others: Dow Jones and CompuServe. We shall hear more of some of these names as new network companies form in the next few years.

What kind of device will we have in our homes to access these networks in the mid-'80s? You can see some early devices in the marketplace. You can buy a seasonal computer terminal on your way home tonight. A videotext terminal can plug into your television set, jack into the CompuServe network and provide a distant data base service.

A major commitment has been made by the French government over the last four years to install that kind of terminal linked to the telephone system in every home in France, with a nine-inch black and white screen, alphanumeric keyboard, function keys, and a modem plugged into it so it can jack into the phone lines. The idea is that this device or something similar to it will be installed free in every French home, 30

million terminals. The cost justification is that it will be cheaper to distribute terminals than to continue to print the telephone directory: the first service over the screen will be a telephone directory. So worldwide standards are being hammered out at the minute. The Bell commitment in this country appears as if it will hold up and that the French and English systems will accommodate what's being proposed in this country.

"Kitty Hawk" and Courage

Let's put this in a true perspective. Between '81 and '83, the "Kitty Hawk" period we're in today, we are trying to understand whether or not we can get this thing off the ground. This is a period when data bases are being linked together for the first time, personal computers are being linked together and the first network opportunities are emerging. So this is a very significant beginning.

Because 1983-1985 is the "Uncle Miltie" period, when we'll begin to see the popularization of this new home information industry, just as Milton Berle did with a home entertainment industry. We'll begin to see the arrival of stand-alone terminals, and you will think about a terminal as a home information appliance. You will buy it at the store, carry it home, plug it in and it will work. Just like America went down to the store to get microwave ovens. If it doesn't work, a repairman will come out and fix it.

We'll get to the "gee-whiz" era by about the turn of the decade, when various technologies will be linked together. Look at what Sears did last fall in their 1,000-home test in Cincinnati and Washington, where the Sears catalogue was printed on a video disc, allowing therefore the random access of information on that disc. If you wanted to know what an appliance looked like, you just keyed in the code and a two-minute picture demonstration appeared on the screen. Better personal identification systems should arrive by the 1990s. This is crucial. We will require better technology to identify remote customers. As a society, we will demand that the privacy of our financial data be absolutely secure.

We face some immense problems. The most important is that we lack courage.



Think about these two guys: Orville and Wilbur Wright demonstrated they could build a machine that could fly. At the end of the third flight a little puff of wind picked up that frail craft and, wing tip over wing tip, rolled it over one of the sand dunes at Kitty Hawk, and it lay crumpled outside their little shack.

Imagine, that night, the dinner conversation they had. Wilbur said, "I wonder what we've really done. Have we built a machine or have we really begun the flight of man?" That question led them to a discussion that lasted into the early morning hours. They began to think about what they would have to do if in fact man really was to fly. They would have to enclose the passenger. So the idea of a cabin began to emerge in their future plans. But this presented them with a problem of weight, calling for new kinds of engines and propellers, bringing problems they knew not how to solve. They talked of creating some new kind of landing gear. They wondered how to support sufficient fuel to fly from one place to another. They worried about the problems of protection from the flammability of that fuel, they wondered how they could navigate from one place to another, and they begged for the invention of radio so they could not only navigate but communicate.

Finally, in the early morning hours, they came to the most severe problem of all—the same problem we face every day—how to convince somebody else to do what you want them to do: As Orville said to Wilbur, "How will we ever get man to overcome his natural fear of flying?" That problem became so severe in their minds they both in unison agreed that they had merely invented a machine and that man would not fly.

It will take courage.

—John Fisher

Fisher is senior vice president, BancOne Corporation, Columbus, Ohio.



