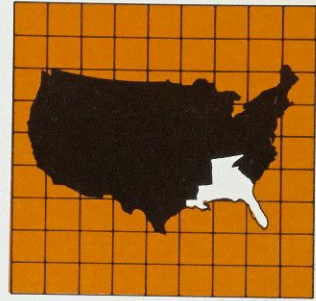


# Economic Review



FEDERAL RESERVE BANK OF ATLANTA

DECEMBER 1983

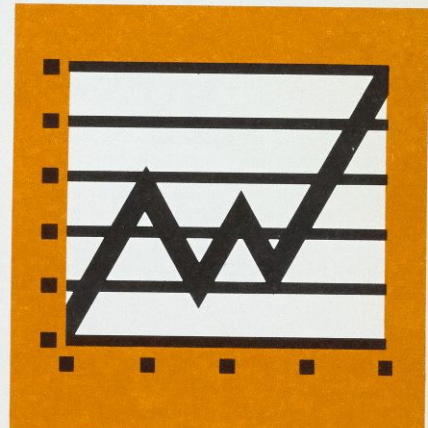
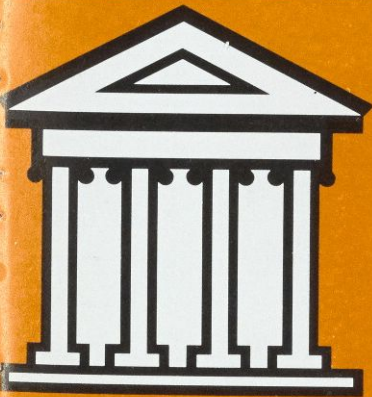
**PAYMENTS** Conference Highlights

**TEXTILES** Why Some Firms Will Prosper

**BANKS** Who Conducts Strategic Planning?

**HOUSING** Tracking Foreclosure Rates

**WORKERS** Retraining the Dislocated



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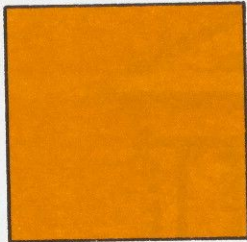
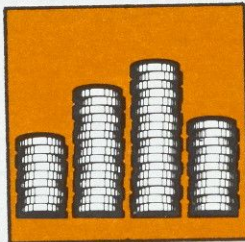
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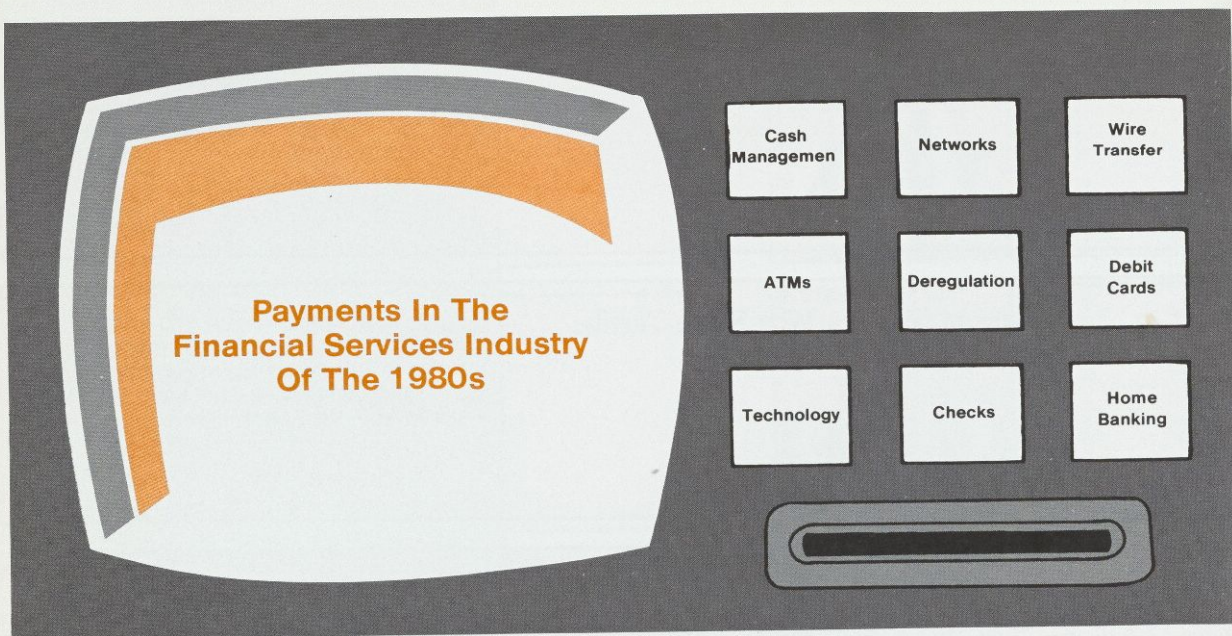
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4	<b>Payments System Conference in Atlanta: A Summary</b>	A major conference on America's payments system brought a cross section of experts from the regulatory agencies, private business, and academia to Atlanta in September. A summary of conference highlights.
11	<b>Keys to Success: Why Some Textile Producers Will Prosper</b>	Despite high energy costs and tough foreign competition, some southeastern textile firms are thriving. What makes the difference for these successful companies, and what lessons can we draw from their experience?
22	<b>Shifting the Game Plan: Strategic Planning in Financial Institutions</b>	How do financial institutions carry out strategic planning? What planning tools do they use, who makes the decisions, and how do these institutions adjust their goals to changing conditions? Results of an Atlanta Fed survey.
34	<b>Residential Mortgage Delinquencies and Foreclosures: Improvement's Underway</b>	How did mortgage delinquencies and foreclosures during the last recession compare with those of 1973-75? What factors affected these rates, and what are the prospects for the immediate future?
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Can the nation's traditional financial institutions retain control of the payments system? Can they hold on to their customers as deregulation brings accelerated competition from all sides? An Atlanta Fed conference examined regulatory, market, and technological trends in payments.

Through the centuries, America's payments system has evolved from barter to today's diverse system that includes credit cards and electronic transfers as well as cash and checks.

But where is the payments system heading tomorrow?

The Federal Reserve Bank of Atlanta, with a keen interest in the subject, wanted to find out. So, in September, the Atlanta Fed brought together a panel of respected experts to share their perspectives with southeastern business people.

When the two-day conference at the Atlanta Hilton ended on September 23, some 200 registrants from across the Sixth Federal Reserve District and beyond had heard a cross section of knowledgeable speakers discuss the trends, the technology and the regulatory climate helping to shape the nation's payments system.

The conference was summed up by Atlanta Fed President William Ford, as he hosted his last Fed conference before joining First Nationwide Financial Corporation in San Francisco.

"I believe," Ford said, "that we've all gained some new insights into the U.S. payments system

as we know it today and the likely payments system of tomorrow."

The September conference continued the Bank's involvement in payments investigation. Conference speakers addressed a broad range of payments issues posed by the Atlanta Fed's associate director of research, William N. Cox, one of the conference organizers. How, for example, will financial value be transferred in tomorrow's marketplace? What transitional products will lead the way to full-scale electronic financial service? And—a crucial question for those in the payments industry—which firms appear to be the most likely winners and losers in the payments competition?

### Retail Payment Systems

The lead-off speaker, Linda Fenner Zimmer, raised two additional questions that were to recur throughout the conference: can the nation's traditional financial institutions retain control of the funds transfer mechanism, and can they hold on to their customers in an era when competition

is accelerating as government regulation of the industry is liberalized?

Ms. Zimmer, an authority on automated teller machines, told the conference that ATMs may prove to be one key to the ability of banks,

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**“Automation of routine transactions, coupled with personal asset management services, may well be the combination needed to survive and prosper in the years ahead.”**

**—Linda Fenner Zimmer**

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savings and loan associations and credit unions to compete against a multitude of new contenders.

“Automation of routine transactions, coupled with personal asset management services, may well be the combination needed to survive and prosper in the years ahead,” she suggested.

She said that automation, along with other developments such as point-of-sale systems and home banking, “is destined to have a dramatic impact on the physical structure of the financial industry as well as on the manner in which institutions interface with their customers.”

Another speaker on that same opening panel, which focused on retail payments systems, cautioned that retailers could wind up operating debit-card systems if the banks and S&Ls move too slowly.

David Van L. Taylor, executive vice president of the Bank Administration Institute, described various debit-card experiments being conducted by banks, retailers and others. Some pilots have failed, he said, while others have achieved a measure of success.

Because of merchants’ involvement, Taylor said, point-of-sale payment systems such as those involving debit cards differ from other systems provided by financial institutions.

“How the parties involved deal with the issues of pricing, ownership and control—along with how to gain customer acceptance—will determine how quickly debit cards take hold,” Taylor said.

Continuing the discussion of retail banking, Edwin B. Cox of the Arthur D. Little consulting organization offered his perception of who would

be the winners and losers in the competitive scramble for financial customers.

“I think the winners are going to be those who have properly selected a product concept and are properly marketing it,” Cox said. The likely losers, in his view, will be those “who attempt to market a good product to the wrong segment, or who market a bad product to the right segment—or who simply market the wrong product to the wrong segment.”

Cox said security analysts have split on the potential of the so-called financial supermarket, the concept pioneered by such firms as the giant retailer, Sears, Roebuck, which has installed stock brokerage, insurance and real estate offices in some of its department stores.

Some analysts are convinced that the concept is a good bet and are buying the stock of firms moving in that direction. Others remain skeptical, according to Cox, and have been cool toward the shares marketed by such firms.

## **Regulatory Issues**

A Federal Reserve Board representative, David B. Humphrey, raised some concerns about the security and dependability of large-dollar transfer systems. Failures in these areas, he admonished, could generate trouble for other institutions and customers throughout the financial system.

But Humphrey, chief of the Board of Governors’ financial studies section, added that the establishment of a host of competing new local

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**“How the parties involved deal with the issues of pricing, ownership and control—along with how to gain customer acceptance—will determine how quickly debit cards take hold.”**

**—David Van L. Taylor**

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large-dollar wire transfer networks could bring benefits as well as a certain degree of risk exposure.

“These developments,” said Humphrey, expressing his personal viewpoint, “should improve

**Payments in the Financial  
Services Industry of the 1980s  
September 22-23, 1983**

Welcoming Remarks William A. Fickling, Jr.  
Chairman of the board of directors  
Federal Reserve Bank of Atlanta  
Chairman and chief executive of the  
Charter Medical Corporation.

Objectives of the Conference William F. Ford  
President of the Federal Reserve Bank  
of Atlanta

**Session I: Retail Payment Systems**

Moderator Donald L. Koch  
Senior vice president and director  
of research at the Atlanta Fed.

ATMs Linda Fenner Zimmer  
Payment services correspondent  
specializing in ATMs.

Debit Cards David Van L. Taylor  
Executive vice president of the  
Banking Services Directorate at the  
Bank Administration Institute.

Integrated Financial Services Edwin B. Cox  
Senior consultant at Arthur D. Little  
Inc.

**Session II: Business Payment Systems**

Moderator William N. Cox  
Vice president and associate director  
of research at the Atlanta Fed.

Bank Cash Management Services Jack M. Meckler  
Vice president and manager of cash  
management services, Wachovia  
Bank and Trust Co. N.A.

Small Business Robert W. Price  
Group vice president for corporate  
cash management at Trans Data  
Corporation.

Corporate Perspective on Cash Management Bernell K. Stone  
Mills B. Lane Professor of banking and  
finance at Georgia Institute of  
Technology.

**Session III: Bank & Nonbank Networks**

Moderator Donald L. Koch  
Senior vice president and director  
of research at the Atlanta Fed.

Banks William M. Randle  
Vice President at the Atlantic  
National Bank of Florida  
Participant in the Florida  
Interchange Group.

Future Networks & The Fed's Role David B. Humphrey  
Financial studies section chief at  
the Board of Governors of the  
Federal Reserve System

Nonbanks John C. Elliott  
President of Automated Data  
Processing, Inc.'s electronic  
financial services division.

**Session IV: Winners & Losers in the Network Race**

Peter Merrill  
President of Peter Merrill Associates,  
Inc., consultant on payment system  
issues to the Federal Reserve  
System.

**Session V: Potential Problems**

Moderator William N. Cox  
Vice president and associate  
director of research at the  
Atlanta Fed.

Customer Acceptance George Warfel, Jr.  
Consultant at the Financial Industries  
Center of SRI International (formerly  
Stanford Research Institute).

Payment Standards George C. White,  
President of White Papers, Inc.  
Formerly vice president in the  
operations department of Chase  
Manhattan Bank.

**Session VI: Regulatory Response**

George J. Benston,  
Professor of accounting,  
economics and finance at the  
graduate school of management  
University of Rochester.

**Session VII: Broader Perspectives**

Moderator Donald L. Koch  
Senior vice president and director of  
research at the Atlanta Fed.

International Dimitri Vittas  
Senior consultant in the research  
group of the Committee of London  
Clearing Bankers.

Technological Diffusion Fred A. Tarpley, Jr.  
Senior staff at Georgia Tech's  
Advanced Technology Development  
Center and professor of economics at  
Georgia Tech's college of  
management.

NASA-DOD Technology Louis Lopez  
Vice president, marketing  
of DBA Systems, Inc.  
Melbourne, Florida.

**Session VIII: Payments & Deregulation**

Payments and Deregulation Paul M. Horvitz  
Judge James A. Elkins professor  
of banking and finance at the  
University of Houston. Current  
visiting scholar at the Atlanta Fed.

**The Future of Payments System Legislation**

Introduction John H. Weitnauer, Jr.,  
Deputy chairman of the Atlanta Fed's  
Board of Directors. Chairman and CEO  
of Richway, a division of  
Federated Department Stores.

The Future of Payment Systems Legislation Doug Barnard, Jr.  
U.S. House of Representatives (D-Ga.)

**Closing Remarks**

William F. Ford  
President of the Federal Reserve  
Bank of Atlanta.

the quality of service, and therefore its benefits, to the end user."

The regulatory question was underscored by a special conference speaker, Doug Barnard, the Georgia congressman who serves on the House Banking, Finance and Urban Affairs Committee.

The congressman traced the history of the Monetary Control Act of 1980, which he characterized as "a channel in the river of deregulation that is swamping banking, savings and loan, savings bank and securities acts developed since the Depression."

Barnard summarized pending legislation that could impact the nation's payments system again, noting that no actual piece of new legislation was being considered. He said he didn't anticipate a legislative recommendation that the Federal Reserve discontinue its traditional activities in the payments system, but added that he expects Congress to continue its extensive oversight.

George Benston of the University of Rochester (and a visiting scholar at the Atlanta Fed) talked about the impact of government regulation on the payments system and cited proposals for change. Traditional regulation already has been jolted, he said, by the advent of new competitors into the banking industry.

Benston said the advent of nonbanks into the marketplace has produced inconsistent regulation, with some of the players regulated and others free of government restrictions.

"Inconsistent regulation is always better for the consumer than consistent regulation," Benston observed, "although not as good for the producers."

According to Benston, government regulatory restraints have prevented the nation from developing the most efficient banking system. He suggested that if some regulations could be eliminated—particularly interest-rate controls—"a number of problems of the payments system would be alleviated, if not solved."

Another Atlanta Fed visiting scholar, Paul Horvitz of the University of Houston, explained that the evolution of the payments system—and of the financial system delivering those payments—will dictate changes in the formal deregulation process.

Horvitz said the marketplace will anticipate and precede legislation and regulatory response in the case of electronic payments, just as it has done in other financial areas.

"Payments system developments deserve attention at the highest policymaking level within the banks, the regulatory agencies and the Congress," said Horvitz. "They cannot be left to the technicians."

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—Paul Horvitz

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## Electronic Networks

Peter Merrill, whose Boston-based consulting firm specializes in banking and communications research, told the conference that the electronic payments system is nearing the end of its technology-driven start-up phase, which has concentrated on proprietary networks. Merrill, who also is a visiting scholar at the Atlanta Fed, described that phase as the "learning wave," in which innovative firms have turned to networks as enabling devices to skirt existing regulations.

In Merrill's opinion, the financial services industry is now shifting to a second phase involving shared delivery systems. That so-called "commodity wave" has seen a series of mergers, while technology refinements have focused largely on cost reduction and cost control.

A third phase, he said, should see the financial industry turning to the question of content rather than technology. In that "content wave," Merrill said, geographic expansion will decline in importance as technology continues to produce more responsive and customer-friendly machines.

The audience heard a variety of opinions on the subject of bank and nonbank networks—which Atlanta Fed research director Donald L. Koch described as "the electronic highways that connect various players in this game of delivering payment services."

"Who will operate and maintain those highways?" Koch asked. "To date, that's an unresolved question."

William M. Randle of the Atlantic National Bank of Florida offered his opinion that banks will have to compete vigorously within the electronic service delivery system by offering creative products and services if they are to survive what he called

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**Banks will have to cooperate in creating a national electronic payments network—even as they continue to compete among themselves for business.**

—William M. Randle

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“the new banking deregulation wars.” And he predicted that, to provide one of those services, banks will have to cooperate in creating a national electronic payments network—even as they continue to compete among themselves for business.

“The banking industry, of necessity, will create a shared national pipeline for the direct electronic transfer of funds,” Randle predicted.

## Cash Management

A nonbank perspective was offered by John C. Elliott, president of Automated Data Processing's electronic financial services division. That division provides data processing services through a national ATM network.

Elliott emphasized what he characterized as the advantages offered by third-party data processing and communications companies such as his own.

“We believe,” Elliott said, “that a nonbank third-party processor can bring to the traditional financial institutions technical expertise, convenience, and economic and political advantages in their particular regions.”

A session on business payment systems was opened by Jack Meckler of North Carolina's Wachovia Bank and Trust Company, who offered his perspective on the way alert financial institutions will cooperate with business customers in automating cash management relationships.

Although market surveys indicate that credit business is more likely to go to the low-cost

service provider, he noted that companies emphasize quality over price when it comes to operational services.

“Quality of service,” Meckler said, “will still be the most important service a cash management bank can offer.”

Robert Price of Trans Data Corporation emphasized the options for extending cash management services to small business. He described recent research indicating that small businesses

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**“Quality of service will still be the most important service a cash management bank can offer.”**

—Jack Meckler

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want such services—but said those firms aren't necessarily depending on banks to provide them.

“Banks can no longer depend upon traditional strategies to generate deposits,” Price said. “Instead, as automated cash management systems penetrate a broader spectrum of the corporate community, traditional depository and lending services provided by banks will be displaced by electronic transfer and information services.”

Bernell Stone of Georgia Tech, rounding out that discussion of business payments systems, observed that corporations will achieve their greatest savings, not through improved payments efficiency as such, but from cleaning up their overall back-office operation.

“Companies are drowning in paper,” Stone said, “and it is a high internal cost.”

## Problems and Solutions

Where opportunities are developing, as they are within the payments system, potential problems usually can be found lurking nearby.

“Let's stand back and look at the whole picture more skeptically,” suggested the moderator of a panel on problem areas, William Cox, the Atlanta Fed's associate director of research. “What happens, for instance, if we create a razzle-dazzle electronic payments system and the customer doesn't want it?”

George Warfel Jr. of SRI International's Financial Industries Center drove home an interesting



point in his discussion of some of those problems. No matter how compelling an innovation may be, Warfel emphasized, it is the customer who will determine which products succeed in the market.

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“Might we find ourselves trying to sell off the hastily constructed electronic funds transfer network that we built to meet the needs of (the baby boom) generation?”

—George Warfel, Jr.

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Warfel described as an “unanswered question” whether the public’s attraction to ATMs and other gadgetry represents a permanent behavioral shift or a fad that the baby-boom generation will outgrow just as it outgrew diapers and elementary schools.

“School districts now are trying to sell off the hastily constructed buildings that they threw up to meet the needs of a generation,” Warfel said. “Might we find ourselves trying to sell off the hastily constructed electronic funds transfer network that we built to meet the needs of that same generation?”