FINANCE

STATISTICAL SUPPLEMENT

	MAY 1982	APR 1982	MAY 1981	ANN. % CHG.		MAY 1982	APR 1982	MAY 1981	ANN. % CHG.
\$ millions									
UNITED STATES									
Commercial Bank Deposits	1,123,717	1,129,500	1,010,577	+ 11	Savings & Loans				
Demand	289,040	295,680	300,866	- 4	Total Deposits	527,923	530,388	511,443	+ 3
NOW	56,147	59,083	41,611	+ 35	NOW	9,531	9,864	5,680	+ 68
Savings	150,274	152,093	158,406	- 5	Savings	92,230	93,760	101,202	- 9
Time	659,345	652,132	542,574	+ 22	Time	426,748	427,399	404,354	+ 6
Credit Union Deposits	46,395	46,215	36,773	+ 26		MAR	FEB	MAR	
Share Drafts	3,090	3,098	2,110	+ 46	Mortgages Outstanding	506,242	507,374	498,456	+ 2
Savings & Time	39,952	39,607	32,657	+ 22	Mortgage Commitments	15,763	15,338	17,281	- 9
SOUTHEAST									
Commercial Bank Deposits	122,269	123,395	109,944	+ 11	Savings & Loans				
Demand	34,549	35,805	35,581	- 3	Total Deposits	77,743	78,030	74,627	+ 4
NOW	7,348	7,785	5,315	+ 38	NOW	1,562	1,633	886	+ 76
Savings	14,851	15,108	15,636	- 5	Savings	11,685	11,937	12,901	- 9
Time	68,931	68,277	56,931	+ 21	Time	64,525	64,522	60,657	+ 6
Credit Union Deposits	4,394	4,388	3,341	+ 32		MAR	FEB	MAR	
Share Drafts	325	318	237	+ 37	Mortgages Outstanding	76,211	75,905	72,367	+ 5
Savings & Time	3,741	3,721	2,867	+ 30	Mortgage Commitments	3,383	3,443	3,786	- 11
ALABAMA									
Commercial Bank Deposits	13,512	13,942	12,624	+ 7	Savings & Loans				
Demand	3,511	3,610	3,599	- 2	Total Deposits	4,440	4,455	4,385	+ 1
NOW	636	669	477	+ 33	NOW	80	83	46	+ 74
Savings	1,555	1,580	1,661	- 6	Savings	561	578	652	- 14
Time	8,276	8,520	7,294	+ 13	Time	3,820	3,820	3,699	+ 3
Credit Union Deposits	758	760	544	+ 39		MAR	FEB	MAR	
Share Drafts	61	63	51	+ 20	Mortgages Outstanding	3,978	3,984	3,976	+ 0
Savings & Time	644	635	491	+ 31	Mortgage Commitments	60	51	136	- 56
FLORIDA									
Commercial Bank Deposits	40,327	40,783	36,861	+ 9	Savings & Loans				
Demand	12,305	13,014	13,223	- 7	Total Deposits	47,230	47,400	45,372	+ 4
NOW	3,244	3,447	2,364	+ 37	NOW	1,081	1,146	640	+ 69
Savings	6,321	6,476	6,785	- 7	Savings	7,821	8,000	8,715	- 10
Time	19,466	19,069	15,540	+ 25	Time	38,251	38,194	35,795	+ 7
Credit Union Deposits	2,016	2,013	1,550	+ 30		MAR	FEB	MAR	