George C. White, a consultant and publisher in the electronic payments and securities area, told the conference that the market for payments alternatives will develop its own standards.

White argued that the marketplace doesn’t need a “czar” to dictate standards, saying the kind of standards drafted by committees frequently wind up being ignored.

“Management is the key,” White declared. “If you lack a commitment to do something differently, all the standards in the world will be of no use whatsoever. A financial institution must develop the management interest to make it happen.”

A view from overseas was provided by Dimitri Vittas of the research group of the Committee of London Clearing Bankers.

According to Vittas, America’s restrictive regulations contribute to what he described as this nation’s relative backwardness in the development of electronic banking, compared to several other nations.

Vittas said a revolution in banking and payment practices has affected banking habits, wage payment methods and regular bill payments in country after country in Europe.

“The striking thing is that it has gone largely unnoticed in the United States,” Vittas said. “Many American bankers express surprise and disbelief when they hear that the United States is lagging behind European countries and Japan in the efficiency of its payments system.”

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“Many American bankers express surprise and disbelief when they hear that the United States is lagging behind European countries and Japan in the efficiency of its payments system.”

—Dimitri Vittas

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Fred Tarpley Jr., a professor of economics at Georgia Tech, explained how the process of technological diffusion is driven by the needs of the marketplace rather than by the inventions of engineers. He said the payments system offers an interesting example of that diffusion process, as new concepts of paying for goods and services are introduced to the public marketplace.

Tarpley cited research indicating that the process of adopting and distributing innovations is guided largely by expected profits. That motivation, he said, inspires those who must decide whether to adopt new products and services just as it drives those marketing such innovations.

“Most innovations are market driven, not technology driven,” Tarpley said, underscoring what he described as “a truism of diffusion research.”

“Technological superiority is not enough; the cemeteries are full of technologically superior goods that didn’t make it in the marketplace.”

Although inventions may not dictate change, one speaker made clear that technology would be available when the payments system needs it.

Louis Lopez, a vice president with DBA Systems of Melbourne, Florida, described the Star Wars technology being explored and refined today in applications for NASA, the Department of Defense and other federal agencies.

As an example, he cited computer programs his firm is developing to help experts match data in the FBI's fingerprint inventory. He said the firm also plans to provide digital processing techniques that can improve the criminologist's ability to extract obscure information that might otherwise be overlooked.

"DBA is confident that we are only scratching the surface on how high technology, developed under defense contracts, can be applied to important problems in the public sector such as helping our national, state and local governments to fight crime," Lopez said.

Such developments, he implied, are highly relevant to the nation's evolving payments system. When the payments industry requires new technology to support tomorrow's needs, his presentation assured, the technology will be available to cope with those future demands.

## Payments and the Atlanta Fed

What prompted the Atlanta arm of the nation's central bank to organize such a conference? William A. Fickling, Jr., the Bank's board chairman, explained it this way:

"Our people believe that, in addition to traditional central banking responsibilities, a regional Reserve Bank should serve as a forum for issues of concern within its District." Such conferences, Fickling explained, "serve both to keep the Atlanta Fed close to its Sixth District constituency and to help keep constituents informed on significant issues."

The payments conference was the fifth sponsored by the Atlanta Fed since it staged its first two in June 1981. Those inaugural conferences dealt with the future of the U.S. payments system

and with the future of the financial services industry.

The institution tackled a different type of question in March 1982 by sponsoring a conference on supply-side economics in collaboration with Emory University's Law and Economics Center. Then, last March, it staged a conference focusing on growth companies and the ingredients that must be combined to create them.

But the Bank's sponsorship of a conference on payments was particularly apt, considering its close relationship with payments developments. That relationship goes well beyond its interest in payments as part of the nation's monetary system, whose soundness is a primary responsibility of the Federal Reserve.

For one thing, the Atlanta Fed is the world's largest processor of transit checks, handling just under two billion in 1982—more than the Bank of America or Citicorp. At the same time, it processed nearly \$19 billion worth of cash during the year, and transferred more than \$4 billion by wire through its electronic network.

Under the leadership of officers like Brown Rawlings, who retired from the Atlanta Fed late in 1981, the Bank has established a reputation of pioneering in the payments area, scoring early breakthroughs in electronic payments system developments and taking a leadership role in the Atlanta Fed Check Study of 1979.

"Our institution has a long history of involvement in shaping payments system developments," according to research director Koch, "seeking ways to make it faster, simpler and safer for individuals and businesses to pay each other for goods and services."

—Donald E. Bedwell

# Keys to Success: Why Some Textile Producers Will Prosper

In the midst of an industry-wide slump, some textile firms remain strong. New technology, careful study of market niches, and management flexibility are some key factors enabling these companies to thrive against tough foreign competition

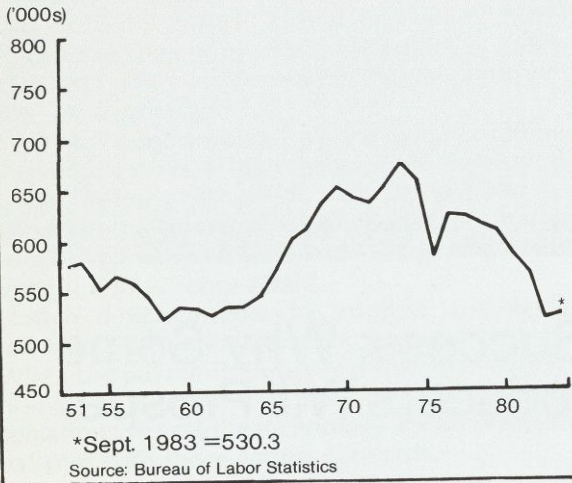
The textile industry is the major factor in the economies of many small southeastern communities and the largest manufacturing employer in Georgia and the Carolinas. The three states combined account for more than half of the total U.S. textile work force.

In spite of the generally unfavorable economic conditions for the industry recently, some textile firms have managed not only to survive but to prosper. Some of these firms, using innovative management and marketing techniques, are giving foreign producers a run for their money. By taking an aggressive new stance in the face of adversity, these companies are poised to move forward in the new economic environment.

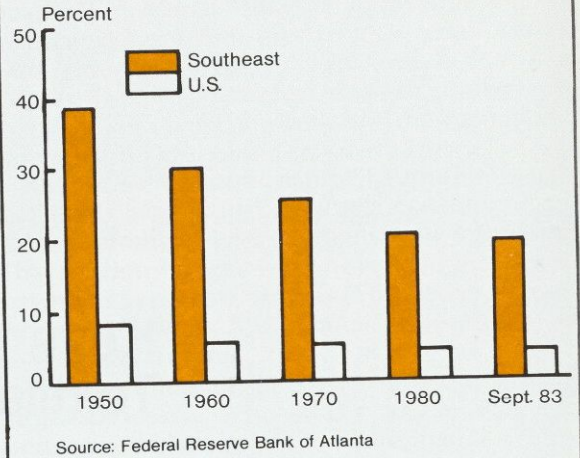
## The Recent Slump

In 1982, U.S. textile mill producers, who produce fabric for apparel, household goods and specialty applications, experienced their worst year in nearly a decade. Consumption of American-produced textile items declined an estimated 10 percent over the year.<sup>1</sup> The construction and automotive industries, major users of textile products, were hit hard by high interest rates. Weakness in housing starts and auto sales undermined the demand for home furnishings, carpeting, and tire fabric. A bountiful 1980-1981 cotton crop forced cotton prices to fall dramatically, causing synthetic fabric (a close substitute) to follow suit. The high value of the dollar sharply reduced the price-competitiveness of U.S. textile exports. In the United States, fiber consumption declined from 60 pounds per capita in 1978 to 47 pounds in 1982.<sup>2</sup>

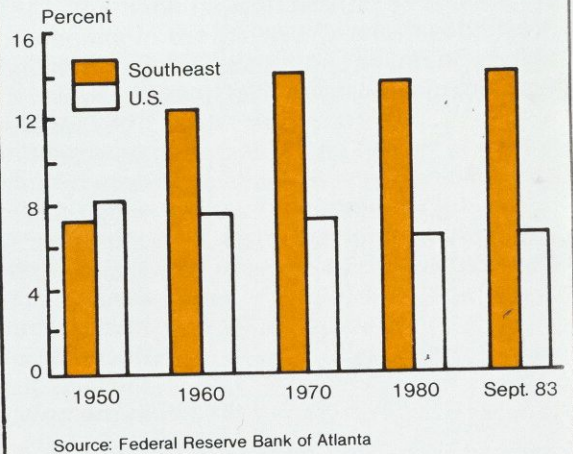
**Chart 1. Textile Products Industry Employment Southeast -1951-1983**



**Chart 2. Textile Employment as a Share of Total Manufacturing Employment**



**Chart 3. Apparel Employment as a Share of Total Manufacturing Employment**



Meanwhile, imports are expanding. A 20 percent increase in textile and apparel imports for the first six months of 1983 appears ominous for the industry. Nationally, textile employment, which numbered well over a million workers before the 1974-1975 recession, had declined to 753,000 as of this September. In the Southeast, textile employment in 1983 has continued to decline for the sixth consecutive year (see Chart 1). However, a national economic upturn in 1983 may point to a more favorable outlook.

Displaced textile workers have been hard put to stay off unemployment rolls. Most traditional textile jobs have little in common with other types of work, so skill transfer is difficult. Competition for the remaining textile jobs is keen. Usually, few alternative employment opportunities are available in the typically small "mill towns." Often, textile employment provides an important supplemental income for families with ties to the land.

The share of textile jobs as a part of manufacturing employment has been slipping in the region, especially in the major textile-producing states of North Carolina and South Carolina. This shrinkage is compounded by the fact that manufacturing employment's share of total non-agricultural employment has dropped about 13 percent from 1950 to 1983. In contrast to textiles, the closely related apparel industry has remained fairly stable as a share of manufacturing employment, following a strong growth period in the

1950s and 1960s. With a 13.6 percent share of regional manufacturing employment, the apparel industry has been gaining steadily on the textile industry's relative position in manufacturing (see Charts 2 and 3).

## Background

The textile industry began migrating to the Southeast from New England before the turn of

**Table 1.** Southeast Employment Share of Major Textile or Textile Related Sectors by State (1981)

	Weaving Mills Cotton	Weaving Mills Synthetics	Knitting Mills	Yarn and Thread Mills	Floor Coverings	Clothing	House Furnishings	Synthetic Fibers	State Total
Alabama	11.5	4.6	4.3	7.5	2.6	14.3	11.3	7.2	9.8
Florida	0.1	0.1	2.4	0.1	0	9.4	7.6	6.7	4.7
Georgia	27.8	7.1	4.8	22.0	76.5	18.6	21.6	1.4	18.3
Mississippi	0.7	0.1	3.3	0.7	2.0	10.3	3.2	-	4.8
Tennessee	1.4	2.1	10.0	4.0	3.2	17.7	3.2	27.0	11.0
North Carolina	33.0	35.3	66.2	54.0	6.3	18.8	36.1	25.1	33.2
South Carolina	25.5	50.7	9.0	11.7	9.4	10.9	17.0	32.6	18.2
Southeast Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percent of U.S.	91.1	74.0	55.8	84.7	71.4	31.0	35.5	65.7	46.4

Source: U.S. Department of Commerce, "County Business Patterns."

the century, attracted by the pool of farm-trained labor willing to work for low wages. Also, unions had not made their presence felt in southern states as they had in the North. The majority of textile plants in the South are located in non-urban areas drawing from local labor pools.

Today the Southeast accounts for almost half the nation's textile and apparel employment. Table 1 reveals the concentrations of employment in various textile and textile-related sectors in the southeastern states compared to the nation. The region's dominant textile employers are cotton-weaving mills, yarn and thread mills, synthetic weaving mills, and floor covering mills, each with over 70 percent of the national total. Synthetic fiber production comes in at over 65 percent of the national total. Other sectors, such as knitting mills, home furnishings, and clothing, range from one-half to about one-third of the U.S. figure. The many clothing producers are fairly evenly dispersed in the region, with no one state containing a dominant share.

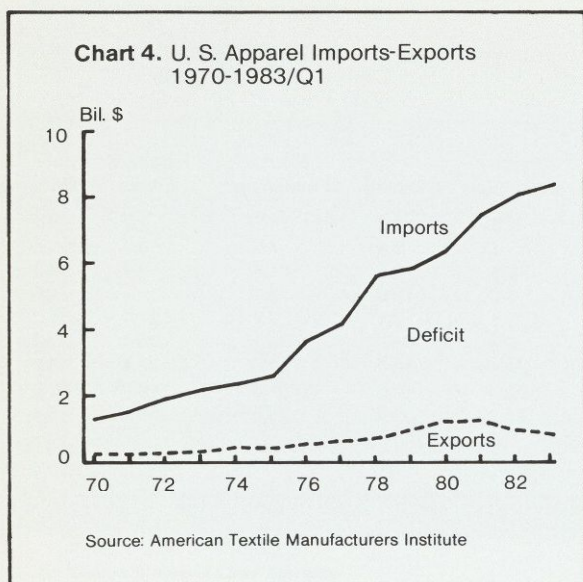
The textile manufacturing process begins with fibers that are spun or twisted into yarn or compressed directly into fabric. Many types of fibers are being produced and tested daily. Cost, availability, and desirability of properties, as well as the ability to be spun, are some of the criteria for selecting a fiber. Fibers can be divided into natural fibers (those that occur in nature in fiber form) and synthetic fibers (derived from various sources). Natural fibers include vegetable fibers

(cotton, for example) and animal fibers, such as wool. Synthetic fibers can be divided into two groups: the man-made cellulosic fibers, such as rayon, which are derived either from pinewood or from the cell walls of short cotton fibers called linters, and the synthetic long chain polymers, synthesized from various simple chemical elements. Nylon or polyester are examples of the latter group. Cotton, wool, and synthetic fibers are spun into yarn in spinning mills. The yarn is knitted, woven or otherwise made into fabric. Finally, the unfinished fabric (called gray goods) is converted into consumer goods by various finishing processes (including dyeing and printing) that make the fabric suitable for many different purposes.

The synthetic fiber industry has been hurt severely by falling cotton prices in recent years. The 1980-1981 cotton crop was the largest since 1952-1953. The abundance of this competing fiber prevented synthetic fiber firms from passing along to customers the increases in per unit costs caused by low plant utilization. More recently, the oil glut and consequent reductions in petrochemical costs have helped the industry somewhat. Almost all of the yarn used in tufted carpets is synthetic fiber made from petrochemicals. So is much of the primary backing for the carpet, which is coated with latex, another petrochemical by-product.

The apparel industry has been affected by factors such as consumer buying power, interest rates, styles, and especially imports. The highly

**Chart 4.** U. S. Apparel Imports-Exports  
1970-1983/Q1



labor-intensive industry employs a high proportion of less-skilled workers. Competition is intense among the 15,000 domestic manufacturers, and imports represent an additional competitive force. The industry is composed of many different types of manufacturers facing different cyclical patterns and subject to different pressures from imports, changing demographic patterns, and consumer interests. Apparel imports, many of them from Asia, are taking a greater share of such markets as underwear, gloves, sweaters, shirts, blouses, coats, and jackets. As Chart 4 illustrates, the trade deficit for apparel has been increasing for every year plotted. The negative trend appears to be continuing in 1983. Not only have imports been increasing but exports have been weakening, adding to the trade deficit.

This shift of textile manufacturers to other shores parallels the earlier shift from the Northeast to the Southeast. In both cases, the industry sought out low-wage, farm-trained labor. The recent slump may be a symptom of a long-term employment decline, at least as far as traditional textile products are concerned.

While some firms lack the imagination or capital to respond to the foreign competition, others are seizing the initiative, particularly in the area of specialty textiles. Cost pressures remain strong, but potential profits are still large for those who can find a niche.

## Coping with a Difficult Business Environment

The strongest U.S. firms are highly efficient at making many types of textiles. Most earn a return far above the industry average; however, the textile industry in general is not a large generator of profits. Its financial returns are consistently among the lowest of all U.S. industries. Profit per dollar of sales has averaged less than half the return for all manufacturing industries recently.

The U.S. textile industry is tied closely to the nation's apparel industry, which faces even stronger competition from imports. Imported apparel products have captured about one-fourth of the U.S. market. Labor, which traditionally represented about 25-30 percent of the industry's manufacturing costs, now comes to less than 20 percent in most modern plants. Still, industry specialists estimate that labor costs will have to drop below 15 percent in five to ten years to keep U.S. mills competitive with foreign producers.<sup>3</sup> New opportunities should develop in American textile manufacturing for computer technicians, chemical specialists, and merchandisers, while low-skill jobs will decline.

With imaginative management, mature industries need not be lackluster performers. Studies demonstrate that corporations that focus their efforts on a few major sectors and continue to develop them by exploiting new opportunities can prosper.<sup>4</sup> By working through already developed markets, mature firms in established industries are able to distribute new products more broadly and probably more quickly than could an embryonic industry with a typically undeveloped market.<sup>5</sup> Table 2 illustrates the quarterly sales and profit margins for various firms based in the region. The diverse sales and margin picture among firms is clearly discernible.

## Finding a Niche

Consumers are entertaining at home more and traveling less, emphasizing sports and physical fitness and thus creating strong markets for appropriate apparel. Sportswear appears to be one of the brightest apparel niches as consumers

<sup>3</sup>James Chapman, cited in *Modern Textile Business*, March 1983.

<sup>4</sup>Roger Hearne, "Fighting Industrial Senility: A System for Growth in Mature Industries" *Journal of Business Strategy*, Fall, 1982.

<sup>5</sup>Michael Porter, "Competitive Strategy Techniques for Analyzing Industries and Competitors" *Financial Analysts Journal*, July-Aug. 1980.

**Table 2.** Leading Southeastern-Based Textile/Apparel Firms' Sales and Profit Margins (Ranked by Sales)

Company	Second Qtr. 1983 Sales	Second Qtr. 1983 Margins
	(\$ mil.)	(percent)
Burlington	812.8	3.7
West Point Pepperell	318.7	4.6
Springs Industries	209.1	3.5
Cone Mills	194.9	3.0
Oxford Industries	133.0	4.8
Fieldcrest	127.6	1.2
Riegel	107.3	2.0
Avondale	84.3	3.7
Ti-Caro	81.3	4.0

Source: **Business Week**, "Corporate Scoreboard," August 15, 1983

with more leisure time have become more health conscious. Specialty fabrics, such as hospital fabrics, designer, or personality household fabrics, also are showing a great deal of growth. Cannon Mills, based in North Carolina, recently added a new subsidiary by acquiring a small north Georgia manufacturer of bathroom and accent rugs. By specializing in fashion items, management hopes to give the company some immunity to recession. Licensed products also have turned profits for such textile firms as the Bibb Company of Macon, Georgia. Home furnishing items, such as "Star Wars" sheets and pillowcases, comforters, bedspreads, draperies, slumber bags, "E.T." merchandise, and National Football League logo merchandise, continue to be extremely profitable. Theme, concept and styling are all geared toward young people.

Another way small textile firms are increasing profits is to revert from public to private ownership. An advantage of public ownership is the ability to raise money through the sale of additional stock and debt securities. However, the investment community has been cool toward textile stocks, forcing publicly owned companies to borrow from banks or other lenders as privately held companies do. Disadvantages of public ownership include the responsibility of filing extensive reports with the Securities Exchange Commission and pressure to pay dividends to stockholders, while a privately owned company

often can invest back into the company profits that otherwise might have been paid to shareholders.

Examples of management correctly assessing and responding to the competitive environment include two Mississippi apparel firms that report rising sales. One is producing less expensive lines using cheaper cloth to underprice the competition, while the other is beating its competition (mainly Mexican and South Korean) by specializing in premium clothing.