Share Drafts	175	174	134	+ 31	Mortgages Outstanding	47,363	47,019	43,798	+ 8
Savings & Time	1,591	1,582	1,191	+ 34	Mortgage Commitments	2,876	2,978	3,104	- 7
GEORGIA									
Commercial Bank Deposits	17,040	16,991	14,602	+ 17	Savings & Loans				
Demand	6,040	6,164	6,040	0	Total Deposits	9,681	9,792	9,468	+ 2
NOW	1,041	1,093	753	+ 38	NOW	168	170	85	+ 98
Savings	1,637	1,647	1,628	+ 1	Savings	1,182	1,206	1,331	- 11
Time	9,243	9,029	7,195	+ 28	Time	8,367	8,463	8,063	+ 4
Credit Union Deposits	803	796	565	+ 42		MAR	FEB	MAR	
Share Drafts	29	28	17	+ 71	Mortgages Outstanding	9,309	9,325	9,402	- 1
Savings & Time	728	725	535	+ 36	Mortgage Commitments	144	131	190	- 24
LOUISIANA									
Commercial Bank Deposits	22,039	22,203	19,451	+ 13	Savings & Loans				
Demand	6,139	6,277	6,032	+ 2	Total Deposits	7,681	7,683	7,017	+ 9
NOW	999	1,070	697	+ 43	NOW	98	100	46	+113
Savings	2,456	2,480	2,498	- 2	Savings	1,222	1,240	1,238	- 1
Time	13,048	12,948	10,767	+ 21	Time	6,371	6,357	5,750	+ 11
Credit Union Deposits	120	119	83	+ 45		MAR	FEB	MAR	
Share Drafts	13	13	4	+225	Mortgages Outstanding	7,195	7,191	6,877	+ 5
Savings & Time	111	111	77	+ 44	Mortgage Commitments	225	209	213	+ 6
MISSISSIPPI									
Commercial Bank Deposits	10,227	10,218	9,159	+ 12	Savings & Loans				
Demand	2,378	2,415	2,454	- 3	Total Deposits	2,408	2,403	2,359	+ 2
NOW	546	573	398	+ 37	NOW	46	45	20	+130
Savings	740	749	785	- 6	Savings	221	225	244	- 9
Time	6,797	6,710	5,795	+ 17	Time	2,152	2,148	2,097	+ 3
Credit Union Deposits	N.A.	N.A.	N.A.			MAR	FEB	MAR	
Share Drafts	N.A.	N.A.	N.A.		Mortgages Outstanding	2,196	2,201	2,189	+ 0
Savings & Time	N.A.	N.A.	N.A.		Mortgage Commitments	18	17	56	- 68
TENNESSEE									
Commercial Bank Deposits	19,123	19,258	17,247	+ 11	Savings & Loans				
Demand	4,175	4,325	4,233	- 1	Total Deposits	6,303	6,297	6,026	+ 5
NOW	883	933	626	+ 41	NOW	87	88	49	+ 78
Savings	2,141	2,176	2,279	- 6	Savings	676	688	721	- 6
Time	12,103	12,001	10,340	+ 17	Time	5,564	5,541	5,253	+ 6
Credit Union Deposits	697	700	599	+ 16		MAR	FEB	MAR	
Share Drafts	47	40	31	+ 52	Mortgages Outstanding	6,170	6,185	6,125	+ 1
Savings & Time	667	668	573	+ 16	Mortgage Commitments	60	57	87	- 31