Some firms are capitalizing on demographic changes, such as the fact that two-income families are limiting their families to one or two children and are spending lavishly on them. Toddle Tykes Company of Atlanta, for example, reports that business is booming. The company makes 800,000 garments a year for babies and toddlers.

## High-Tech Tools

Productivity improvement programs can produce significant payback. Computer-operated equipment now offers the capability of transferring a garment pattern, traced with an electronic pen, into computer memory where it can be stored or redesigned. It then can be sent to a computer-driven machine that can cut the pattern quickly from a stack of fabric. Automated procedures need not be exceedingly complex to improve productivity markedly. For example, much of the automated equipment in use today can be found in the sewing room. Programmable sewing machines can be operated by a worker without specific training for the particular operation. If an operator is absent, an untrained replacement can step in with little loss in productivity.

Computers in the apparel distribution process have helped numerous companies improve their profits. The ability to process order information quickly has enabled management to spot trends and alter production levels or styles in response to market demand. Timely information permits fast adjustments to production and inventories and, therefore, more efficient operations. This added control also spills over to the important customer service area. Well-equipped firms can answer customers' questions about orders almost immediately, a marked improvement from the pre-computer age when it could take hours for a manufacturer to gather necessary information. Oxford Industries of Atlanta, a leading apparel producer, has installed a computerized customer

service and inventory control system. The company, which reported record sales for its fiscal first quarter ended September 2, designed its own software for the system to address its particular needs.

A relatively recent domestic textile success story is that of the hosiery industry, particularly firms producing pantyhose. Advanced technology in the production process and a new marketing strategy have made this sector highly profitable. Productivity grew at a rapid pace from 1960 to 1982, averaging 6.8 percent annually compared with 2.6 percent in all manufacturing.<sup>6</sup> Advances in manufacturing technology were largely responsible for the productivity gains; knitting machines controlled by microcomputers allow the operator to make program changes with little or no downtime, which is important for fashion or size changes. Highly skilled mechanics are no longer required for the changeover, so training requirements for operators have been reduced. However, specialists trained in electronics are required in case of breakdowns.

Another area transformed by automation has been the hosiery industry's previously labor-intensive packaging process. Automatic folding, packaging, labeling, counting, and loading into shipping cartons have streamlined the production process. Finally, a strategy of marketing pantyhose through supermarkets and drug stores has stimulated demand.

## Market Adjustments

Georgia-based West Point Pepperell company has been especially successful in reacting to market demand and making adjustments to production when needed. The company has compiled an enviable profit record due in part to a strategy that encourages its salesmen to sound out customers on their needs and to feed the information back to management promptly. In addition to determining product needs, servicing accounts has a high priority at West Point because of retailers' limited shelf space for products. The company has aided its shelf space "visibility" by developing easily recognized brand-name lines, especially for household goods such as sheets.

On the production side, West Point has remained flexible enough to adjust to changing market

demand. For example, when corduroy sales plummeted in the late 1970s, machines and workers were converted to producing denim. Like several other U.S. textile manufacturers, the company is addressing import competition by shipping fabric out of the United States, converting it into products offshore or across the U.S. border, and importing the finished goods. Tariffs are charged only on work-related expenses, giving the company a marked advantage over foreign producers. Company officers feel that a new effort to tap foreign markets also will be rewarding. To that end, the firm is expanding its overseas sales offices.

A recent study states that the greatest future growth in demand should occur outside the United States because of increased apparel consumption in developing countries.<sup>7</sup> Market-oriented, outward looking firms appear to be looking to these potentially profitable markets.

One relatively small North Carolina mill that produces yarn for the knitwear industry owes its success mainly to automation. Nearly all of the company's machines are equipped with a computer that measures the operator's productivity. This instantaneous feedback enables the operator to adjust the pace. In this firm the worker is paid by the quantity and quality of output. The resulting high production per work-hour has helped paint a healthy profit picture for the firm.

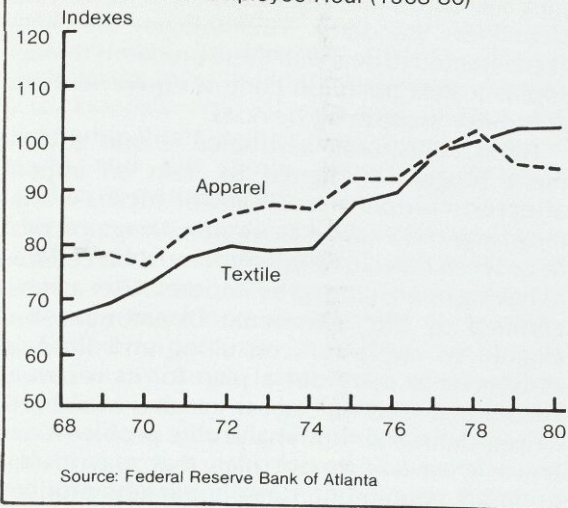
A company that ranks high among textile and apparel firms in profits is the Russell Corporation of Alexander City, Alabama. Corporate officials cite several reasons for the firm's success. Primarily a producer of sports apparel, the firm has capitalized on the physical fitness boom. A key to controlling the company's rapid growth is a vertically integrated organizational structure, which allows for tight control over cost, quantity, and customer service. This type of corporate structure is rare for domestic firms because of the many separate processes required to convert raw fiber into finished apparel. By automating as much of the fiber-conversion process as possible, the company has been able to spread efficiencies throughout the entire production process. High labor productivity, a quality product, and a considerable effort spent on customer service have helped to offset international competition for this expanding firm.

<sup>6</sup>"Technological Change and Its Labor Impact in the Hosiery Industry" B. L. S., Office of Productivity and Technology, July 1983.

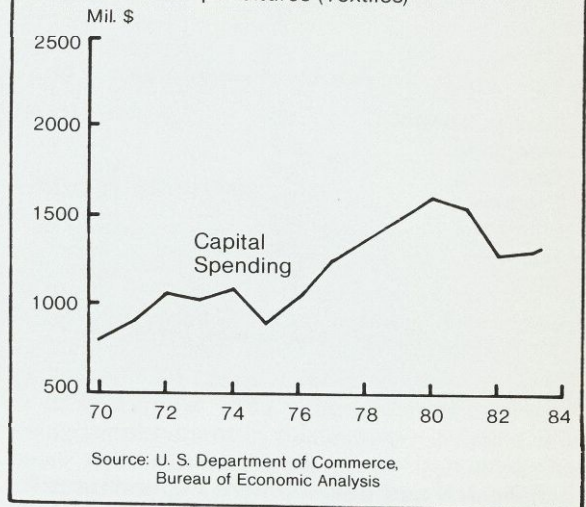
<sup>7</sup>"The U. S. Textile Mills Products Industry: Strategies for the 1980's and Beyond" (Columbia: U. of South Carolina Press, 1983).



**Chart 5. Textile and Apparel Output Per Employee Hour (1968-80)**



**Chart 6. New Plant and Equipment Expenditures (Textiles)**



## Boosting Productivity

Output can be approximated by deflating each year's value of industry shipments by an appropriate price index to derive a constant dollar value of shipments. These figures are then adjusted for changes in inventories, also in constant dollars. From these output figures, it is clear that productivity has been increasing quite rapidly for the apparel and especially the textile industry. In fact, since 1968, output per employee hour has increased more than 50 percent for the textile industry and more than 20 percent for the apparel sector (see Chart 5). The industry's strong productivity growth over the last 12 years is noteworthy because it appears that output per worker has remained strong even since the stimulation provided by the Vietnam War ended. A surge in capital spending helps explain the rapid productivity gains. Between 1977 and 1982, U.S. textile firms' capital expenditures totaled \$6.8 billion.

Technology is reducing the need for low-skilled workers while increasing the need for technicians to operate complex equipment. Operators are spending more of their time patrolling more machines primarily to detect malfunctions. Computers in weaving now monitor production to provide management with as much information as possible. Computers also are used for handling materials, carrying yarn (driverless vehicles) to looms, and picking up finished fabrics.

Burlington Industries of Greensboro, North Carolina will install a \$10 million computer-controlled materials handling system in a new yarn and fabric plant at Mountain City, Tennessee, to be completed by 1985. At Burlington's \$55 million denim plant in Erwin, North Carolina, robots deliver spools of yarn to weavers, a job that used to require several workers. Other large textile firms have opened central electronic data processing offices coordinating information from their many mills, analyzing the information and sending it back to mill managers to attempt to achieve efficiencies and to control production.

At present, less than 30 percent of the U.S. industry's equipment qualifies as modern (less than 10 years old), although that figure is sure to change because capital expansion and merger or acquisition activity have been increasing. Foreign innovation and the increased value of the dollar have led many textile firms to buy capital equipment from overseas producers, importing looms and other machinery from sources in Switzerland, West Germany, England and other European nations, as well as Japan (see Chart 6). Some small- and medium-sized companies may be unable to replace their obsolete equipment because of limited financial resources or access to financial markets, problems that large firms may not face. Some may become attractive takeover candidates for larger companies; many small, marginal mills already have closed, raising the average level of technology in the industry.

**Table 3.** Research and Development Expenses (1982)

	Percent of Sales	Percent Change from 1981
Textiles, Apparel	0.6	16.7
Automotive	4.0	0.3
Chemicals	2.9	16.2
Electronics	3.8	15.1
Machinery	3.3	3.1
Paper	1.0	6.5
Steel	0.7	10.1

Source: Rand D. Scoreboard, *Business Week*, June 20, 1983.

Research and development expenditures for the apparel and textile industries advanced significantly in 1982 compared to 1981, although as a percentage of sales or profits, textile firms lag other industries in this type of spending (see Table 3). The textile industry draws heavily on research performed by suppliers such as machinery manufacturers. However, the substantial funds the textile firms spend on designing, styling, and market research constitute a form of R&D for the industry.<sup>8</sup> Carpet manufacturers, for instance, are incorporating new technology in their carpets by producing fibers with anti-microbial and soil-hiding features—in essence making possible expanded carpeting applications. The new carpeting, produced on highly complex machines, possesses light-scattering, soil-hiding characteristics, and retards mildew, fungus, and bacteria. Georgia carpet mills produce about 60 percent of all American-made carpets. One company with carpet mills in Georgia uses a computer-aided design and manufacturing system that can be programmed to produce a number of different carpet designs in a single production run. The U.S. carpet industry is looking to markets in Japan and Korea to boost sales. The overseas market is intended to help carpet manufacturers find buyers, distributors, and promoters for American carpets and rugs—both commercial and residential.

The textile industry consumes vast quantities of fresh water and chemicals, and American labor

and regulatory costs are the world's highest. Mills must comply with government-mandated cotton dust standards, noise standards, and wastewater cleanliness standards. Technologies are being implemented to deal with these problems through sophisticated pollution control equipment and computer monitoring devices.

Trade adjustment assistance is one government program designed to help an import-affected company maintain or increase employment and expand its profit-making potential. In order to receive help, a firm must be certified as having been harmed by imports. After a firm is certified by the Commerce Department, it is eligible to apply for consulting and financial assistance to carry out a plan for its recovery. Technical and consulting assistance is available to help a damaged firm analyze its problems and arrive at an adjustment plan that may involve updating equipment, developing new products less affected by imports, entering different market areas, and improving efficiency. Thirty to 50 percent of the total trade adjustment assistance caseload for the southern region has been for apparel firms, the bulk of which is technical assistance, according to a department official. Financial assistance includes direct and guaranteed loans. The proceeds can be used for new machinery or equipment, new or renovated buildings, or for working capital.

### Emerging Growth Areas

By concentrating more on innovation, some textile companies have improved their appeal to high-technology customers. For example, fiberglass fabrics in printed circuit boards seem to be particularly promising in light of heavy demand for electronic products from home computers to military applications. New markets for structural fabrics also have developed in the aircraft and aerospace industries, where weight reduction is critical. Geotextiles are also a contender for rapid growth as their potential is realized for controlling erosion by preventing soil movement while allowing ground water to pass through. The need for cost-effective and reliable drainage and filtration also holds great promise for textile products. Other hot products are specialty items in recreational fields such as woven fabrics for swimming pool covers, tent screening, shade cloth, duck for directors' chairs, backpacks, tote bags, seat cushions, and soft-sided luggage. Protective clothing, such as

<sup>8</sup>The Competitive Status of the U. S. Fibers, Textiles and Apparel Complex National Academy Press, Wash. D. C. 1983.

the suits used by astronauts on the Space Shuttle or designed for protection against chemical warfare, are specialty areas that could mushroom. The medical field is an especially bright market for specialty textiles. Medical applications include filtration elements for artificial kidneys, artificial skin and arteries and disposable items such as nonwoven gowns and masks and the sterile nonwoven coverings used in operating rooms.

Nonwovens appear to be emerging as a textile sector with high growth potential. Nonwoven materials are cheap to produce—the necessary machinery is relatively inexpensive and, most importantly, the fabric can be produced many times faster than woven fabric. The textile industry is also tackling the pollution problem by producing filtration fabric for many industrial processes to keep the air, water, and soil around mills clean. Another growth area is production of drinkable sea water at a commercially feasible cost through a process known as “hollow fiber reverse osmosis.” Still another is the use of coated textile fabrics for stadium domes. These specialty textile materials are engineering-intensive and are produced in limited volume. New technology appears to be producing economies at lower volumes than in the past.

## The Energy Problem

Textile firms have been striving to cut energy costs. Because of its low profit margins, the textile industry is vulnerable to rising energy prices. It is a heavy user of natural gas, which is going through the throes of deregulation and most likely will continue to rise in price. U.S. textiles use the equivalent of 50 million barrels of oil each year, the most intensive industrial use of energy in the Southeast. About two-thirds of this power is for thermal energy, while the rest is electrical. To help overcome the substantial cost of energy used in processing textiles, companies have taken various approaches, according to an expert at Georgia Tech's School of Textile Engineering. Some have generated their own power to absorb some of the load, while at least two others have invested in the development of solar power.

Drying textiles by commonly used methods accounts for about one-quarter of all textile energy costs. Pre-drying by sonic boom is

another technology being developed to help reduce the energy costs associated with drying textiles that have been wet processed. Steam traveling through fabric at the speed of sound can actually pop water out of the fabric. The new drying method could cut those costs significantly.

## Current Situation

In contrast to last year's bad news, a pickup in the industry may be at hand. Although that rebound hinges on a continuing economic recovery, the index of textile manufacturing activity increased for eight consecutive months in 1983 and stood 18.4 percent above the year-ago level as of September 1983.<sup>9</sup> The latest regional data show employment in the industry growing at a more rapid clip for the six months following the 1982 business slump than after the 1970 or 1980 downturns (see Table 4), with particular strength in North Carolina and Georgia. As of the second quarter of 1983, the U.S. textile industry posted profits 220% higher than year ago levels.<sup>10</sup>

Renewed growth in this important sector would be especially beneficial to the Southeast, where so much of the industry is concentrated. By using innovative techniques, some firms appear to be carving out a bright future.

## Summary

To remain competitive and profitable, well-managed textile and apparel firms have used one or a combination of strategies.

Executives of successful firms have sought out special niches in the marketplace for their companies or have developed totally new markets. By remaining flexible, they have been able to respond to changing market conditions, moving quickly into new product lines as consumer tastes change.

By targeting their products carefully, these managements have steered clear of markets where they must compete directly with foreign producers who enjoy the advantage of lower-priced labor. Alternatively, others have taken some of their operations overseas, manufacturing fabric or garments in foreign plants staffed with native workers.

<sup>9</sup>DRI data.

<sup>10</sup>*Textile World*, August 1983, p. 17.

**Table 4.** Textile Employment Changes  
Six Months After Recession Troughs

	Trough Level (thousands)	Six Months Later (thousands)	Absolute Change	Percent Change
<b>Southeastern Region</b>				
November 1970*	589.1	589.2	0.1	0
March 1975	541.5	588.8	47.3	8.7
July 1980	568.9	568.5	-0.4	-0.1
November 1982	500.5	507.8	7.3	1.5

\*11/70 computed without Tennessee

Source: State Department of Labor, seasonally adjusted by the Federal Reserve Bank of Atlanta.

Corporate organization has provided a key to the success of many prospering U.S. firms. Managements have divested weak divisions and reorganized to permit maximum control of their production, from raw material to the sale of finished products. Some have even chosen to shake off the restrictions and expenses associated with public ownership by reverting to private control.

Whatever other strategies they may have adopted, successful firms almost universally have turned to technology as a response to the competitive challenge from overseas. In a tradition-bound industry with many surviving plants that date to the turn of the century, foresighted corporations have installed state-of-the-art technology to improve productivity and efficiency.

New equipment not only has achieved unprecedented efficiencies but has allowed firms to address concerns over the cleanliness of the environment and the health of their workers as well.

With their new managerial, organizational and technological strengths, these corporations should be able to hold their own against the toughest global competition in the years ahead. That, of course would be good news for the myriad southeastern communities whose families have relied for decades on the paychecks distributed by textile and apparel firms.

—David Avery and  
Gene D. Sullivan

## Interstate Banking Is Prohibited . . . Or Is It?

The first composite picture of the extent to which U.S. and foreign banking organizations are providing interstate financial services is now available from the Federal Reserve Bank of Atlanta.

This special report, compiled with the cooperation of the 11 other Federal Reserve Banks, is an expanded version of an article in the May issue of this **Review**. It shows that in late 1982 banking organizations already controlled more than 7,500 interstate offices providing a wide range of financial services.

The 130 page inventory includes names of parent institutions, names of their interstate subsidiaries, the states in which these subsidiaries are located, and the number of offices of each subsidiary on a state-by-state basis as of late 1982.

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To operate effectively in a rapidly changing world, financial organizations need to understand their new environment, set obtainable goals and develop and execute strategies to accomplish these goals. Planning, while important in a stable environment, becomes critical for survival in a time of rapid change.

Little is known, however, about the way financial institutions structure their goals and strategies, formally or informally. Do they undertake formal strategic planning? What priorities do they place on planning? What planning tools do they use to describe their current environment and their situation in this environment? What part do they want to play in their industry's changing environment?

Understanding the degree and method through which different financial institutions plan is important for market participants, regulators and legislators. An understanding of this process will give a better picture of the evolving financial services industry. Identifying the types and characteristics of financial institutions that actively engage in the planning process may reveal the players in the market of the future and suggest how these markets are likely to look.

Seeking answers to some of these questions, the Federal Reserve Bank of Atlanta recently surveyed strategic planners in banks and thrifts across the nation.



## Shifting the Game Plan: Strategic Planning in Financial Institutions

An Atlanta Fed survey finds that more banks than S&Ls are engaged in strategic planning, but formal strategic planning is relatively new for both groups. Evidence suggests that corporate goals are shifting from earnings toward market position.

We found that most bank and thrift strategic planning programs are relatively new and that strategic planners are paying increased attention to the competitive environment.

## Strategic Planning Defined

In the 1960s, the term "long-range planning" was used to describe the process through which a firm set its long-term goals and objectives. "Strategic planning" emphasizes a continuous process through which long and short-term goals and objectives are set and reset in light of the changing market environment. In 1962, Alfred Chandler defined strategic planning as "the determination of basic long-term goals and objectives of an enterprise, and the adaptation of courses of action and allocation of resources necessary for carrying out these goals."<sup>1</sup> The key elements of this definition are establishing goals and allocating resources. Today, strategic planning is considered to be a process that consists of the following elements: 1) the corporate mission and objectives, 2) an assessment of competitive threats and opportunities, 3) an operational plan and review.<sup>2</sup> Unlike long-run planning, strategic planning recognizes the necessity for constant revisions in each of these elements as the competitive and market environments evolve.

## Mission

The mission spells out the firm's long-term goals and the nature of its business. The corporate mission is usually established by the firm's directors and top management. It is the most important part of the planning process because management must establish goals before it can chart a course to achieve those goals.

The corporate mission may be defined in narrow or in broad terms. For example, the mission of a "commercial bank" is narrower than that of a "financial service organization." Traditionally, a commercial bank accepts deposits and makes loans, while a financial service organization might also include a wider variety of services such as trust accounts, real estate brokerage, investment banking, and life insurance.

Once the mission has been determined, corporate objectives must be established. These

might include earning a 25 percent return on equity, controlling 60 percent of the relevant market for deposits, and other measurable targets. But not all objectives can be quantified. Providing pleasant working conditions and challenging opportunities for employees are two examples. In any case, the objectives must be understood by those responsible for them, if they are to be achieved. The corporate mission is not set in concrete—it will change to reflect new competitive developments or new opportunities. As the mission changes, the objectives and targets will also change.

## Competitive Threats and Opportunities

One basic axiom of strategic planning is that many of the major factors that influence a business are beyond its control. That is why the continuous assessment of competitive threats and opportunities is so important. Changing economic conditions, technology and federal legislation are only three parts of the business environment that must be monitored. These are examples of a changing environment that may change the corporate mission or its objectives and targets. Likewise, potential mergers or takeovers, the financial condition of competitors, and local market conditions must be evaluated. The monitoring of threats and opportunities frequently is assigned to the planning department. This is time consuming, and much of the effort is devoted to answering "what if" kinds of questions. For example, how should we respond if there is an attempt at an unfriendly takeover of our stock or how can we be more effective in the markets that we serve? This part of the planning process must examine all relevant factors that may affect the firm.

## Action

Strategies must be developed before they can be translated into operational plans. Strategies may be developed by appropriate operating units, by the planners, by top management, or any combination of the above. Provision also has to be made for reviewing progress and, when necessary, changing objectives to respond to new opportunities or threats.

It may take several years from the time an organization makes its first attempt at strategic

<sup>1</sup>Alfred D. Chandler, Jr., *Strategy and Structure: Chapters in the History of Industrial Enterprise* (Cambridge, Mass.: The M.I.T. Press, 1962), p. 13.

<sup>2</sup>For additional information about strategic planning, see: Benton E. Gup, *Guide to Strategic Planning*, (New York: McGraw-Hill Book Co., 1980); Arthur Thompson, Jr. and A. J. Strickland, III, *Strategy Formulation and Implementation: Tasks of the General Manager*, (Plano, Texas: Business Publications, Inc., 1983, Revised Edition); George A. Steiner, *Strategic Planning: What Every Manager Must Know*, (New York: The Free Press, 1979).

**Table 1**

Population Distribution of Sample and  
Respondents Compared to the Population  
Commercial Banks

Asset Size	All Banks		Surveyed Banks		Respondents	
	Number	Percent	Number	Percent	Number	Percent
\$0-\$50m	10484	72.1	90	19.7	50	14.9
50-100	2187	15.1	80	17.5	60	17.9
100-500	1472	10.1	83	18.2	62	18.5
500-1B	185	1.3	75	16.4	58	17.3
1B and over	205	1.4	129	28.2	105	31.4
Total	14533	100.0	458	100.0	335	100.0

Savings and Loan Associations

Asset Size	All S&Ls		Surveyed S&Ls		Respondents	
	Number	Percent	Number	Percent	Number	Percent
\$0-\$50m	1662	44.4	68	33.8	40	35.1
50-100	819	21.9	34	16.9	16	14.0
100-500	1027	27.4	95	47.3	54	47.3
500-1B	124	3.3	2	1.0	2	1.8
1B and over	111	3.0	2	1.0	2	1.8
Total	3743	100.0	201	100.0	114	100.0

Source: Federal Reserve Bank of Atlanta

planning to the time such planning becomes effective.

It is important to understand what strategic planning is **not**.<sup>3</sup>

1. Strategic planning does not deal with decisions to be made in the future. It deals with decisions made today that will affect the firm's future position.
2. Strategic planning is not forecasting. In fact, a planning process is necessary because institutions cannot forecast the future with certainty.
3. Strategic planning is not the application of quantitative techniques and models to business decisions. It may incorporate these tools, but its conceptual base is analytical thinking about the commitment of resources to action.

4. Strategic planning does not eliminate uncertainty or risk. It helps to transform uncertainties into risk, allowing management to evaluate the risk that must be faced.

## The Survey

The Atlanta Fed conducted its mail survey to determine the extent to which banking organizations and savings and loan associations conduct "formal" planning. The term "formal" means that the plan is in written rather than verbal form.

First, we decided to select 700 banking organizations and savings and loan associations in various asset size categories throughout the United States.

We ranked all commercial banks and savings and loan associations by asset size (December 1981) in ascending order. A total of 14,700 commercial banks and 3,743 S&Ls was included. We stratified both types of institutions into five

<sup>3</sup>For details, see: Peter F. Drucker, **Management: Tasks, Responsibilities, Practices**, (New York: Harper & Row, Publishers, Inc., 1974), p. 125; Steiner, pp. 15-16.



**Table 2a.**

## Respondents Indicating A Formal Planning Process

Asset Size	Banks	Savings and Loans	Bank Holding Companies	One-Bank Holding Companies	Total
\$0-\$50m	26	15	0	2	43
50-100	33	6	0	4	43
100-500	29	38	4	8	79
500-1B	32	2	7	8	49
1B and over	19	2	54	27	102
Total	139	63	65	49	316

**Table 2b.**

## Respondents Indicating No Formal Planning Process

Asset Size	Banks	Savings and Loans	Bank Holding Companies	One-Bank Holding Companies	Total
\$0-\$50m	22	25	0	0	47
50-100	22	10	0	1	33
100-500	21	16	0	0	37
500-1B	11	0	0	0	11
1B and over	2	0	3	0	5
Total	78	51	3	1	133

Source: Federal Reserve Bank of Atlanta

Note: Unless otherwise noted, all tables use the 316 respondents that reported a formal planning process.

groups based on asset size: \$50 million or less, \$50 to \$100 million, \$100 to \$500 million, \$500 million to \$1 billion and \$1 billion and over. One hundred commercial banks and 40 S&Ls were chosen at random from each asset group.

After drawing the sample, we identified all subsidiaries of multibank holding companies and substituted their parent organization in the sample. Then we deleted 97 banks and substituted 65 bank holding companies. The selected sample included more than one subsidiary of some bank holding companies, in which case the holding company replaced all of its subsidiaries in the sample.

Commercial banks and savings and loan associations accounted for almost four-fifths of the institutions surveyed, and bank holding companies accounted for the remainder. A total of 335 banking organizations and 114 S&Ls responded to the survey, resulting in a 68.1 percent response rate (73.1 percent of the banks and 56.7 percent

of the S&Ls responded.) Each of the 50 states is represented, with no state contributing more than 10 percent of the total responses.

On the banking side, our sample of firms surveyed was fairly representative of the general population (Table 1). Our sample counted just over 1 percent of the firms in the smallest category and 63 percent in the \$1 billion and over category.

On the savings and loan side this was not the case. While our sample is evenly distributed in the first three categories of S&Ls, ranging up to \$500 million in assets, it is unevenly distributed with respect to firms above \$500 million. In fact, the survey provides little useful information on the larger thrift associations. Table 1 shows the distribution for firms actually responding to our survey.

Table 2a shows that 316 respondents have a formal planning process, while Table 2b shows that 133 report no formal planning.

**Table 3.** Percentage of Respondents with a Formal Planning Process

Asset Size	Banks	S&Ls	BHCs	OBHCs	Total
\$0-\$50m	54%	38%	-	100%	48%
50-100	60	38	-	80	57
100-500	58	70	100	100	68
500-1B	74	100	100	100	82
1B and over	90	100	95	100	95
Totals for all sizes	64	55	96	98	70

Source: Federal Reserve Bank of Atlanta  
 Note: This table reflects all 449 respondents.

## Planning and Size of Organization

Planning and asset size appear to be closely related. Table 3 indicates that the percentage distributions of respondents that plan are unevenly distributed by size. As asset size increases, a greater proportion of each category undertakes formal planning. Bank holding companies are the only exception; just three holding companies with assets in excess of \$1 billion had no formal planning process. In addition, relatively fewer respondents from savings and loan associations engaged in planning than respondents from banking organizations. This may be partly attributed to the fact that S&Ls have been under such severe pressure in recent years that most of their attention was on immediate survival, not strategic planning.

## Length of Time in Planning

To a lesser degree, the length of time that respondent organizations have been planning is related to asset size too. Table 4 shows that more large organizations have been planning for five years or more than small organizations. This is consistent with a study of why nonfinancial companies get involved with strategic planning. That study found that size, public ownership, and diversification were the reasons firms gave for getting into strategic planning.<sup>4</sup>

According to another study, relatively few banks engaged in planning before 1980.<sup>5</sup> This is consistent with our finding that most banks are newcomers to planning. The financial institutions' increased interest in planning coincides with certain fundamental changes in the economic environment they have faced in recent years. The 1970 through 1982 period was a time of volatile increases in long-term interest rates. The number of S&Ls declined substantially during this period, from 5,665 in 1970 to 3,833 in 1982, while banks remained relatively constant, 13,705 in 1970 compared to 14,993 in 1982. Not unexpectedly, the most rapid decline in S&Ls occurred during 1981 and 1982 as interest rates peaked.

In general, savings and loan associations have been much more sensitive to sharp upward movements in interest rates because of their relative inability to match maturities of liabilities and assets. Commercial banks' diversified portfolios cushioned the impact from sharp increases in rates, while the S&Ls' specialized portfolios left them vulnerable to rate movements. This period increased the financial institutions' awareness of interest rate risk—the risk that the price of their assets will decline as interest rates rise. Increased awareness of interest rate risk has focused more attention on the need for planning and spurred both banks and S&Ls to expand their planning activities.

The difference in the degree to which banks and savings and loans involve themselves in a formal planning process, as shown in Table 3, may be explained in part by the differing impact high interest rates have had on these institutions. Banks were impacted less severely, allowing management time to assess changing markets and evaluate strategies to take advantage of the new environment. Therefore, it is not surprising that more banks than S&Ls undertook formal planning programs during this period.

The competitive environment has been altered by a number of other factors, including the Monetary Control Act of 1980 and the Garn-St Germain Depository Institutions Act of 1982. This legislation has changed the competitive

<sup>4</sup>In 1968, only six of the largest 50 banks on the East Coast had plans extending for more than one year in the future. By 1979, 88 percent of the largest banks responding to a survey expected to have a strategic planning system. For additional information, see: D. Robley Wood, Jr., "Long Range Planning in Large United States Banks," *Long Range Planning* (June 1980), pp. 91-98.

<sup>4</sup>Grace W. Conlon, ed., *A View From the Top: How Chief Executives Look at Planning*, (Oxford, Ohio: Planning Executives Institute, 1982), pp. 1-11.

**Table 4.**

Length of Time in Planning Process by Respondents\*  
Number of Respondents

Asset Size	Less than 1 Year	1-3 Years	3-5 Years	5-10 Years	Over 10 Years
\$0-\$50m	9	9	7	3	1
50-100	7	9	10	5	2
100-500	20	22	16	5	3
500-1B	10	15	14	7	1
1B and over	11	32	27	21	7
<b>Total</b>	<b>57</b>	<b>87</b>	<b>74</b>	<b>41</b>	<b>14</b>
<b>% of Respondents</b>	<b>21</b>	<b>32</b>	<b>27</b>	<b>15</b>	<b>5</b>

\*The total number of responses to this question (273) is less than the total number of respondents doing formal planning (316) because not all respondents answered this question. This also applies to other tables in this article.

Source: Federal Reserve Bank of Atlanta

environment in which banks and S&Ls find themselves. Thrifts may now diversify their portfolios to a greater degree, potentially reducing interest rate risk and expanding their lending opportunities. Both factors suggest that planning will become more important to S&Ls in the future. But recognition that such factors affect the future of financial intermediaries has contributed to the increased reliance on strategic planning.

Only 14 organizations (5 percent of the respondents) indicated they have been involved in strategic planning for more than 10 years (Table 4). Fifty-three percent indicated an involvement of three years or less. This shows dramatically how a rapidly changing competitive environment fosters the use of strategic planning.

## The Planning Process

### Establishing Objectives

One of top management's responsibilities is to establish objectives for an organization. Corporate objectives are established by the board of directors for more than half of the respondents from small organizations, and by the chief executive officer for half of those from the largest organizations (Table 5). The level at which corporate objectives are established generally is related

directly to size. Almost 54 percent of the firms with assets of \$50 million or less reported that corporate objectives were set up by their directors. Yet, in the \$1 billion and over category, a majority of the respondents indicated that corporate objectives were set by the chief executive officer. A similar pattern was found for establishing operating targets. The level at which corporate objectives and operating targets are set is important because it indicates who is sailing the ship. The survey also indicated that large organizations make greater use of top management committees in establishing operating targets and objectives than do smaller organizations.

### Responsibility

An indication of the level of importance planning takes within an organization is the allocation of officers' attention to the process. As one would expect, the number of employees and officers increases with the asset size of the organization. However, small banks have relatively more officers than large institutions. Officers constitute 27 percent of total employment in the smallest banking organizations and 18 percent of total employment in the largest, on average.

Half of the officers in the smallest organizations are involved in planning, compared to only 2 percent in the largest organizations.

**Table 5.** Level at Which Corporate Objectives are Established  
Number and Percent of Organizations Responding\*

Asset Size	Board Of Directors		Chief Executive Officer		President		Top Management Committee	
	#	%	#	%	#	%	#	%
\$0 - \$50m	23	53.5	10	23.3	9	20.9	4	9.3
50 - 100	19	44.2	14	32.6	9	20.9	6	14.0
100 - 500	23	29.1	23	29.1	21	26.6	20	25.3
500 - 1B	6	12.1	16	32.7	13	26.5	19	38.8
1B and over	14	13.7	51	50.0	14	13.7	25	24.5

Source: Federal Reserve Bank of Atlanta

\*Some respondents indicated more than one answer as most important.

**Table 6.** Who Is Responsible for the Planning Process?  
Number and Percent of Organizations Responding\*

Title	Number	Percent
Top members of top management	79	25.0%
Combination of planning department, planner and top management	68	21.5
Executive planning committee	57	18.0
President	45	14.2
Senior Vice President	24	7.6
Chief Executive Officer	20	6.3
Top divisional management	13	4.1
Other individual	9	2.8
Chairman	4	1.3
Corporate planner	4	1.3

Source: Federal Reserve Bank of Atlanta

\*Some respondents indicated more than one answer as most important.

**Table 7.** To Whom Does the Planning Team Report?  
Number and Percent of Organizations Responding

Title	Number	Percent
Chief Executive Officer	59	18.7%
President	44	13.9
Other	32	10.1
Top Financial Executive Officer	27	8.5

Source: Federal Reserve Bank of Atlanta

The pattern for savings and loan associations is different because they usually have fewer employees than similar size banks. For example, banks with assets of \$100-\$500 million had 195 employees, on average, while S&Ls of the same size had 111 employees. To some extent, the smaller employment at S&Ls reflects the fact that they specialize in mortgage lending, which is less labor intensive than the more diverse portfolios of commercial banks. It follows, therefore, that as thrift institutions expand lending and borrowing powers beyond their traditional functions, their employment also will expand.

Table 6 shows who is responsible for the planning process at responding organizations. It is usually a team consisting of senior officers, or some combination of top management and the planning department. When only one individual is involved, it is most often the president.

Although a "team" is usually responsible for the planning process, members usually report to the chief executive officer or to the president (see Table 7). Since presidents frequently are responsible for planning, some double counting may be involved here. It appears that presidents of small organizations have greater planning responsibilities than those of larger institutions. Nevertheless, larger organizations probably include their presidents on the planning team.

**Table 8.**

How Often Plans Are Revised.  
Number and Percent of Organization Responding

Period	Number	Percent
Annually	144	45.6%
Biannually	24	7.6
Quarterly	30	9.5
Continuously	76	24.2
Other	18	5.7

Source: Federal Reserve Bank of Atlanta

## What Planners Do

According to respondents, developing the planning process is the planners' most important task. The task's relative importance may be attributed to the fact that so many organizations are newcomers to planning. It takes several years for the planning process to become fully operational in an organization.

Preparing and coordinating plans ranks next in importance. Although most organizations revise their plans annually, almost one fourth reported that they revise continuously (see Table 8), so preparation and coordination can be time consuming. The periodic or continuous revision of plans relates to the evaluation of risks and opportunities and the revision of data in light of changing market circumstances. It does not mean that the corporate mission or objectives change rapidly.

Once the plans are prepared and approved in most organizations, they are distributed to top management and line supervisors. Almost one-fourth of the respondents distribute the plans to all levels.

## Who are the Planners?

The individuals responsible for the planning process frequently come from top management and have a financial background. The largest number of respondents indicated that a functional knowledge of their organization is a primary requisite for being a planner. Financial experience and previous planning experience are helpful too.

The average length of time these planners have been involved in the process is related directly to the time their organizations have

**Table 9. Techniques of Strategic Planning**

Techniques	Rank
Portfolio analysis	1
Brainstorming	2
Corporate financial simulation models	3
Cash flow	4
Market research	5
Conferences	6
Risk and decision analysis	7
Futuristic projections	8
Panel consensus	9
Product Information Market System (P.I.M.S.)	10
External on-line data banks	11
Product life cycle	12
Leading indicator analysis	13
Time series analysis	14
Econometric analysis	15
Regression analysis	16

Source: Federal Reserve Bank of Atlanta

been planning. Accordingly, most planners have been in their positions for less than three years. Nevertheless, many planners employed by organizations that have been planning for a long time have been involved in planning for 10 years or more.

## Techniques of Strategic Planning

Table 9 lists, in order of importance, 16 techniques and tools used by planners. Portfolio analysis ranked first. This refers to evaluating the composition and value of assets that organizations hold or that are being considered for acquisition. In addition to portfolio analysis, corporate financial simulation models, the third most widely used technique, may include the use of computer simulation models. So may cash flow analysis, the fourth most popular technique. Thus, many of the techniques that manipulate financial data are interrelated. However, quantitative techniques, including time series analysis, econometric models, and regression analysis, are at the bottom of the list.

Brainstorming, which ranked second on the list, is a group technique used to generate new ideas or new perspectives on different issues. It can be done on an informal or formal basis. Accordingly, a planning team may brainstorm new ways to meet competition, ways to improve profitability, or other issues.

**Table 10.** Use of Consultants

Asset Size	Number of Banks	Percentage of Respondents	Number of S&Ls	Percentage of Respondents	Percentage of Total Respondents	
					All	
\$0-\$50m	5	10	2	5	7	8
50-100	10	17	0	0	10	13
100-500	16	26	14	26	30	25
500-1B	21	36	0	0	21	35
1B and over	43	41	1	50	44	41

Source: Federal Reserve Bank of Atlanta  
 Note: This table reflects all 449 respondents.

Our survey indicated that 75 percent (337) of the firms responding used no outside consultants for strategic planning. Table 10 shows the number of banks and savings and loan associations, categorized by asset size, that used consultants to implement some part of their strategic planning efforts. Interestingly, a larger proportion of banks than S&Ls used outside consultants, and their use generally is directly related to the asset size of the organizations. Only 10 percent of banks with \$50 million or less in assets used outsiders.

Generally, the picture for S&Ls is the same—larger institutions tend to use more outside experts. Only 28 respondents indicated they used outside consultants exclusively for strategic planning. Again, larger organizations tend to depend more heavily on consultants.

To summarize, a greater proportion of banks than savings and loans undertake strategic planning with the help of outside consultants, and the tendency to use consultants increases with increased asset size. But the vast majority of respondents used no outsiders for strategic planning purposes. This dependence by the relatively large organizations on consultants underscores the importance these organizations place on planning.

### External Factors

As part of this process, planners examine external factors that may affect their organization. These external factors, in order of their relative importance as viewed by respondents, are:

1. Market/competitive factors,
2. National economic trends,
3. Technological breakthroughs,
4. Political developments, and
5. Population trends.