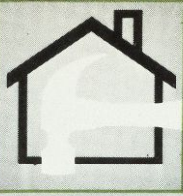
Notes: All deposit data are extracted from the Federal Reserve Report of Transaction Accounts, other Deposits and Vault Cash (FR2900), and are reported for the average of the week ending the 1st Wednesday of the month. This data, reported by institutions with over \$15 million in deposits as of December 31, 1979, represents 95% of deposits in the six state area. The major differences between this report and the "call report" are size, the treatment of interbank deposits, and the treatment of float. The data generated from the Report of Transaction Accounts is for banks over \$15 million in deposits as of December 31, 1979. The total deposit data generated from the Report of Transaction Accounts eliminates interbank deposits by reporting the net of deposits "due to" and "due from" other depository institutions. The Report of Transaction Accounts subtracts cash in process of collection from demand deposits, while the call report does not. Savings and loan mortgage data are from the Federal Home Loan Bank Board Selected Balance Sheet Data. The Southeast data represent the total of the six states. Subcategories were chosen on a selective basis and do not add to total.



EMPLOYMENT

	APR 1982	MAR 1982	APR 1981	ANN. % CHG.		APR 1982	MAR 1982	APR 1981	ANN. % CHG.
UNITED STATES									
Civilian Labor Force - thous.	108,814	108,761	107,906	+ 1	Nonfarm Employment- thous.	90,451	90,192	91,337	- 1
Total Employed - thous.	98,858	98,471	100,345	- 1	Manufacturing	19,182	19,315	20,253	- 5
Total Unemployed - thous.	9,957	10,290	7,561	+32	Construction	3,869	3,769	4,246	- 9
Unemployment Rate - % SA	9.4	9.0	7.3		Trade	20,697	20,590	20,513	+ 1
Insured Unemploy. - thous. (JUN)	547	-	368	+49	Government	16,163	16,189	16,457	- 2
Insured Unempl. Rate - % (JUN)	4.3	-	3.0		Services	18,990	18,793	18,512	+ 3
Mfg. Avg. Wkly. Hours	38.7	39.1	39.7	- 3	Fin., Ins., & Real Est.	5,350	5,345	5,295	+ 1
Mfg. Avg. Wkly. Earn. - \$	325	326	313	+ 4	Trans. Com. & Pub. Util.	5,059	5,047	5,120	- 1
SOUTHEAST									
Civilian Labor Force - thous.	13,976	13,938	13,467	+ 4	Nonfarm Employment- thous.	11,469	11,482	11,433	+ 0
Total Employed - thous.	12,695	12,562	12,581	+ 1	Manufacturing	2,201	2,216	2,301	- 4
Total Unemployed - thous.	1,281	1,377	920	+39	Construction	679	687	698	- 3
Unemployment Rate - % SA	10.3	10.4	7.8		Trade	2,706	2,698	2,652	+ 2
Insured Unemploy. - thous. (JUN)	74	-	43	+72	Government	2,162	2,163	2,190	- 1
Insured Unempl. Rate - % (JUN)	-	-	-		Services	2,224	2,224	2,124	+ 5
Mfg. Avg. Wkly. Hours	38.8	39.0	39.8	- 3	Fin., Ins., & Real Est.	641	642	625	+ 3
Mfg. Avg. Wkly. Earn. - \$	284	282	270	+ 5	Trans. Com. & Pub. Util.	697	696	697	0
ALABAMA									
Civilian Labor Force - thous.	1,692	1,692	1,662	+ 2	Nonfarm Employment- thous.	1,337	1,333	1,346	- 1
Total Employed - thous.	1,472	1,453	1,491	- 1	Manufacturing	347	345	363	- 4
Total Unemployed - thous.	220	239	171	+29	Construction	64	64	67	- 4
Unemployment Rate - % SA	13.9	13.8	11.0		Trade	273	271	269	+ 1
Insured Unemploy. - thous. (JUN)	10	-	7	+43	Government	295	295	297	- 1
Insured Unempl. Rate - % (JUN)	4.8	-	3.7		Services	213	213	211	+ 1
Mfg. Avg. Wkly. Hours	39.4	38.9	39.8	- 1	Fin., Ins., & Real Est.	59	59	59	0