Not surprisingly, most respondents indicated that market conditions are the most important external factors to consider. National economic trends, new technology and political developments were also of major importance. The importance of competitive factors or developments in the market underlines the importance of planning as a continuous process. The market for financial services has been changing rapidly in recent years. Banks and thrifts are constantly facing new competition, new offerings and a new, more interest-sensitive consumer. To undertake strategic planning without paying close attention to these developments could be disastrous. The emphasis respondents placed on market developments and competitive factors coincides with their stated objectives for strategic planning.

### Objectives of Strategic Planning

In general terms, the primary reasons for strategic planning are to enhance success and to assess the future. In the recent past, the three primary objectives of strategic planning were market oriented: providing a competitive return on assets, increasing market share, and market survival. As Table 11 indicates, market survival has replaced market growth as the primary

**Table 11. Objectives of Strategic Planning**

Objectives	Past	Future
Provide a competitive return on assets and equity	1	1
Growth of market share	2	3
Survive in a more competitive environment	3	2
Improve prestige in financial community	4	8
Reduce portfolio risk	5	6
Achieve a competitive advantage	6	5
New technology for customer use	7	4
New technology for internal use	8	7

Source: Federal Reserve Bank of Atlanta

object of strategic planning. This again underlines the importance of planning to compete in a rapidly changing market place. In the past, new developments in technology ranked eighth in importance, but for the future this factor is generally considered fourth in importance, following closely behind market and competitive factors.

Our survey reveals substantial differences between the rankings for the past and future periods. Although providing a competitive return on assets and equity ranks number one in both periods, survival and new technology for consumer use have gained in importance in the future. At a recent conference dealing with strategic planning in the financial services industry, one speaker pointed out that "Technology ... will continue to be a major factor in reshaping those institutions that supply financial services. How well traditional depository institutions are able to adapt and adjust to the new economic and technological environment will determine their role in the nation's financial structure."<sup>6</sup> While new technology for consumers gained in rank, improving prestige in the financial community fell far behind as an objective.

The respondents were asked to rank the relative importance of various aspects of the planning process to their firms' stated objectives. The planning process was subdivided into four main

categories (corporate development, product and service development, market extension and social, economic and political trends) containing a number of factors. In each of the categories, we detected some interesting differences depending on the size and form of the organization.

## Corporate Development

What internal factors played the most important part in meeting corporate objectives? Once again, size influenced the respondents' answers. Banking organizations with less than \$100 million in assets considered productivity and optimizing the use of resources to be most important in achieving their stated objective (competitive rate of return on assets). In contrast, larger institutions generally considered management's commitment to planning to be the most important. The fact that a larger proportion of the top officers of small institutions is involved in planning than in the larger institutions is one reason for this difference of opinion. Other factors considered important in this category are establishing performance targets and identifying internal problems.

## Product and Service Development

This category assesses the importance of various factors relating to planning or identifying new products or services that could help achieve a firm's overall objective. Banks of all sizes agreed that customer relations is the most important single factor. However, large bank holding companies ranked identification of future products and services first. One reason for this emphasis is that holding companies are one step removed from bank customers. They own individual banks that, in turn, deal directly with customers.

## Market Extension

Market extension may or may not play a role in accomplishing a firm's overall objectives. Banking organizations with assets of less than \$100 million ranked customer relations first in this category. Larger institutions, however, considered new market opportunities to be the most important factor. Smaller organizations are more concerned with their local markets, while larger organizations face a wide array of competition and must be more concerned with new market opportunities.

<sup>6</sup>Milton Feinerman, President, Federal Home Loan Bank of San Francisco, *Strategic Planning for Economic and Technological Change in the Financial Services Industry*, Proceedings (San Francisco, Federal Home Loan Bank of San Francisco, 1981), p. 1.

**Table 12.** Length of Time in Planning By Asset Size**BANKS**

## Length of Time in Planning

Asset Size	Less than 1 Year	1-3 Years	3-5 Years	5-10 Years	More Than 10 Years	No Answer
\$0-\$50 Million	5	5	7	3	0	8
50-100 Million	7	5	10	5	2	8
100-500 Million	11	11	6	5	2	6
500-1 Billion	9	14	14	7	1	2
Over 1 Billion	11	32	26	20	7	4

**S&Ls**

## Length of Time in Planning

Asset Size	Less Than 1 Year	1-3 Years	3-5 Years	5-10 Years	More Than 10 Years	No Answer
\$0-\$50 Million	4	4	0	0	1	6
50-100 Million	0	4	0	0	0	2
100-500 Million	9	11	10	0	1	7
500-1 Billion	1	1	0	0	0	0
Over 1 Billion	0	0	1	1	0	0

Source: Federal Reserve Bank of Atlanta

**Social, Economic and Political Considerations**

This category assesses the importance of factors affecting the firm's market that are not controllable by the firm or market participants. Decisions by the Depository Institutions Deregulation Committee (DIDC) and deregulation in general were cited as the most important factors in this category. Again this underlines the importance of changing market conditions. Although the DIDC is important to all banks, the larger banks and holding companies consider deregulation to be especially important. These are the institutions most likely to be affected by changes mandated by the DIDC. The smaller organizations tend to be affected less because of their historical role of servicing local customers. The importance to

respondents of new DIDC decisions is followed closely by new legislation and laws.

**Benefits of Strategic Planning**

On balance, 45 percent of the respondents think that strategic planning is extremely useful and another 41 percent found it useful. A few did not find it useful at all. We should keep in mind, of course, that in most cases the surveys were answered by strategic planning officers. When interpreting this information we must also keep in mind that many responding organizations are relatively inexperienced in strategic planning. Some benefits may not be realized for years (see Table 12). Nevertheless, some have been realized already. Benefits reported by the respondents are:



**Table 13.** Critical Issues of the 1980s

1. Deregulation
2. Potential interstate banking
3. Government regulation
4. Productivity
5. Innovation and creativity
6. Trend toward market segmentation
7. Changes in communication technology
8. Growth in the use of strategic planning concepts
9. Inflation
10. Slow economic growth in most industrialized countries
11. Growth of entrepreneurial management
12. Focus on cash flow

Source: Federal Reserve Bank of Atlanta

1. Defining the direction of the firm;
2. Establishing interrelated goals and objectives,
3. Establishing priorities.

In addition, they said, strategic planning helped in decision-making and identifying strengths and weaknesses.

### Future Trends

It is not surprising that financial organizations ranked deregulation as the most important issue for the future, followed by potential interstate banking. Government regulations ranked third in importance among future trends. In essence, respondents said that the competitive fallout from changes in legislation and regulation will be the crucial issues affecting them in the years to come. Other critical issues are listed in Table 13. Inflation, which has been a major element to be considered in any planning process, has dropped to ninth in relative importance. This again indicates the importance of the changing competitive environment and its impact on the planning function of commercial banks and savings and loan associations.

### Conclusion

Three-fourths of the bankers responding to our survey and more than half of the savings and loan respondents are currently engaged in strategic planning. Most are newcomers to the process, having been planning for less than five years.

Judging from the survey, relatively more large banking organizations are planning than small ones. Only 5 percent of the respondents with assets of \$1 billion or more do no formal planning, compared with about 40 percent of those with assets of less than \$100 million. Most of the banking organizations in the United States have assets of less than \$100 million. Therefore, it follows that a large number of banking organizations have no formal strategic planning process. Those that do, however, command the vast majority of the nation's deposit wealth.

Those organizations involved in strategic planning are changing their objectives, according to our survey. While earnings targets are still their primary objective, they are paying increasing attention to the competitive environment. Along this line, changing federal legislation and regulations are the most critical issues that planners see facing their firms in the 1980s.

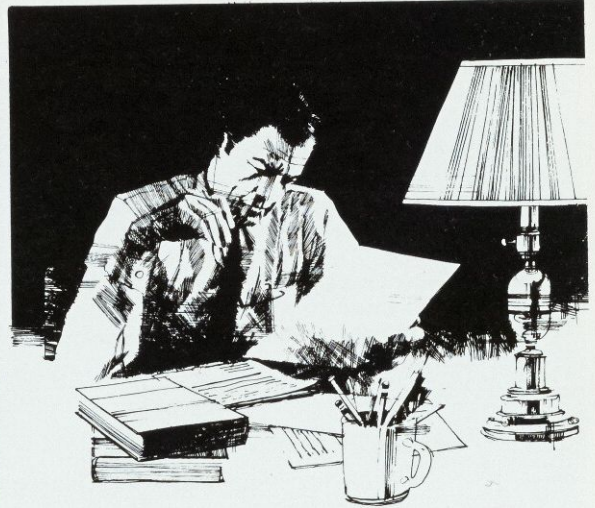
The overwhelming majority of those that engage in strategic planning find it beneficial. The most important benefits concern the establishment, implementation and attainment of the firm's missions and objectives. Other benefits include improved decision-making and assessment of the competitive environment. Strategic planning obviously will play a big role in determining the winners and losers in the rapidly changing financial services industry of the future.

—Benton E. Gup  
and David D. Whitehead

*Note: Benton E. Gup is professor of finance and holds the chair of banking at the University of Alabama. The authors are indebted to the Planning Executives Executive Institute (PEI) for providing a survey questionnaire that the authors modified for financial institutions.*

## Residential Mortgage Delinquencies and Foreclosures: Improvement's Underway

Mortgage foreclosures during the last recession approached the levels of the 1974-75 recession. Thousands of other homeowners barely escaped, as the delinquency rate exceeded 1974 levels. Since unemployment was high, however, the foreclosure rate could well have been worse.



The recent recession brought difficulty to many homeowners. High unemployment rates reduced the incomes of many mortgagors, and increased delinquencies and foreclosures throughout the Southeast and the nation. As of the second quarter of 1983, the percentage of all mortgage loans past due was 5.25 percent for the United States and 5.16 percent for the Southeast.<sup>1</sup> Foreclosures started, as a percentage of all loans, were 0.22 and 0.23 percent for the nation and region, respectively. How did the latest recession compare with the severe recession that followed the 1973-1974 oil crisis? How do residential mortgage delinquency and foreclosure rates in the Southeast compare with the rest of the nation? What are the main factors affecting these rates? Finally, what are the prospects for a decline in delinquencies and foreclosures?

Delinquency and foreclosure rates in general began rising in 1980. Delinquency rates for the United States and the Southeast were considerably higher in 1982 than in the 1974-1975 period. By contrast, the foreclosure rate has not risen nearly as much as have delinquencies. In fact, for the region, foreclosures are considerably lower than they were during the 1974-1975 recession. This is surprising since the unemployment rate, to

<sup>1</sup>All data for mortgage delinquency and foreclosure rates were obtained from the **National Delinquency Survey**, prepared by the MBA Economics Department, Mortgage Bankers Association of America, Washington, D.C. Southeast data were compiled from data for the six individual states all or partially within the Sixth Federal Reserve District.

**Table 1.** Delinquency and Foreclosure Rates for Residential Mortgages, Selected Periods, 1974-83 (Combined Conventional, FHA, and VA)\*

	Percentage of Loans Past Due 60 Days or More				Percentage of Loans in Fore- closure: Started During Quarter			
	1974:4Q	1978:4Q	1982:4Q	1983:2Q	1974:4Q	1978:4Q	1982:4Q	1983:2Q
United States	0.85	0.82	1.03	0.86	0.25	0.17	0.23	0.22
Southeast	0.75	0.77	1.01	0.84	0.38	0.24	0.24	0.23
Alabama	0.65	0.77	1.37	1.08	0.20	0.12	0.59	0.21
Florida	0.62	0.70	0.99	0.80	0.22	0.16	0.18	0.27
Georgia	1.05	1.13	1.06	0.95	0.41	0.30	0.30	0.29
Louisiana	0.66	0.67	0.70	0.57	0.37	0.15	0.08	0.08
Mississippi	1.05	0.66	0.97	0.88	1.00	0.28	0.22	0.18
Tennessee	0.74	0.74	1.03	0.90	0.26	0.20	0.22	0.25

Source: Mortgage Bankers Association of America.

\*Not seasonally adjusted.

which delinquencies and foreclosures are closely related, soared well above the previous peak set in 1975.

## Delinquency Rates

Delinquency rates (the proportion of total home loans past due 60 days or more) have risen dramatically over the last three years (see Table 1 and Chart 1). These rates had increased by 21 percent and 28 percent for the United States and Southeast, respectively, by the fourth quarter of 1982. The Southeast's performance has not differed materially from the nation as a whole. Delinquency rates in 1982 were running higher in both the nation and Southeast than during the mid-70s, but began to decline as the economy improved early in 1983.

Within the Southeast, Alabama is suffering the heaviest delinquency burden (1.08 percent in the second quarter of 1983), while Louisiana is carrying the lightest load (only 0.57 percent for the same period).

Most of the region's increase in delinquencies can be attributed to unusually high unemployment in both Alabama and Florida. During 1982, these two states experienced the most significant jumps in delinquencies. Florida's rate remains lower than the region's average, but it is considerably higher than the state's norm. Tennessee suffered peak rates in late 1981 but has since seen delinquencies taper off. The unemployment rate in each area demonstrates a strong association

with the delinquency rate. This relationship will be further examined later.

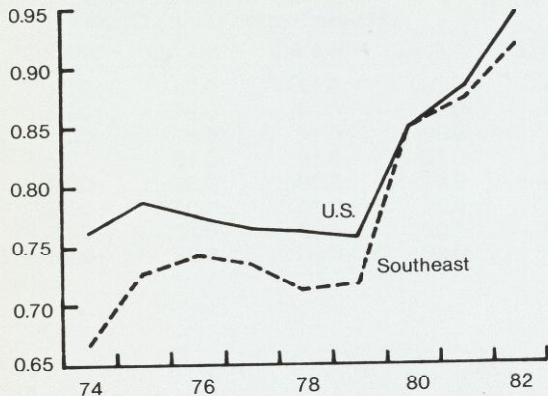
## Foreclosure Rates

Unlike delinquencies, foreclosures at the national level were no worse during the recent recession than they were in 1974-1975. Second quarter 1983 data indicate that foreclosures generally peaked at the end of 1982. The U.S. foreclosure rate was 0.23 percent in December 1982, slightly less than the earlier high of 0.25 percent reached in December 1974 (see Chart 2). In the Southeast, by contrast, foreclosures in 1982 were far below those of the 1974-1975 period. The region's December 1974 foreclosure rate was 0.38 percent, compared with a rate of 0.24 percent at the end of 1982. Alabama was the only southeastern state where the 1974-1975 foreclosure rate was not considerably higher than in 1982.

Foreclosure rates, like delinquencies, began to fall during the first quarter of 1983. Foreclosures also appear to be influenced significantly by unemployment rates. However, the overall relationship between foreclosure rates and unemployment rates apparently has shifted since 1974.<sup>2</sup>

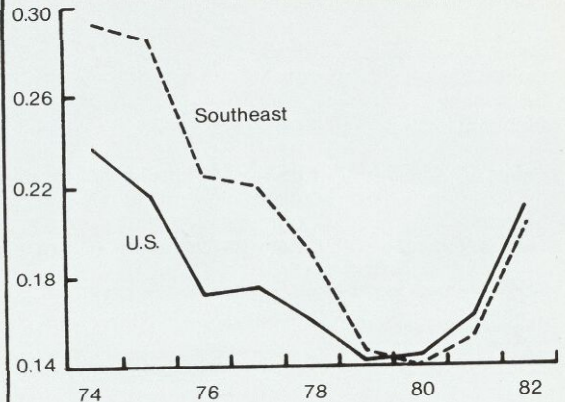
<sup>2</sup>Technically, the statistical relationship has strengthened, but, as a result of a structural shift, the overall effect is for the foreclosure rate to be lower for a given unemployment rate. See Appendix: Statistical Evidence for further details.

**Chart 1. Percentage of All Mortgages Past Due Sixty Days**



Source: Federal Reserve Bank of Atlanta

**Chart 2. Rate of Foreclosures Started During Quarter, All Mortgages**



Source: Federal Reserve Bank of Atlanta

## Delinquency and Foreclosure Rates Relative to Unemployment Rates

Most industry analysts believe that unemployment is the major cause of changes in delinquency and foreclosure rates.<sup>3</sup> In fact, considering recent unemployment rates, mortgage payment problems have been milder than we might have expected. During the fourth quarter of 1974, each percentage point of the unemployment rate was associated with an average of 0.13 percent and 0.11 percent of the delinquency rate, respectively, in the nation and the Southeast. During the fourth quarter of 1982, that delinquency rate/unemployment rate ratio declined to 0.10 and 0.09 percent for the nation and the Southeast (Table 2).<sup>4</sup>

Foreclosure rates in 1982 were much lower relative to unemployment than might have been expected. The ratio of the foreclosure rate to the unemployment rate in December 1982 was down 44 percent from December 1974 for both

the nation and the region. In absolute percentages, 1982 delinquencies were at least as bad as in the 1974-1975 recession, and foreclosures still loom ominously high in 1983. Still, considering how much higher unemployment was during 1982, it is surprising that foreclosures and delinquencies were not higher. Apparently, factors other than unemployment also were influential.

## What Triggers Changes in Delinquency and Foreclosure Rates?

Delinquency rate changes are more easily explained than changes in foreclosure rates. Mortgage bankers readily agree that changes in mortgage delinquency rates are tied to changing income. Other factors called "family disturbances," including divorce, death, and illnesses, also affect delinquency. The overriding factor is the family's ability to pay. Both graphical and statistical analyses confirm that, for the economy as a whole, changes in unemployment explain most of the variation in delinquency rates.

Most of unemployment's effects on delinquency are felt within the quarter a job loss occurs. Prior to unemployment and eventual foreclosure, many homeowners are marginally "making ends meet" and typically have little in savings to maintain house payments when income drops. These borrowers typically have little staying power after losing a job, and their mortgage payments

<sup>3</sup>See, for example, Charles A. Luckett, "Recent Developments in the Mortgage and Consumer Credit Markets," *Federal Reserve Bulletin*, May 1982, pp. 281-290; Richard L. Peterson and Charles A. Luckett, *Delinquency Rates on Consumer and Mortgage Debt: Their Determinants and Impact*, a research manuscript for the Credit Research Center, Krannert Graduate School of Management, Purdue University; and George M. Von Furstenberg and Jeffrey R. Green, "Home Mortgage Delinquencies: A Cost Analysis," *Journal of Finance*, December 1974, pp. 1545-1548.

<sup>4</sup>Refers to residential mortgage loans delinquent 60 days or more.

**Table 2.** Ratios of Delinquency and Foreclosure Rates to Unemployment Rates

	Delinquency Rate (60 Days)			Unemployment Rate Seasonally Adjusted			Ratio of Delinquency Rate to Unemployment Rate		
	1974Q4	1980Q4	1982Q4	1974Q4	1980Q4	1982Q4	1974Q4	1980Q4	1982Q4
U.S.	.85	.94	1.03	6.5	7.5	10.7	.131	.124	.096
S.E.	.75	.88	1.01	7.0	7.1	10.9	.107	.130	.093

	Foreclosures Started (%) (60 Days)			Unemployment Rate Seasonally Adjusted			Ratio of Foreclosure Rate to Unemployment Rate		
	1974Q4	1980Q4	1982Q4	1974Q4	1980Q4	1982Q4	1974Q4	1980Q4	1982Q4
U.S.	.25	.17	.23	6.5	7.5	10.7	.038	.021	.021
S.E.	.33	.15	.24	7.0	7.1	10.9	.047	.023	.022

soon fall delinquent. However, borrowers who have savings or unemployment benefits generally use what they have to protect their home equity. They often forego paying other bills to keep up the mortgage payment when unemployment forces such choices. The effect is to delay mortgage delinquency following the loss of a job. Nonetheless, Charts 3 and 4 demonstrate that, for the majority of borrowers, the relationship between unemployment and delinquency usually proves to be direct, occurring within the same quarter.