Mfg. Avg. Wkly. Earn. - \$	290	280	277	+ 5	Trans. Com. & Pub. Util.	71	71	71	0
FLORIDA									
Civilian Labor Force - thous.	4,644	4,598	4,410	+ 5	Nonfarm Employment- thous.	3,810	3,829	3,735	+ 2
Total Employed - thous.	4,278	4,205	4,172	+ 3	Manufacturing	458	466	467	- 2
Total Unemployed - thous.	366	393	238	+54	Construction	257	261	280	- 8
Unemployment Rate - % SA	8.7	8.9	6.2		Trade	1,037	1,037	988	+ 5
Insured Unemploy. - thous. (JUN)	13	-	8	+63	Government	623	622	630	- 1
Insured Unempl. Rate - % (JUN)	2.5	-	1.4		Services	913	920	859	+ 6
Mfg. Avg. Wkly. Hours	38.5	39.4	39.9	- 4	Fin., Ins., & Real Est.	282	284	271	+ 4
Mfg. Avg. Wkly. Earn. - \$	265	270	256	+ 4	Trans. Com. & Pub. Util.	230	229	229	+ 0
GEORGIA									
Civilian Labor Force - thous.	2,633	2,627	2,584	+ 2	Nonfarm Employment- thous.	2,164	2,160	2,191	- 1
Total Employed - thous.	2,446	2,424	2,433	+ 1	Manufacturing	499	498	521	- 4
Total Unemployed - thous.	186	203	151	+23	Construction	98	100	104	- 6
Unemployment Rate - % SA	7.5	8.1	6.0		Trade	497	494	501	- 1
Insured Unemploy. - thous. (JUN)	21	-	10	+110	Government	440	438	442	- 0
Insured Unempl. Rate - % (JUN)	3.2	-	2.1		Services	365	364	358	+ 2
Mfg. Avg. Wkly. Hours	38.2	38.7	39.7	- 4	Fin., Ins., & Real Est.	115	114	113	+ 2
Mfg. Avg. Wkly. Earn. - \$	254	258	250	+ 2	Trans. Com. & Pub. Util.	142	142	144	- 1
LOUISIANA									
Civilian Labor Force - thous.	1,875	1,855	1,774	+ 6	Nonfarm Employment- thous.	1,628	1,631	1,614	+ 1
Total Employed - thous.	1,691	1,667	1,678	+ 1	Manufacturing	205	207	218	- 6
Total Unemployed - thous.	185	188	130	+42	Construction	134	136	136	- 1
Unemployment Rate - % SA	10.0	10.2	7.5		Trade	371	371	365	+ 2
Insured Unemploy. - thous. (JUN)	9	-	6	+50	Government	313	314	309	+ 1
Insured Unempl. Rate - % (JUN)	4.3	-	2.6		Services	296	295	286	+ 3
Mfg. Avg. Wkly. Hours	39.9	40.1	40.4	- 1	Fin., Ins., & Real Est.	76	76	73	+ 4
Mfg. Avg. Wkly. Earn. - \$	376	372	341	+10	Trans. Com. & Pub. Util.	132	131	131	+ 1
MISSISSIPPI									
Civilian Labor Force - thous.	1,071	1,074	1,048	+ 2	Nonfarm Employment- thous.	809	809	825	- 2
Total Employed - thous.	968	971	966	+ 0	Manufacturing	210	212	221	- 5
Total Unemployed - thous.	103	104	82	+26	Construction	41	41	42	- 2
Unemployment Rate - % SA	10.4	9.6	8.2		Trade	162	161	163	- 1
Insured Unemploy. - thous. (JUN)	6	-	4	+50	Government	188	188	192	- 2
Insured Unempl. Rate - % (JUN)	5.5	-	3.7		Services	122	122	121	+ 1
Mfg. Avg. Wkly. Hours	38.6	38.6	39.4	- 2	Fin., Ins., & Real Est.	33	33	33	0
Mfg. Avg. Wkly. Earn. - \$	246	246	235	+ 5	Trans. Com. & Pub. Util.	40	40	41	- 2
TENNESSEE									
Civilian Labor Force - thous.	2,061	2,092	1,989	+ 4	Nonfarm Employment- thous.	1,721	1,720	1,722	- 0
Total Employed - thous.	1,840	1,842	1,841	- 0	Manufacturing	482	488	511	- 6
Total Unemployed - thous.	221	250	148	+49	Construction	85	85	69	+23
Unemployment Rate - % SA	11.1	11.8	7.8		Trade	366	364	366	0
Insured Unemploy. - thous. (JUN)	15	-	8	+88	Government	303	306	320	- 5
Insured Unempl. Rate - % (JUN)	4.9	-	3.2		Services	315	310	289	+ 9
Mfg. Avg. Wkly. Hours	38.3	38.3	39.5	- 3	Fin., Ins., & Real Est.	76	76	76	0
Mfg. Avg. Wkly. Earn. - \$	273	268	260	+ 5	Trans. Com. & Pub. Util.	82	83	81	+ 1