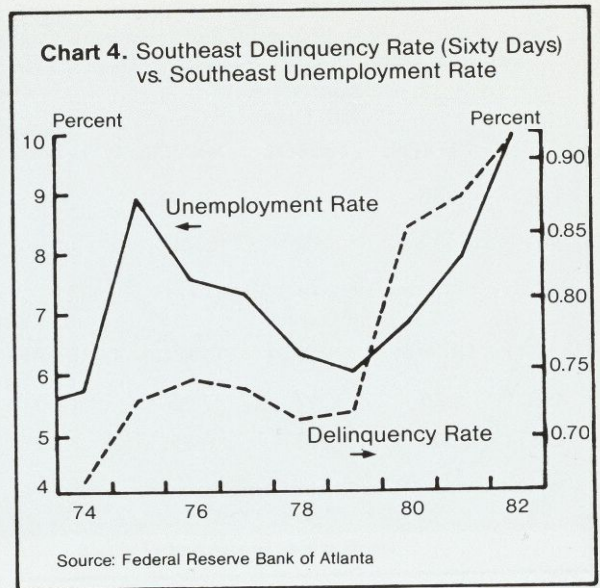
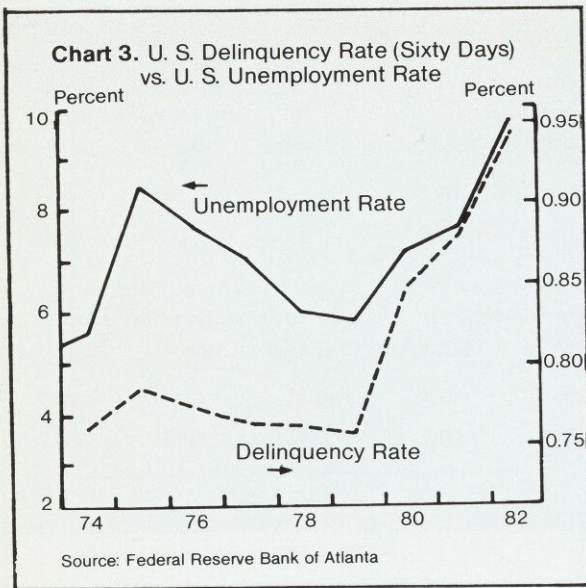
Changes in credit standards can also affect delinquency rates. As the "quality" of the mortgage pool increases, as it tends to do during periods of economic uncertainty, fewer borrowers prone to be laid off are included in the pool. Many lenders feel that credit standards began to tighten in 1979 as interest rates rose. However, since the average life of a mortgage extends over several years, little change is evident yet in the overall quality of mortgages outstanding.<sup>5</sup>

Like delinquencies, residential mortgage foreclosures are also influenced by unemployment, but they are affected by an even broader array of additional factors. The strength of the housing market, the equity a buyer has built up in his or her home, laws and regulations affecting foreclosure; and the credit standards of lenders in preceding years, all can affect lenders in deciding

whether to foreclose on delinquent borrowers. Charts 5 and 6 indicate that the overall relationship between foreclosure and unemployment rates may have been changing in recent years. Thus, factors other than unemployment may be playing a more dominant role in foreclosures now than in earlier years.

What are some of the reasons for recent changes? First, to protect as much equity as possible, unemployed mortgagors may sell their houses before foreclosure proceedings begin. In this way they may obtain a higher price than they would if the house bore a "foreclosed" label. Selling before foreclosure also precludes the legal expenses of foreclosure (which usually are deducted from the proceeds of foreclosure sales). The strength of the housing market, particularly of the resale market, has a direct bearing on whether a home can be sold before foreclosure. Unusually high interest rates on new mortgages in 1982 enabled some delinquent mortgagors with assumable low interest loans to attract buyers and prevent foreclosure. An owner's equity position also affects the foreclosure rate. Homeowners with relatively new mortgages may have made minimal downpayments and paid off little of the principal. When difficulty comes, these mortgagors may opt for foreclosure rather than attempting to sell the home on their own. During periods of expanding construction, the percentage of home buyers with little equity ownership increases because new homeowners usually start out with little equity. The larger the percentage

<sup>5</sup>Charles Luckett, "Recent Developments in the Mortgage and Consumer Credit Markets," *Federal Reserve Bulletin*, May 1982, pp. 281-290.



of outstanding mortgages with low equity ownership, the greater is the propensity for foreclosures to increase with economic hardship. During the residential building boom of the early 1970s, many sales were made on a low equity basis. The 1974-1975 recession witnessed an increased propensity toward foreclosures of homeowners in difficulty.

Credit standards affect foreclosures in much the same way they affect delinquency rates. The tighter standards in effect since 1979 probably have not yet had time to impact the overall foreclosure rate significantly.

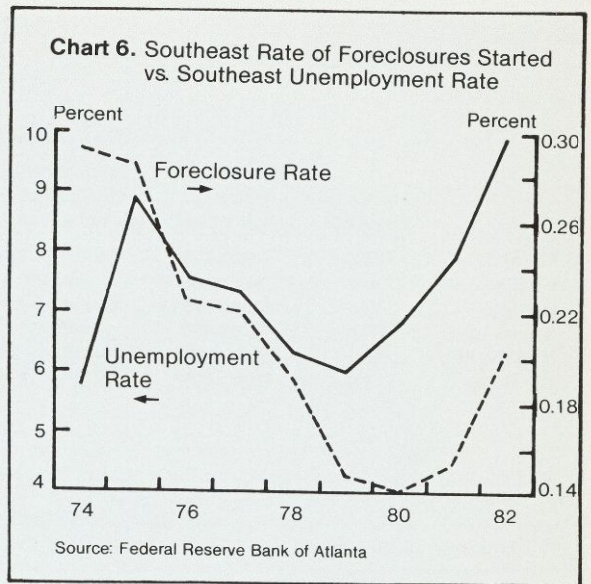
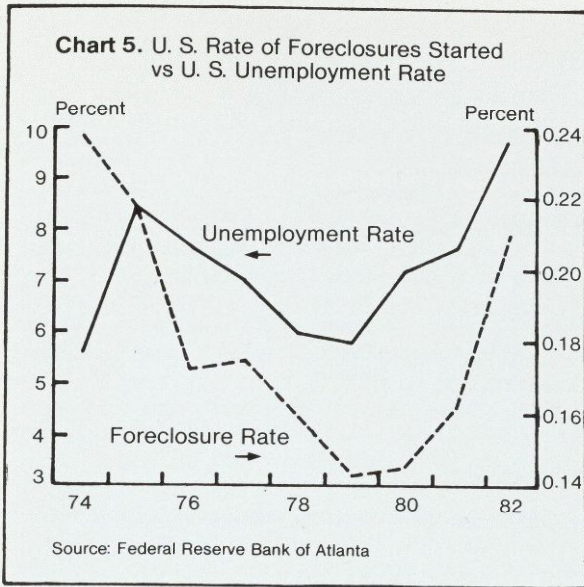
### Differences in Foreclosure Proceedings in the Southeast

The relationship between foreclosure rates and other variables such as unemployment is affected by legal regulations that govern how quickly mortgagees can foreclose once delinquency payments accumulate. Foreclosure proceedings vary considerably from one state to another. Before initiating foreclosure, a lender must weigh the relative costs and benefits against other alternatives. The cost of foreclosure is influenced by state laws and regulations that affect the time and effort required in different states. In the Southeast, all but two states allow "power of sale" as the predominant method of

foreclosure. Under the power of sale method, foreclosure becomes basically an "administrative" process once the proceedings begin. First, the borrower must be delinquent for a legally specified period (varying by state) before foreclosure is initiated. Next, the borrower is notified of the foreclosure and a public legal notice of the foreclosure sale is issued. Following a required waiting period, the sale is conducted, usually at the courthouse.

The sale may or may not end the original mortgagor's interest in the property. Some states allow a period during which the original owner may repurchase (redeem) the property even after the sale. A redemption period is rarely required by law in the southeastern states. Alabama allows the homeowner 12 months after the date of a foreclosure sale to redeem all past debts and expenses incurred in connection with the sale. Tennessee will allow 24 months but only if the security instrument contains no express waiver of the waiting period. Most Tennessee mortgages include such a waiver. The four other states in the region make no general provision for redemption. In these states, the mortgagor's interest in the property ceases immediately upon completion of the sale of the property.

Only in Florida and Louisiana is the more time-consuming and costly "judicial" foreclosure process required. The legal process of judicial foreclosure is more burdensome to lenders than is the power



of sale method. The cost of servicing loans increases considerably as a result of additional legal expenses. In Florida, in order to foreclose, the lending institution must file a lawsuit in a state circuit court, notifying the property owner and everyone who has a recorded interest in the property. Such parties can include additional lenders and judgment creditors. Often the Internal Revenue Service is a judgment creditor from earlier court actions. All parties with a recorded interest in the property are entered into the suit as defendants with the mortgagor. The notification process itself can be quite expensive. Lenders also must notify tenants if the property is not owner-occupied. A tenant can have an interest in the property if there is an option to buy in the lease.

Although the mortgagor must be notified before the case can go before the court, in many instances, he or she cannot be found. The lender must then "publish against" the borrower in the newspaper. Furthermore, if the mortgagor cannot be located, the mortgagee must prove that the mortgagor is not a member of the armed forces or, if he is, that payments were not missed as a result of military service. This action is required as a result of the Soldiers and Sailors Civil Relief Act passed in the early 1940s—and subsequently amended many times—to protect the property of military personnel while overseas. (This act also applies to lenders using other methods of

foreclosure.) If the mortgagor still cannot be reached, the court will then appoint a guardian for the litigation on behalf of the mortgagor. The case then proceeds to court for a judgment on the foreclosure. If the ruling is in favor of the lender, a sale date is set and the property foreclosed. The time required for a foreclosure by judicial proceedings averages three to five months longer than power of sale foreclosures (see Table 3) but can take as much as a year longer.

Variations among state laws often account for differences in foreclosure rates between states at any particular time. Other things being equal, states using judicial foreclosure have lower foreclosure rates than states with power of sale procedures. State foreclosure laws in the Southeast have not changed significantly over the last several years. But have changes in regulations affected foreclosures?

## Changes in Regulations

Residential mortgage foreclosures jumped in 1973-1975, a rise associated with significant changes in lending. Those changes especially affected regulations on Federal Housing Administration (FHA) and Veterans Administration (VA) foreclosures.

Of all measures adopted by the FHA and VA, "partial payment" acceptance rules are probably

**Table 3.** State-by-State Comparisons of Selected Aspects of Foreclosure

	Nature of Mortgage	Customary Security Instrument	Predominant Method of Foreclosure	Months Required to Complete Initial Action (A)	Redemption (Months)	Possession	Normal Total Time Lapse (in months) Prior to Transfer to	
							FHA	VA
Alabama	Title	Mortgage	Power of Sale	1	12	Purchaser	2(C)	2(C)
Florida	Lien	Mortgage	Judicial	6	None	-(E)	7	7
Georgia	Title	Security Deed	Power of Sale	1	None	-	2	2
Louisiana	Lien	Mortgage	Judicial	4	None	-	5	5
Mississippi	Title	Trust Deed	Power of Sale	1	None	-	2	2
Tennessee	Title	Trust Deed	Power of Sale	1	None (D)	-	2(D)	2

(A) From referral to foreclosure attorney to foreclosure sale date

(B) Except as noted, the redemption period runs from the date of foreclosure sale

(C) FHA and VA accept title subject to redemption

(D) Provided redemption rights have been expressly waived in the security agreement—if no waiver, redemption period is 24 months in Tennessee

(E) VA may request eviction

Source: Mortgage Bankers Association of America, December 1982.

the most significant. In late 1975, the FHA began requiring lenders to accept partial payments of 50 percent or more of the mortgage payment. Lenders were required to extend these partial payment privileges for a period of six months. Only after six months had elapsed could lenders reject payments of less than 100 percent. Eventually, the VA adopted similar partial payment regulations.

Both the FHA and VA have extended the required waiting period before foreclosure proceedings can be instituted. In general, the foreclosure process cannot begin until three payments are delinquent. Both agencies now prohibit the use of attorneys to collect delinquent payments. In the past, attorneys' fees could run up expenses to the point that even if the mortgagor were able to make back payments, he or she might not be able to pay off all the legal expenses incurred in the delinquency.

Both the VA and FHA, under Department of Housing and Urban Development (HUD) programs, attempt to assist qualifying homeowners who show promise of being able to recover sufficiently to resume their mortgage payments. Since the mid-1970s, lenders have been required to inform borrowers of HUD's "assignment" program under

which HUD pays off the original lender and then acts as lender itself. The primary lender decides initially whether the borrower qualifies for assignment. The mortgagor can appeal to HUD if the mortgagee recommends against assignment. Regardless of whether the homeowner is accepted into the program, HUD's procedural requirements can delay foreclosure. Though the agency does not have an assignment program, it does on occasion buy a loan from a lender and then work with the qualifying mortgagor to solve payment problems.

Changes in mortgagor rights and procedural requirements have had some impact on lowering foreclosure rates—regardless of whether the mortgagor is actually accepted into these programs.

Foreclosure proceedings favor the lenders in most of the region, where the predominant method of foreclosure is power of sale and where redemption periods are not required. Lenders believe they can offer more mortgage money and at lower rates knowing that they can foreclose at a reasonable expense should it be necessary. Still, lenders are quick to point out that foreclosure is not always in their best interest. Various options to foreclosure do exist.



## Delinquent Loan Procedures of the FHA and VA

The FHA and VA offer some alternatives to foreclosure including the FHA's assignment program for qualified mortgagors holding its loans. The application process alone has been used to delay foreclosure. Many lenders feel that such delaying tactics have merely forestalled the inevitable for some mortgagors. Still, the program does help many homeowners who qualify. Under this program, the lender or the delinquent mortgagor asks the FHA to determine whether the mortgagor qualifies and, if so, asks the FHA to request the mortgage company to "assign" ownership of the loan to HUD. For qualifying mortgagors, HUD will buy the loan and arrange for some type of forbearance.

Qualifications are rather strict. The two major qualifications are that: (1) the mortgagor must be delinquent for reasons beyond his control, and (2) he must have a reasonable prospect of making full loan payments plus a portion of back payments within a specified time. While layoffs and unusual expenses are generally valid circumstances for meeting the first requirement, being fired usually is not.

Anyone with an FHA loan who is three months delinquent can request to be placed in the assignment program. However, the mortgage company will first notify the mortgagor that it is examining the case to see if he qualifies for assignment. If the mortgagor appears to meet the requirements, the lender will request assignment to HUD. In turn, HUD will review the qualifications and make a decision. If the mortgage company determines that the mortgagor does not qualify, it must notify the homeowner that he has 15 days to contact the FHA and appeal the lender's decision. The FHA then makes the final decision. Most requests for assignment do come from the homeowners.

The assignment period with the FHA can last for the remainder of the mortgage. However, the period of forbearance can last no longer than 36 months. After that, the mortgagor must make full monthly payments on the loan together with some payment toward back debt. Forbearance can range from requiring partial payments to even suspending payments altogether for a limited time.

The key factors in getting into the assignment programs are "circumstances beyond the mortgagor's control" and a "reasonable prospect" of resuming payments. The FHA is strict about qualifying and about maintaining forbearance payment schedules. Should the mortgagor still be unable to meet payment obligations, the FHA will provide advice on how to best solve the problem, perhaps by trying to sell the home.

Overall, the assignment program offers a "safety net" for FHA mortgagors in certain types of financial difficulty. Compared to the 1980 recession, the FHA reported a pickup in assignment requests beginning in the late summer of 1982. This increase continued well into 1983.

Like the FHA and conventional mortgage companies, the VA may suggest that the mortgagor sell the house should circumstances indicate that would be best. While the VA does not have an assignment program like the FHA, on rare occasions it will buy a loan from a mortgage company and try to work with the homeowner to set up a new amortization plan. But—similar to the FHA requirements—it will do so only in such cases as those in which the mortgagor is laid off temporarily or has been reemployed but cannot quite pay off delinquent payments. The VA will purchase delinquent loans only if doing so is to the government's advantage.

Another alternative that the VA sometimes offers to delinquent mortgagors is the transfer of title through "deed in lieu." In certain circumstances the mortgagor may be able to keep his credit record relatively clean by agreeing to this type of title transfer. The mortgagor will deed title to the VA in lieu of foreclosure and, in turn, the VA agrees to wipe clean any remaining debts. With this type of title transfer, the mortgagor shows no foreclosure record. The mortgage company must have the VA's approval before initiating these proceedings. The main incentive that the VA may have is to avoid expensive judicial foreclosures. Needless to say, "deed in lieu" is very rare in "power of sale" foreclosure states.

## Alternatives to Foreclosure

The most popular alternative to foreclosure is for mortgagors to place their home on the market and sell it themselves. Federal housing officials and lenders say that high mortgage rates prevailing during the past recession helped many distressed homeowners sell their homes before foreclosure. FHA, VA and many conventional mortgages were assumed at rates well below the market rate. Of course, not all mortgagors held assumable "low" interest-rate loans, but a greater percentage did than in the past. In contrast to earlier recessions, long-term mortgage rates in 1982 were well above the rates of older loans facing foreclosure. Often, realtors themselves would buy homes with assumable low-interest mortgages for resale purposes. These assumable mortgages frequently would not show up in foreclosure figures. From this perspective, foreclosure rate statistics underestimate the difficulties of homeowners during 1982. However, these assumable low-rate mortgages were made several years ago and have substantial equity; these loans are not likely to be candidates for foreclosure.

If a borrower's future employment and income look promising, a lender may "try to work something out." A lender may show increased forbearance if the mortgagor is reinstated at work after a temporary layoff. Though it is very rare, the lender may even reamortize a loan to lower the monthly payment. A homeowner's equity plays an important role in forbearance. The greater the equity, the greater the risk a mortgagee can take. Furthermore, equity can provide for a second mortgage to help homeowners through temporary financial stress such as a layoff or unexpected medical expenses.

## Conclusions

As a result of high unemployment, residential mortgage delinquencies and foreclosures rose

during the last recession. Delinquency rates reached peaks that had not been seen since before 1974. Foreclosure rates for the United States as a whole were generally comparable to 1974. Local and regional differences in unemployment created pockets of greater financial stress for homeowners. In the Southeast, Alabama was particularly hard hit.

As difficult as this recession was for mortgagors, it could have been worse considering the high unemployment rates. In particular, southeastern foreclosure rates were much lower than in 1974. Several factors eased the situation. They included the attractiveness of assumable low-interest mortgages, tighter credit controls prior to the recession, a smaller percentage of relatively new loans out of total mortgages outstanding, and changes in government regulations affecting foreclosure.

Yet some of the improvement in foreclosure rates is probably illusory. In order to avoid foreclosure, many homes had to be sold "under duress." Government regulations have lengthened the time between delinquency and foreclosure. Unemployment's impact on foreclosures will probably linger much longer than in previous downturns. Nonetheless, homeowners have greater opportunities to avoid the full weight of foreclosure. More importantly, judging from the figures available for 1983, the recent downtrend in unemployment means that an improvement in delinquency and foreclosure rates could be imminent.<sup>6</sup>

—Gene D. Sullivan  
and R. Mark Rogers

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<sup>6</sup>Foreclosure rates did typically rise in the second quarter of 1983 while delinquency rates continued to fall. Industry contacts say that the increase in foreclosure rates was a temporary aberration caused by pressures within the savings and loan industry to improve balance sheets. The more competitive savings industry environment is credited for these new factors. Contacts maintain that foreclosures and delinquencies are still in a down-trend.