Notes: All labor force data are from Bureau of Labor Statistics reports supplied by state agencies.
Only the unemployment rate data are seasonally adjusted.
The Southeast data represent the total of the six states.
The annual percent change calculation is based on the most recent data over prior year.

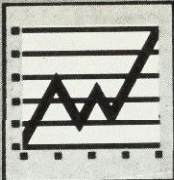


CONSTRUCTION

12-month Cumulative Rate	APR 1982	MAR 1982	APR 1981	ANN % CHG.		APR 1982	MAR 1982	APR 1981	ANN % CHG.
UNITED STATES									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	51,168	52,090	48,325	+ 6	Value - \$ Mil.	36,074	37,576	48,296	- 25
Industrial Bldgs.	6,842	7,091	8,031	- 15	Residential Permits - Thous.				
Offices	15,028	15,374	11,716	+ 28	Number single-family	488.6	511.0	726.3	- 33
Stores	5,918	6,114	6,533	- 9	Number multi-family	385.5	391.3	488.8	- 21
Hospitals	1,594	1,659	1,444	+ 10	Total Building Permits				
Schools	793	802	722	+ 10	Value - \$ Mil.	87,242	89,665	96,621	- 10
SOUTHEAST									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	6,627	6,626	6,888	- 4	Value - \$ Mil.	7,049	7,432	10,078	- 30
Industrial Bldgs.	810	816	888	- 9	Residential Permits - Thous.				
Offices	1,351	1,366	1,266	+ 7	Number single-family	100.0	105.7	159.1	- 37
Stores	1,107	1,074	953	+ 16	Number multi-family	88.2	92.3	130.4	- 32
Hospitals	277	272	216	+ 28	Total Building Permits				
Schools	89	84	98	- 9	Value - \$ Mil.	13,677	14,058	16,975	- 19
ALABAMA									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	422	422	515	- 18	Value - \$ Mil.	250	269	432	- 42
Industrial Bldgs.	80	75	88	- 9	Residential Permits - Thous.				
Offices	36	55	73	- 51	Number single-family	4.2	4.6	9.1	- 54
Stores	68	50	73	- 7	Number multi-family	4.9	5.2	8.2	- 40
Hospitals	32	31	55	- 42	Total Building Permits				
Schools	6	6	14	- 57	Value - \$ Mil.	672	691	947	- 29
FLORIDA									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	3,355	3,351	3,704	- 9	Value - \$ Mil.	4,715	5,015	6,744	- 30
Industrial Bldgs.	391	389	405	- 3	Residential Permits - Thous.				
Offices	588	584	535	+ 10	Number single-family	57.6	61.3	91.7	- 37
Stores	591	593	509	+ 16	Number multi-family	58.9	62.5	91.1	- 35
Hospitals	160	157	53	+202	Total Building Permits				
Schools	23	21	20	+ 15	Value - \$ Mil.	8,070	8,366	10,447	- 33
GEORGIA									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	1,046	1,050	1,092	- 4	Value - \$ Mil.	1,011	1,040	1,296	- 22
Industrial Bldgs.	178	187	194	- 8	Residential Permits - Thous.				
Offices	255	255	310	- 18	Number single-family	19.6	20.6	28.4	- 31
Stores	119	113	103	+ 16	Number multi-family	9.9	9.7	9.9	0
Hospitals	30	30	16	+ 88	Total Building Permits				
Schools	33	32	31	+ 6	Value - \$ Mil.	2,057	2,090	2,387	- 14
LOUISIANA									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	910	905	812	+ 12	Value - \$ Mil.	557	580	691	- 19
Industrial Bldgs.	90	89	111	- 19	Residential Permits - Thous.				
Offices	294	293	245	+ 20	Number single-family	9.0	9.4	12.1	- 26
Stores	175	166	97	+ 80	Number multi-family	7.6	7.9	8.8	- 14
Hospitals	27	27	56	- 52	Total Building Permits				
Schools	19	19	21	- 10	Value - \$ Mil.	1,468	1,485	1,503	- 2
MISSISSIPPI									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	178	173	187	- 5	Value - \$ Mil.	137	145	283	- 52
Industrial Bldgs.	22	20	23	- 4	Residential Permits - Thous.				
Offices	44	44	33	+ 33	Number single-family	2.9	3.0	5.3	- 45
Stores	37	32	50	- 26	Number multi-family	1.7	1.9	5.2	- 67
Hospitals	6	6	5	+ 20	Total Building Permits				
Schools	0.8	0.8	1.2	- 33	Value - \$ Mil.	315	317	470	- 33
TENNESSEE									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	716	725	578	+ 24	Value - \$ Mil.	379	385	632	- 40
Industrial Bldgs.	49	56	67	- 27	Residential Permits - Thous.				
Offices	134	135	69	+ 94	Number single-family	6.6	6.8	12.5	- 47
Stores	116	118	120	- 3	Number multi-family	5.2	5.1	7.2	- 28
Hospitals	22	21	31	- 29	Total Building Permits				
Schools	7	5	11	- 36	Value - \$ Mil.	1,095	1,109	1,220	- 10

NOTES:

Data supplied by the U. S. Bureau of the Census, Housing Units Authorized By Building Permits and Public Contracts, C- 40. Nonresidential data excludes the cost of construction for publicly owned buildings. The southeast data represent the total of the six states. The annual percent change calculation is based on the most recent month over prior year. Publication of F. W. Dodge construction contracts has been discontinued.