### Appendix: Statistical Evidence

Both delinquency rates and foreclosure rates were regressed against the unemployment rate, seasonal dummy variables and a constant. Regressions were run over two separate time periods: the first quarter of 1974 through the fourth quarter of 1976 and the first quarter

of 1977 through the fourth quarter of 1982. Because major changes in FHA regulations occurred late in 1975 and then were instituted primarily during 1976, 1977 was chosen to represent the structural break over time. Tables 4 and 5 show the results of the regressions.

**Table 4.** Determinants of Residential Mortgage Delinquency Rates, Past Due 60 Days or More (All Lenders)

Sample Period	United States		Southeast	
	1974Q1-1976Q4 (N = 12)	1977Q1-1982Q4 (N = 24)	1974Q1-1976Q4 (N = 12)	1977Q1-1982Q4 (N = 24)
Independent Variables	Coefficient*/(t)			
U.S./S.E.	0.77327-002	0.99764-002	0.17666-0001	0.24236-001
Unemp. Rate	(1.4081)	(2.0136)	(1.8216)	(1.6526)
SD1**	-0.82574-001 (-4.2857)	-0.92701-001 (-10.8220)	-0.82141-001 (-2.8388)	-0.59077-001 (-3.6380)
SD2	-0.14729+000 (-7.6243)	-0.12805+000 (-13.5810)	-0.14016+000 (-4.6281)	-0.12365+000 (-6.8571)
SD3	-0.48066-001 (-2.5268)	-0.23021-001 (-2.8315)	-0.30333-001 (-1.1023)	-0.39899-003 (0.0258)
Constant	0.78855+000 (18.145Q)	0.74508+000 (8.1709)	0.64549+000 (8.4284)	0.66514+000 (5.4318)
Rho***	0.2703+000 (0.0937)	0.92072+000 (11.5590)	0.25987+000 (0.9323)	0.81111+000 (6.7937)
Summary Statistics				
R <sup>2</sup>	.8477	.9459	.7267	.8512
R <sup>2</sup> -Adjusted	.7607	.9345	.5705	.8198
Standard Error of the Estimate	0.23550-001	0.21649-001	0.37983-001	0.39315-001
Durbin-Watson	1.9343	2.2414	1.7914	2.2414

\*Coefficients are expressed in scientific notation.

\*\*SD1, SD2, and SD3 refer to seasonal dummy variables.

\*\*\*The equations are estimated using the Cochrane-Orcutt procedure. Rho is estimated using a maximum likelihood estimation technique.

**Table 5.** Determinants of Residential Mortgage Foreclosures Started as a Percentage of All Mortgages

Sample Period	United States		Southeast	
	1974Q1-1976Q4 (N = 12)	1977Q1-1982Q4 (N = 24)	1974Q1-1976Q4 (N = 12)	1977Q1-1982Q4 (N = 24)
Independent Variables	Coefficient*/(t)			
U.S./S.E. Unemp. Rate	0.21822-002 (0.3495)	0.15853-001 (4.9506)	0.88144-0003 (0.0839)	0.17002-001 (2.4590)
SD1**	-0.74370-002 (-0.8689)	-0.14557-001 (-2.7999)	-0.16710-002 (-0.0790)	-0.15921-001 (2.1632)
SD2	-0.15021-001 (-1.6624)	-0.14595-001 (-2.5514)	-0.15754-004 (-0.0007)	-0.98271-002 (-1.2025)
SD3	-0.20685-001 (-2.7313)	-0.16881-001 (-3.3966)	-0.23191-001 (-1.1200)	-0.11097-001 (-1.5830)
Constant	0.20145+000 (4.14230)	0.56973-001 (2.2774)	0.26180+000 (3.2820)	0.58793-001 (1.0054)
Rho***	0.88938+000 (6.7391)	0.59016+000 (3.5813)	0.59118+000 (2.5391)	0.83343+000 (7.3883)
Summary Statistics				
R <sup>2</sup>	.8179	.8316	.4018	.7589
R <sup>2</sup> -Adjusted	.7138	.7961	.0600	.7081
Standard Error of the Estimate	0.14096-001	0.11296-001	0.31121-001	0.18007-001
Durbin-Watson	1.2126	2.0094	2.0736	2.0966

\*Coefficients are expressed in scientific notation.

\*\*SD1, SD2, and SD3 refer to seasonal dummy variables.

\*\*\*The equations are estimated using the Cochrane-Orcutt procedure. Rho is estimated using a maximum likelihood estimation technique.

# Retraining the Southeast's Dislocated Workers

Over the past year or so, concerns have been building that a large number of workers who lost their jobs in the 1981-1982 recession face prolonged joblessness. Many men and women idled by the recession will regain jobs, of course, as the economy's cyclical recovery progresses. Some idled workers, though, are said to be "structurally" unemployed. These workers, disadvantaged or dislocated from declining industries, have difficulty finding work even when the economy is running smoothly. For them, a growing number of retraining programs offer new hope for the future.

The structurally unemployed include former workers in the smokestack industries centered in the nation's northern industrial heartland. Some observers say their jobs or skills have become obsolete or too costly because of improved technology, weak product demand or stiff competition from lower cost workers abroad.

Some workers from smokestack industries have lost jobs in the Southeast, particularly in Alabama, Mississippi, and Tennessee. But most dislocated workers in the region come from plant shutdowns in nondurable goods industries, largely from textile and apparel firms.

Still other textile mill and apparel factory jobs have vanished with the introduction of labor-saving technology.

Worker displacement is not just a recent labor market development. Jobs continuously ebb and flow as new products replace old ones, often as a result of changing technology.

The number and kinds of jobs also change as our economy speeds up or slows,

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As the Southeast's economy shifts away from "smokestack" industries, workers in those industries must look to retraining programs. At the same time, high-tech and service industry jobs and training programs should help reduce the region's dislocated worker problem.



and as waves of foreign rivals' products penetrate our domestic markets or are repelled. Nationally, growth of the automobile industry turned thousands of blacksmiths into engine mechanics. In the South, the mechanization of farming turned former cotton pickers and tobacco leaf cutters into textile mill workers. The textile industry, which once thrived in New England, declined there and rose again in the South. Now that industry is undergoing radical transformation again.<sup>1</sup>

## Who are Dislocated Workers?

In general terms, dislocated workers are those who have been terminated or laid off and are unlikely to return to their previous industry or occupation. Sometimes their lost jobs result from permanent plant closings. Others have limited job prospects in the communities where they live. Yet another group, by reason of age, faces substantial barriers to employment regardless of place of residence. Because these groups overlap, the estimated size of the problem depends upon the definition used to count these idle workers.

Since no single number can portray all dimensions of the problem adequately, it is important that we carefully assess alternative estimates. An understanding of who and where these workers are, as well as their individual characteristics, is essential for developing cost-effective programs to identify, retrain, relocate or otherwise help these workers regain jobs.

Based upon the information available, what can we say about the magnitude of the problem in the Southeast? Survey data pertaining to the unemployed and information about plant closings and layoffs suggest the following conclusions:

- The relative magnitude of the dislocated worker problem is less severe in the Southeast than it is nationally.
- Dislocated workers represent a statistically small share of the region's workforce but comprise a sizable share of all unemployed workers.

- The number of dislocated workers may have increased in recent years, but it is impossible to disentangle the temporary effect on unemployment of recessions in 1980 and 1981-1982 from the more lasting effect of structural changes in the economy.

- The burden of worker displacement seems heaviest on plants of traditional industries, such as lumber, textiles and apparel, which are located in rural parts of the region.

**Long-Term Unemployment.** A helpful initial criterion to establish the size of the pool of dislocated workers is the number of long-term unemployed. In 1982, the average number unemployed for more than six months was about 1.75 million nationally, or 1.6 percent of the civilian labor force.<sup>2</sup> The absolute number represents a threefold increase over the comparable number in 1979, the most recent recession-free year (Table 1). Long-term unemployment as a

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“Within an eight-state region, Alabama, Mississippi and Tennessee were the only states that had higher long-term unemployment rates than the average for the nation in 1982.”

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percentage of total unemployment doubled in the 1979-1982 period, climbing to 16.6 percent in 1982.

In the Southeast, long-term unemployment more than quadrupled over that four-year period, rising from 55,000 in 1979 to 258,000 in 1982. The region's long-term unemployment rate has also quadrupled since 1979, rising to 1.3 percent last year. But it remains below the nation's rate. Within an eight-state region,<sup>3</sup> Alabama, Mississippi and Tennessee were the only states that had higher long-term unemployment rates than the average for the nation in 1982.

Long-term unemployment rates for the Southeast by sex and race also compare favorably to

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<sup>1</sup>See David Avery, "Keys for Success in the Textile Industry," this *Review*, December 1983.

<sup>2</sup>Statistics cited in this section are calculated from labor force and unemployment estimates in the Bureau of Labor Statistics' **Geographic Profile of Employment and Unemployment, 1982**.

<sup>3</sup>Alabama, Florida, Georgia, Louisiana, Mississippi, the Carolinas and Tennessee.

**Table 1.** Long-term Unemployed—Nationally and in the Southeast  
(annual average, in thousands)

	Unemployed Over 26 Weeks				Civilian Labor Force, 1982	Long-term Unemployment Rate, 1982 (percent of C.L.F.)
	1979		1982			
	Number	Percent of Total Unemployed	Number	Percent of Total Unemployed		
Alabama	11	9.7	46	18.8	1,713	2.7
Florida	7	5.9	40	10.3	4,728	.8
Georgia	9	7.6	26	12.5	2,658	1.0
Louisiana	6	5.8	18	9.5	1,855	1.0
Mississippi	2	3.9	31	18.4	1,058	2.0
North Carolina	9	7.1	35	13.0	2,944	1.2
South Carolina	5	8.5	24	14.8	1,486	1.6
Tennessee	6	5.6	38	14.9	2,131	1.8
Southeast Total	55	5.8	258	13.7	18,573	1.3
United States Total	535	8.7	1,772	16.6	110,204	1.6
S.E./U.S. (percent)	10.3	66.7	14.6	82.5		

Source: Bureau of Labor Statistics, **Geographic Profile of Unemployment**, 1979 and 1982.

those for the nation, although there was wide disparity among states in 1982. Long-term unemployment rates for males, whites and blacks in the region in 1982 were lower than nationally, while the rates for women were about the same (Table 2). In both the region and the country, the female rates were less than the male rates and the rates for blacks were higher than for whites.

The disparities in race and sex unemployment rates among states in the region reflect, in part, differences in the severity of the 1981-1982 recession. Alabama, Mississippi and Tennessee, especially hard-hit, were the only states in the region that showed unemployment rates for males, females and blacks that were higher than the comparable national rates recorded in 1982. Alabama was the sole southeastern state to record a long-term unemployment rate for whites that was above the national rate.

A much different picture emerges when the region's sex and race distribution of chronically jobless workers is compared to the nation's. This distribution shows that females and blacks comprise a relatively high share of the region's long-term unemployed. For the entire region, 57 percent of these idle workers were male compared to 67 percent for the nation. By race, 47 percent of the region's long-term unemployed

**Table 2.** Long-Term Unemployment Rates  
by Sex and Race, 1982  
(percent of age/race-specific  
civilian labor force)

	Male	Female	White	Black
Alabama	2.5	3.0	1.6	6.5
Florida	1.0	.6	.6	2.1
Georgia	1.1	.8	.7	2.0
Louisiana	.9	1.1	.4	2.7
Mississippi	2.0	1.9	.8	4.8
North Carolina	1.2	1.2	.8	3.0
South Carolina	1.9	1.2	1.2	2.7
Tennessee	2.0	1.4	1.2	4.5
Southeast	1.4	1.2	.8	3.2
United States	1.9	1.2	1.3	4.0

Source: Bureau of Labor Statistics, **Geographic Profile of Unemployment**, 1982.

**Table 3.** Distribution of Long-Term Unemployed by Sex and Race, 1982  
(percent of total long-term unemployed)

	Male		White	
	Number (000)	Percent	Number (000)	Percent
Alabama	24	53.2	22	48.2
Florida	26	65.9	23	57.8
Georgia	16	62.1	14	52.9
Louisiana	10	56.9	5	29.4
Mississippi	12	40.0	6	20.1
North Carolina	19	54.6	18	52.4
South Carolina	15	64.5	12	49.4
Tennessee	24	64.5	21	54.9
Southeast	146	56.6	121	46.9
United States	1,180	66.6	1,294	73.0
S.E./U.S. (percent)	12.4	85.0	9.3	64.0

Source: Bureau of Labor Statistics, **Geographic Profile of Unemployment, 1982.**

were white; nationally, 73 percent were white (Table 3).

The sharp difference by race in part reflects demographic differences in the two work forces. The Southeast has a disproportionately high share of the nation's black work force. Because blacks comprise a larger share of the South's workforce than they do for the nation, they are also expected to comprise a larger share of the region's long-term unemployed. Blacks also comprise a larger share of the chronically unemployed in the Southeast than they do nationally because of relative differences in black and white jobless rates compared to the nation. Long-term unemployment rates for white and black southerners are lower than the comparable rates nationally. However, the relative disparity for southern whites is greater than for southern blacks. These same two factors explain the relatively high share of women in the region's pool of long-term unemployed. Still, the differences in unemployment rates by sex, regionally and nationally, are less than the differences by race.

**Direct Measurement of Dislocated Workers.** Information about long-term unemployment provides a useful first glimpse at the problem of dislocated workers, but other data fill in the

picture with important details. In fact, the number of long-term unemployed likely overstates the actual number of dislocated workers. Some of these workers will be recalled as the recovery gathers steam. They have not been displaced by structural changes in the economy.

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“The number of long-term unemployed likely overstates the actual number of dislocated workers.”

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And some of the long-term unemployed are young workers with little work experience or people whose limited skills provide chronically low earnings and unstable job histories. Their joblessness also is not attributable directly to structural changes in the nation's industrial mix.

Fortunately, data from the Congressional Budget Office can be used to compare the number and characteristics of “structurally unemployed” workers in the region and nation,



**Table 4.** Estimated Number of Dislocated Workers in January 1983 Under Alternative Eligibility Standards and Economic Assumptions (thousands)

	Number of Workers		South/U.S. (percent)
	United States	South	
Civilian Labor Force	109,779	36,280	33
Eligibility Criteria			
Single Criterion			
Declining Industry	1,240-1,590	322-413	26
Declining Occupation	1,700-2,200	510-660	30
Ten years of job tenure	840-1,200	210-300	25
More than 45 years of age	1,120-1,370	291-356	26
More than 26 weeks of unemployment	840-1,200	185-246	22
Multiple Criteria			
Declining Industry and:			
Ten years of job tenure	270-330	81-99	30
45 or more years of age	270-340	90-112	33
26 weeks of unemployment	185-240	37-48	20
Declining Occupation and:			
Ten years of job tenure	300-390	96-125	32
45 or more years of age	390-520	121-161	31
26 weeks of unemployment	310-490	84-132	27

Source: Congressional Budget Office

excluding the "disadvantaged" category of unemployed. These statistics, however, provide no information about individual states. Thus, comparisons are limited to the nation and the Census South region, which includes 16 states from Delaware to Texas, plus the District of Columbia.<sup>4</sup>

Estimates of the number of dislocated workers nationally at the beginning of 1983 range from 270,000 to 2.2 million. This wide range reflects the use of alternative definitions of dislocation, singly and in combination (Table 4). For example, if all those idled from declining industries are included in the pool of dislocated workers, the number is larger than if the pool included job losers from all industries who have been unemployed for more than six months. Naturally, when joint criteria are used to define the pool—say, job losers from a declining industry

who had worked at least 10 years on the former job—the number who qualify for the pool drops.

Depending upon the particular standards employed, the South's estimated share of this unemployment ranges from a low of 20 percent to a high of one-third. By comparison, the South accounted for 32.9 percent, 33.2 percent, and 30.4 percent of the nation's labor force, employment and unemployment, respectively, in 1982. Thus, the South seems to bear a disproportionately low burden of dislocated workers, compared to its population size.

Computer cross-tabulations from the March 1982 Current Population Survey (CPS) show some interesting differences in the characteristics of dislocated workers in the census South region compared to the nation.<sup>5</sup> Females, non-whites, and non-union members comprise higher shares of dislocated workers in the South than

<sup>4</sup>The list includes Delaware, Maryland, Virginia, West Virginia, the Carolinas, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, Texas and the District of Columbia.

<sup>5</sup>Because the CPS is a sample survey, differences noted in this article could be due to sampling error.

**Table 5. Permanent Plant Closings and Associated Layoffs\***

	1982		1983 (Jan.-June)	
	Plant Closings	Workers Affected	Plant Closings	Workers Affected
Alabama	11	5,392	3	230
Florida	8	901	6	1,484
Georgia	9	2,390	5	562
Louisiana	11	659	2	165
Mississippi	3	450	3	112
North Carolina	68	8,463	38	3,863
South Carolina	14	3,672	4	745
Tennessee	10	4,174	5	1,128
Southeast	134	26,101	66	8,289
United States	620	203,158	305	70,218
S.E./U.S. (percent)	21.6	12.8	21.6	11.8

Source: The Bureau of National Affairs, Inc., Washington, D.C.

\*These data may differ from data available from other sources because of differences in definitions and coverage. It is important to note that, for purposes of this study, a consistent data base across states is necessary to show the relative severity of plant closings; the accuracy of the raw numbers of closings and layoffs is relatively unimportant.

they do nationally. In addition, dislocated workers in the South are less educated and have lower incomes than their counterparts nationally, but they have been looking for work for a shorter time. Some of these differences, of course, reflect the region's above-average share of the nation's non-white population and below-average share of its union work force. Average years of education completed in the South is also below the nation's, as is its level of per capita income.<sup>6</sup>

The survey's data showing the industry attachment of dislocated workers in the South are consistent with differences between the South's industrial mix and the nation's mix. Nationally, automotive manufacturing and the primary metals, lumber, food, textile and apparel industries were major contributors to the displaced worker pool in 1982. Of these industries, the South has above-average employment in the

lumber, textile and apparel industries, and these industries account for most of the region's dislocated workers. Some individual states in the region, however, also have concentrations of dislocated workers from other industries.

**Recent Plant Closings.** Detailed information about the industry attachment of dislocated workers in individual states in the Southeast is available from reports on plant closings and permanent layoffs. These figures confirm the regional concentrations of displaced workers in the textile, apparel, and lumber industries. They also suggest that the Southeast recently has experienced a relatively large number of plant closings but has lost relatively few jobs compared to the nation.

In 1982, about 22 percent of the nation's plant closings occurred in the eight-state Southeast region, accounting for 13 percent of the job losses associated with such shutdowns. By contrast, the region's shares of establishments and workers in 1979 were 16.5 percent and 15.9 percent, respectively. For the first half of 1983, plant closings and layoffs in the region accounted for almost the same shares as in 1982 (Table 5). This finding is consistent with

<sup>6</sup>Although education and income levels in the South are below the national average, these differences are narrowing. For example, in the 1959-1982 period, per capita income rose from 84 percent of the national average to 93 percent in the South Atlantic region, from 68 percent to 78 percent in the East South Central region and from 83 percent to 93 percent in the West South Central region.

the commonly held impression that numerous job losses in the Southeast occur in small rural mills and factories.

North Carolina recently has had the most plant closings and the largest number of associated layoffs in the Southeast. Tar Heel state companies or facilities that closed their doors for good comprised 53 percent of all such closings and 36 percent of the permanent layoffs in the region over an 18-month period that ended last June. North Carolina's textile and apparel industries were affected most adversely by the shutdowns, followed by the furniture and electrical machinery industries. These same industries contributed heavily to unemployment in South Carolina and Mississippi.

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“Job losers from declining industries account for one-third of all job losers nationally and in the South.”

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Textile and apparel plant closings contributed heavily to dislocated worker unemployment in most of the states in the Southeast. Closings in the lumber and furniture industries and the electrical machinery industry also had major multi-state impacts. Factory shutdowns in some other industries were important but were less widespread. For example, Alabama was hard-hit by closings in the primary and fabricated metals industries, while troubles in the transportation equipment industry affected Georgia. Plant closings in the chemical and rubber products industries idled workers in Louisiana and Tennessee. Nonmanufacturing phosphate mining, meanwhile, was hit hard in Florida.