GENERAL

	APR 1982	MAR 1982	APR 1981	ANN. % CHG.		MAY 1982	APR (R) 1982	MAY 1981	ANN. % CHG.
UNITED STATES									
Personal Income-\$ bil. SAAR (Dates: 4Q, 3Q, 4Q)	2,412.9	2,340.5	2,155.8	+12	Agriculture				
Retail Sales - \$ mil.- SA (MAY)	89,236	87,899	86,361	+ 3	Prices Rec'd by Farmers Index (1977=100)	138	135	142	- 3
Plane Passenger Arrivals (thous.)	N.A.	N.A.	N.A.		Broiler Placements (thous.)	84,912	83,782	84,834	+ 0
Petroleum Prod. (thous. bls.)	8,687.2	8,687.8	8,597.0	+ 1	Calf Prices (\$ per cwt.)	65.10	62.30	68.80	- 5
Consumer Price Index					Broiler Prices (\$ per lb.)	28.0	26.2	29.2	- 4
1967=100	284.3	283.1	266.8	+ 7	Soybean Prices (\$ per bu.)	6.31	6.17	7.42	-15
Kilowatt Hours - mils. (NOV)	162.1	168.7	162.2	- 0	Broiler Feed Cost (\$ per ton)	217	215	235	- 8
SOUTHEAST									
Personal Income-\$ bil. SAAR (Dates: 4Q, 3Q, 4Q)	282.1	272.8	249.2	+13	Agriculture				
Taxable Sales - \$ mil.	N.A.	N.A.	N.A.		Prices Rec'd by Farmers Index (1977=100)	123	118	132	- 7
Plane Passenger Arrivals (thous.)	4,672.8	3,984.8	4,514.9	+ 3	Broiler Placements (thous.)	32,468	33,471	33,712	- 4
Petroleum Prod. (thous. bls.)	1,395.0	1,392.9	1,443.3	- 3	Calf Prices (\$ per cwt.)	60.98	59.18	61.40	- 1
Consumer Price Index					Broiler Prices (\$ per lb.)	26.7	24.6	26.6	+ 0
1967=100	N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.47	6.36	7.36	-12
Kilowatt Hours - mils. (NOV)	25.0	27.6	25.5	- 2	Broiler Feed Cost (\$ per ton)	214	211	228	- 6
ALABAMA									
Personal Income-\$ bil. SAAR (Dates: 4Q, 3Q, 4Q)	32.4	31.4	29.1	+11	Agriculture				
Taxable Sales - \$ mil.	N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil. (Dates: FEB, FEB)	254	-	262	- 3
Plane Passenger Arrivals (thous.)	122.6	91.6	114.6	+ 7	Broiler Placements (thous.)	10,830	10,746	10,883	- 0
Petroleum Prod. (thous. bls.)	56.0	55.4	63.2	-11	Calf Prices (\$ per cwt.)	57.90	57.00	61.00	- 5
Consumer Price Index					Broiler Prices (\$ per lb.)	26.5	25.0	26.5	0
1967=100	N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.40	6.33	7.24	-12
Kilowatt Hours - mils. (NOV)	3.5	3.9	3.8	- 8	Broiler Feed Cost (\$ per ton)	225	225	240	- 6
FLORIDA									
Personal Income-\$ bil. SAAR (Dates: 4Q, 3Q, 4Q)	102.4	98.3	88.8	+15	Agriculture				
Taxable Sales - \$ mil. (MAY)	67.8	67.4	61.5	+10	Farm Cash Receipts - \$ mil. (Dates: FEB, FEB)	1,036	-	967	+ 7
Plane Passenger Arrivals (thous.)	2,440.4	2,177.5	2,256.3	+ 8	Broiler Placements (thous.)	2,087	1,961	1,917	+ 9
Petroleum Prod. (thous. bls.)	81.0	80.5	116.0	-30	Calf Prices (\$ per cwt.)	63.90	62.40	64.90	- 2
Consumer Price Index - Miami	MAR	JAN	MAR		Broiler Prices (\$ per lb.)	26.0	25.0	26.0	0
Nov. 1977 = 100	155.1	155.2	140.0	+11	Soybean Prices (\$ per bu.)	6.40	6.27	7.24	-12
Kilowatt Hours - mils. (NOV)	7.0	7.8	7.0	0	Broiler Feed Cost (\$ per ton)	225	225	240	- 6
GEORGIA									
Personal Income-\$ bil. SAAR (Dates: 4Q, 3Q, 4Q)	48.7	47.6	43.7	+11	Agriculture				
Taxable Sales - \$ mil.	N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil. (Dates: FEB, FEB)	358	-	395	- 9
Plane Passenger Arrivals (thous.)	1,642.2	1,319.5	1,682.9	- 2	Broiler Placements (thous.)	12,841	12,873	13,097	- 2
Petroleum Prod. (thous. bls.)	N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	57.20	55.00	58.50	- 2
Consumer Price Index - Atlanta	APR	FEB	APR		Broiler Prices (\$ per lb.)	26.0	23.5	26.0	0
1967 = 100	280.2	279.8	265.9	+ 5	Soybean Prices (\$ per bu.)	6.36	6.37	7.33	-13
Kilowatt Hours - mils. (NOV)	3.7	4.1	3.7	0	Broiler Feed Cost (\$ per ton)	210	200	220	- 5
LOUISIANA									
Personal Income-\$ bil. SAAR (Dates: 4Q, 3Q, 4Q)	40.4	39.1	35.3	+14	Agriculture				
Taxable Sales - \$ mil.	N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil. (Dates: FEB, FEB)	272	-	253	+ 8
Plane Passenger Arrivals (thous.)	284.2	247.1	283.6	+ 0	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Petroleum Prod. (thous. bls.)	1,164.0	1,163.0	1,168.4	- 0	Calf Prices (\$ per cwt.)	63.00	61.00	61.00	+ 3
Consumer Price Index					Broiler Prices (\$ per lb.)	27.5	27.0	28.0	- 2
1967 = 100	N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.59	6.50	7.59	
Kilowatt Hours - mils. (NOV)	4.1	4.8	4.0	+ 3	Broiler Feed Cost (\$ per ton)	250	255	245	+ 2
MISSISSIPPI									
Personal Income-\$ bil. SAAR (Dates: 4Q, 3Q, 4Q)	18.3	17.7	16.5	+11	Agriculture				
Taxable Sales - \$ mil.	N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil. (Dates: FEB, FEB)	377	-	354	+ 6
Plane Passenger Arrivals (thous.)	33.4	28.6	34.6	- 3	Broiler Placements (thous.)	6,590	6,502	6,443	+ 2
Petroleum Prod. (thous. bls.)	94.0	94.0	95.7	- 2	Calf Prices (\$ per cwt.)	64.10	62.30	60.10	+ 7
Consumer Price Index					Broiler Prices (\$ per lb.)	28.5	25.5	27.0	+ 6
1967 = 100	N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.44	6.30	7.35	-12
Kilowatt Hours - mils. (NOV)	1.6	1.9	1.6	0	Broiler Feed Cost (\$ per ton)	197	197	220	-10
TENNESSEE									
Personal Income-\$ bil. SAAR (Dates: 4Q, 3Q, 4Q)	39.8	38.8	35.8	+11	Agriculture				
Taxable Sales - \$ mil.	N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil. (Dates: FEB, FEB)	289	-	270	+ 7
Plane Passenger Arrivals (thous.)	150.0	120.5	142.9	+ 5	Broiler Placements (thous.)	1,384	1,389	1,372	+ 1
Petroleum Prod. (thous. bls.)	N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	59.30	56.90	62.00	- 4
Consumer Price Index					Broiler Prices (\$ per lb.)	25.0	22.5	29.0	-14
1967 = 100	N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.52	6.30	7.20	- 9
Kilowatt Hours - mils. (NOV)	5.1	5.1	5.4	- 6	Broiler Feed Cost (\$ per ton)	197	210	215	- 8

Notes:

Personal Income data supplied by U. S. Department of Commerce. Taxable Sales are reported as a 12-month cumulative total. Plane Passenger Arrivals are collected from 26 airports. Petroleum Production data supplied by U. S. Bureau of Mines. Consumer Price Index data supplied by Bureau of Labor Statistics. Agriculture data supplied by U. S. Department of Agriculture. Farm Cash Receipts data are reported as cumulative for the calendar year through the month shown. Broiler placements are an average weekly rate. The Southeast data represent the total of the six states. N.A. = not available. The annual percent change calculation is based on most recent data over prior year.

Monetary Review

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