A major conclusion suggested by available labor market information is that job losers from declining industries account for one-third of all job losers nationally and in the South. Furthermore, in the South these unemployed are most likely to be former textile and apparel workers. Because of the magnitude of the dislocated worker pool, private and public programs to help these men and women regain employment are growing.

Fortunately, adjustments to the current round of change may proceed more smoothly than in the past. With government assistance and a more literate population to work with, retraining programs can be carried out much more efficiently.

### What Is Being Done to Help Displaced Workers?

Jobless workers who are willing and able to take work available elsewhere, or who can be retrained to fill open job slots, represent a waste of the nation's resources when they are idle. Their personal suffering may count for even more than their lost production. In the past, efforts have been made to help these unemployed, particularly through federally-funded job programs. Those programs have met with limited success, however, and efforts are now underway to develop more effective programs to help dislocated workers. In the future, these efforts are likely to involve the private sector much more than in the past.

Numerous companies that have shut down plants have been working to help employees find jobs elsewhere in the organization or with other firms. The private industry effort sometimes includes the establishment of a placement center. These centers offer counseling and, perhaps, typing, telephone, and mailing services where resumes can be prepared and potential employers contacted. Counseling concentrates on helping workers cope with problems associated with being unemployed, identifying available retraining opportunities or even offering advice on starting a small business.<sup>7</sup>

Unfortunately, no reliable estimates are available on the total amount companies spend on job search assistance. A spokesman for the Washington-based American Society of Training and Development (ASTD), the U.S. training establishment's trade association, says "companies often do not know how much they are spending." Spending by firms to train or retrain

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<sup>7</sup>The closing of Ford Motor Company's plant in San Jose, California offers a good example. Ford gave workers six months' warning of the shutdown and provided an extensive training and placement program. That program offered courses in computers and welding, on resume writing and job-seeking skills. Ford and union officials alike reportedly characterize the closing as a model of labor-management cooperation. See *Forbes*, November 7, 1983, p. 244.

workers totals perhaps \$30 billion a year, according to the ASTD spokesman. This is like spending on preventive medicine. That is, most of the spending is aimed at improving the skills or knowledge of employed workers to keep even more workers from becoming unemployed. In the future, private employers are likely to come under increased pressure from organized labor to provide training even for displaced workers who might find jobs in other companies.<sup>8</sup>

Still, because private firms have little economic incentive to retrain workers they have released permanently, the major responsibility for helping dislocated workers has fallen on the public sector. In October 1982, Congress enacted the Job Training Partnership Act (JTPA) to replace the Comprehensive Employment and Training Act (CETA) when it expired on September 30, 1983. Critics of the CETA program claim that it had "degenerated into indirect revenue sharing for cities and make-work jobs that were little more than income-support schemes."<sup>9</sup>

The Reagan administration's new job training program will funnel more money into training and less into administration than its predecessor. Under CETA, 20 percent of the funds went toward administrative expenses, another 18 percent for support services, and 44 percent for income support to participants; only 18 percent of the money was spent on training. Under the new program, "there shall be available for supportive services, wages, allowances, stipends and costs of administration, not more than 30 percent of the (formula-allocated) federal funds available under this title in each state."<sup>10</sup>

Traditionally, government assistance to dislocated workers has aimed at enhancing their long-term employability in the private sector rather than merely providing them with short-term public works jobs. Consequently, job-search help, training and relocation assistance are the basic adjustment services typically made available. Income maintenance to help workers make the transition to new jobs and

to support them through the often long period of joblessness is provided when necessary.

Job search help, including information about available job opportunities as well as counseling, aims to lower the number of job vacancies per employed worker. Training programs, usually the primary service provided to dislocated workers, try to improve the match between existing or developing job opportunities and idle workers' skills. Relocation assistance is provided to ease the transition costs for workers who move to new jobs.

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**"The major responsibility for helping dislocated workers has fallen on the public sector."**

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Under JTPA's Title III—Employment and Training Assistance for Dislocated Workers—three-fourths of the funds are allocated to states based on their relative number of unemployed residents and the extent to which the unemployed have been out of work for 15 weeks or more. The remaining 25 percent, called discretionary funds, are allocated by the U.S. Secretary of Labor to states that submit proposals to provide "training, retraining, job search assistance, placement, relocation assistance, and other aid to individuals who are affected by mass layoffs, natural disasters, federal government actions (such as relocation of federal facilities), or who reside in areas of high unemployment or designated enterprise zones."

The statutory formula provided southeastern states with \$13.3 million in training funds for the fiscal year that ended September 30. These funds were made available in advance of JTPA's official October 1983 start-up date under a December 1982 continuing resolution by the Congress and subsequent emergency jobs legislation signed by the President last March. For fiscal year 1984, the region stands to gain an additional \$27 million based on the President's budget request, the statutory formula, and midyear 1983 unemployment data (Table 6).

The region's 16.1 percent share of all formula allotments nationally is slightly below its 16.8

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<sup>8</sup>The 1982 United Automobile Workers—General Motors/Ford and Communications Workers of America—Bell Telephone system labor contracts provide for just such training. See footnote 7 for information about the early experience under one of the contracts.

<sup>9</sup>A. F. Ehrbar, "Grasping the New Unemployment," *Fortune*, May 16, 1983, p. 108.

<sup>10</sup>Job Training Partnership Act, PL97-300, October 13, 1982.

**Table 6.** Federal Funds for Dislocated Workers

	Formula Allotments ('000 dollars)			Discretionary Funds
	FY1983	FY1984	Total*	FY1983
Alabama	2,069.5	4,217.9	6,287.5	857.0
Florida	2,549.4	5,192.2	7,741.6	500.0
Georgia	1,332.3	2,697.7	4,030.0	300.0
Louisiana	1,367.5	2,720.0	4,030.0	300.0
Mississippi	900.5	1,836.4	2,736.9	300.0
North Carolina	1,872.0	3,841.7	5,713.8	300.0
South Carolina	1,235.1	2,493.6	3,728.7	300.0
Tennessee	1,944.1	3,957.2	5,901.4	1,000.0
Southeast	13,270.6	26,957.8	40,227.4	4,075.0
United States	82,500.0	167,250.0	249,750.0	27,500.0
S.E./U.S. (percent)	16.1	16.1	16.1	14.2

\*May differ from sum due to rounding.  
Source: U.S. Department of Labor

percent share of the nation's 1982 labor force. The lower share is attributable to the region's relatively low 15.7 percent share of workers who have been unemployed for 15 or more weeks. The Southeast accounted for 17.6 percent of the nation's total unemployment in 1982.

The public funds available to help dislocated workers actually exceed the amounts shown in Table 6. As mentioned, states can submit proposals to request discretionary funds from the U.S. Secretary of Labor. As of mid-September, three southeastern states—Alabama, Mississippi, and Florida—had received approval for projects totaling \$1.9 million; other states in the region may receive an additional \$2.2 million in discretionary funds in fiscal 1983.<sup>11</sup> Altogether, these funds represent 14.8 percent of the secretary's discretionary funds pool.

The JTPA also requires that states generally spend an amount from public or private non-federal sources equal to the federal formula allotment. These matching funds can include

the cost of employment or training services provided by state or local programs (such as vocational education), private non-profit organizations or for-profit employers. There is no requirement for matching the discretionary funds received. In addition, states with above-average unemployment have progressively lower matching requirements on the formula funds. This latter provision lowered the matching fund requirement in 1983 for all of the southeastern states except Florida, Georgia, and North Carolina. In Alabama, no match at all was required.

### Training Programs in the Southeast

Several programs to train dislocated workers are underway in the Southeast and plans for fiscal 1984 are being finalized. A state-by-state profile of major programs shows that most states are just now gearing up for a training effort that will gather momentum in the coming years.<sup>12</sup>

<sup>11</sup>Funds have been obligated to five states in the region, contingent on their submitting proposals, as follows: Tennessee, \$1 million, and Georgia, Louisiana, and the Carolinas, \$300,000 each.

<sup>12</sup>Information regarding state activities under Title III formula grants was obtained directly from each state. The U.S. secretary of labor's office provided additional information concerning discretionary grants.

*Alabama.* In this state hard hit by the recession, funds available under the JTPA in 1983 were integrated into existing CETA programs. Virtually all the popular remedies for the dislocated worker problem are being prescribed in this largely blue-collar state. Job search assistance and placement, limited support services, and retraining are provided through its "Job Shop Program," with retraining programs in place at 23 of the state's technical colleges. The state also sponsors subsidized on-the-job training.

*Florida.* Five contracts between the state and local service providers were either in place or under negotiation as of September. These programs are all designed locally and include some mix of counseling, job shops, classroom or on-the-job training and placement help. In addition to workers from manufacturing jobs lost around the state, eligible participants include: transients in Jacksonville dislocated from northern companies; job losers from the phosphate industry in central Florida; chronically unemployed men and women in Tampa; workers dislocated due to the closure of the state's Sunland Training Center in Tallahassee; south Florida area residents dislocated because of the influx of refugees or worsening economic conditions in the Liberty City or Overtown areas of Dade County.

*Georgia.* The dislocated worker program in Georgia, as in most states, is administered from the state level. However, local planning in 16 Service Delivery Areas will weigh heavily in forming the Title III program. The state's Department of Community Affairs will develop these programs in concert with ongoing economic development programs whenever possible. One project to be funded is a pre-apprentice project in south Georgia that will train workers in such construction fields as carpentry, heavy equipment operation, plumbing, electrical and more. The objective is for the trainees to attain journeyman status. Participants are expected ultimately to be placed with local contractors working on the development of the huge Kings Bay Naval station. In northeast Georgia, \$355,000 has been provided for on-the-job training for 200 people. Nine companies have agreed to hire the trainees and be reimbursed up to 50 percent of the costs of training. Other area employers are expected to utilize the program later to assist in the retraining of an additional 100 workers.

*Louisiana.* Existing or proposed projects to help dislocated workers include three elements: First, on-the-job training can provide immediate employment in the private sector for some eligible individuals, with the employer reimbursed up to 50 percent of wages paid to the trainee. Second, in selected locations, counseling and psychological evaluation are provided to participants in vocational projects. Counseling will be contracted to a private enterprise while vocational training will be provided by the State Department of Education. Third, the Louisiana Department of Labor will help participants in retraining programs locate jobs.

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"Most states are just now gearing up for a training effort that will gather momentum in the coming years."

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*Mississippi.* From a recently compiled list of dislocated workers, nominees will be enrolled in on-the-job training, retraining or relocation programs. Among those targeted for retraining and relocation are workers terminated as the Tennessee-Tombigbee Waterway nears completion. Approximately 1,300 will lose waterway jobs, including operating engineers, iron workers, carpenters, cement masons, boiler makers and millwrights.

*North Carolina.* Dislocated worker programs are operating in several parts of the state, involving several state and local agencies and private companies. In Wilmington, coordinated efforts are underway between the state and Babcock and Wilcox to retrain and place workers who lost jobs when the company's boiler plant there closed. In Liberty, the Michael Thomas Furniture Company is providing on-the-job training to Title III participants for placement as furniture upholsterers. The state's Employment Security Commission is providing a full range of employment and training services to about 240 dislocated workers in Mount Olive. Elsewhere, widespread closings and layoffs in the textile industry are being met by the development of on-the-job training programs in other manufacturing industries. Classroom training

projects for other displaced workers are being offered by technical schools and community colleges—for example, in the Laurinburg and Lumberton areas. A project is even being developed in Asheville to assist laid-off executives.

*South Carolina.* As of September, six pilot programs to assist dislocated workers were in operation at various technical education colleges in the state. These programs provide a number of services to eligible participants: training in coping with joblessness and in developing job-search skills; career counseling and planning; training in basic academic and job skills; and

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“Historically, new technology has created more jobs than it has eliminated.”

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career development and placement. The actual mix of services provided varies widely, depending upon participants' existing skills, career interest and aptitudes, and availability of jobs locally. As of August, about 800 dislocated workers had been helped by these pilot projects, most of them former textile and apparel employees. Of the total, 64 percent were women and almost half were from minority groups. Their average age was 35.4 years. Their average grade level tested to eight years, although the average years of schooling was 11.5, and they averaged 5.2 years with their last employer.

*Tennessee.* Like other states in the region, the Volunteer State is employing a mix of orientation, assessment, placement, classroom training and on-job training programs. As of October, 12 programs costing \$1.5 million had been funded around the state to serve 800 idle workers through mid-1984. The bulk of those funds will go toward on-the-job training and classroom training for unemployed persons financially able and willing to accept six-to-eight month retraining programs. After retraining, they will take jobs as computer repairmen, Department of Corrections workers, mechanics, metal machinists, word processing clerks, equipment operators, health services aides and hotel

employees, among others. The state is also formulating plans to use its \$1 million discretionary grant from the secretary of labor to fund a project that would train an additional 400 workers for new jobs.

## Will the Dislocated Worker Pool Grow?

The public debate concerning worker displacement goes beyond the current extent of the problem and what might be done to improve it. It also addresses the extent to which worker displacement is likely to grow in coming years. Unfortunately, foreseeing the uncertain future is even more difficult than measuring the current number of displaced workers. In part, the size of the future pool will depend on the effectiveness of programs currently being developed to help structurally unemployed workers. Future displacement also will depend on how rapidly our economy grows and on the pace and nature of technological innovation. These developments will hinge on, and interact with, the relative costs of labor and labor-saving technologies. This will help determine, say, how many workers will be displaced by robots. In short, the numerous factors that influence the supply and demand for goods and services also will influence labor market conditions, including the number of structurally unemployed workers.

Historically, new technology has created more jobs than it has eliminated. In general, technology has lowered production costs for existing products or created new products that the average consumer can afford. Advances in computer production technology are still in the early stages. The consequences of this technology may rival those that revolutionized the automobile industry in the early 20th century.

The automotive age helped extend the heyday of smokestack industries an additional half century. Quite possibly, the new computer revolution will contribute to modernizing and revitalizing these industries again as traditional products or production processes are upgraded or computerized. But to what degree will the new technology affect total manufacturing jobs? That will depend on whether the jobs lost because of higher output per worker offset the jobs created as lower-cost products enlarge markets.

Even if changing technology causes some manufacturing employment to stagnate or drop,

as many expect, the impact certainly will be uneven across industries. The smokestack industries might decline, but electric and electronic equipment employment may increase. The inter-industry effect of new technology will depend, in part, on how the technologies affect production costs. It also will depend on the relative attractiveness of traditional or newly improved products and new products. For example, the demand for basic food products may expand more slowly if population growth lags and people may spend less of their increasing income on food compared to home entertainment.

Although manufacturing employment was hard hit during the 1980-1982 period, the Department of Labor's Bureau of Labor Statistics (BLS) expects it to recover and grow into the

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**“The number of dislocated workers  
in the region is unlikely to  
accelerate.”**

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mid-1990s.<sup>13</sup> Altogether, one job in every six created between 1982 and 1995 will be in manufacturing, and its share of all jobs will remain steady at about 19 percent. However, the number of workers in the auto and steel industries will probably fall short of the peaks reached before 1980. Even so, about three-fourths of the 3.7 to 4.9 million new manufacturing jobs expected between 1982 and 1995 will be created in the durable goods industries. Within that sector, employment growth seems likely to be high in electronic products and other high-technology industries, but these industries are expected to provide only a small proportion of the jobs created into the mid-1990s.

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<sup>13</sup>Bureau of Labor Statistics, "Economic Projections to 1995," *Monthly Labor Review*, November 1983.

BLS expects the nondurable goods manufacturing industries to register only modest job gains. Of significance to the Southeast, relatively few jobs will be created in the food, textile and apparel industries. Employment may actually decline in the tobacco, leather and dairy products industries. Fortunately, service sector jobs are expected to post fast growth, accounting for one out of three new jobs.

Some important implications are evident for the Southeast if these projections turn out to be correct. One implication is that additional adjustments appear certain in such important southeastern industries as textiles and apparel. Furthermore, it is likely that the impact of job losses will continue to be relatively severe in the smaller rural communities that depend heavily on one employer or industry. Another major implication is that the number of dislocated workers in the region is unlikely to accelerate. If the job losses due to worker displacement hold steady or decline, the adjustment burden obviously will be eased. But more detailed research into the issue is needed, particularly for planning future employment and training programs.

State officials in the region appear to recognize this need. States are gearing up for a full-scale analysis of likely labor market developments. In these efforts, states will need information on the future shape of employment in major industries, including guidance regarding industry's intentions to modernize. They also will need more information about the characteristics of the unemployed—their literacy and skill levels and willingness to relocate, for example.

Ultimately, the task confronting southeastern policymakers is to ease the transitions that are occurring in the mix of employment. Industries in decline or in need of revitalization are part of the region's economic landscape, but aging industries are not as dominant in the Southeast as elsewhere in the nation. In addition, the region is likely to continue to grow more rapidly than the nation as a whole. That faster growth should ease the transition burden by offering alternative employment prospects to displaced workers.

**—William J. Kahley**



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# FINANCE

# STATISTICAL SUPPLEMENT

	OCT 1983	SEPT 1983	OCT 1982	ANN. % CHG.		OCT 1983	SEPT 1983	OCT 1982	ANN. % CHG.
<b>\$ millions</b>									
<b>UNITED STATES</b>									
Commercial Bank Deposits	1,296,224	1,293,811	1,186,892	+ 9	Savings & Loans**				
Demand	307,679	305,188	301,655	+ 2	Total Deposits	611,988	600,943	539,981	+ 13
NOW	82,869	83,927	63,409	+ 31	NOW	17,937	17,884	12,082	+ 48
Savings	346,081	343,473	152,852	+126	Savings	179,480	178,787	94,942	+ 89
Time	596,634	596,244	703,648	- 15	Time	417,949	407,906	434,435	- 4
Credit Union Deposits	60,914	60,852	51,302	+ 19	AUG	473,294	469,215	500,783	- 5
Share Drafts	5,461	5,478	3,673	+ 49	JUL	32,269	31,356	16,870	+ 91
Savings & Time	50,054	50,071	43,450	+ 15	AUG				
<b>SOUTHEAST</b>									
Commercial Bank Deposits	146,532	146,004	126,388	+ 16	Savings & Loans				
Demand	35,601	35,732	34,478	+ 3	Total Deposits	N.A.	N.A.	N.A.	
NOW	10,598	10,745	8,193	+ 29	NOW	N.A.	N.A.	N.A.	
Savings	38,247	37,950	14,969	+156	Savings	N.A.	N.A.	N.A.	
Time	65,948	65,430	72,262	- 9	Time	N.A.	N.A.	N.A.	
Credit Union Deposits	5,957	5,867	4,840	+ 23	AUG	66,725	66,110	67,620	- 1
Share Drafts	483	475	348	+ 39	JUL	5,008	4,772	2,779	+ 80
Savings & Time	5,063	5,001	4,086	+ 24	AUG				
<b>ALABAMA</b>									
Commercial Bank Deposits	15,333	15,316	14,004	+ 9	Savings & Loans**				
Demand	3,734	3,914	3,602	+ 4	Total Deposits	5,158	5,103	4,573	+ 13
NOW	957	950	715	+ 34	NOW	146	147	104	+ 40
Savings	3,141	3,130	1,585	+ 98	Savings	875	869	563	+ 55
Time	8,066	7,929	8,633	- 7	Time	4,182	4,147	3,926	+ 7
Credit Union Deposits	914	904	855	+ 7	AUG	3,704	3,669	3,917	- 5
Share Drafts	87	86	68	+ 28	JUL	257	216	44	+484
Savings & Time	780	777	711	+ 10	AUG				
<b>FLORIDA</b>									
Commercial Bank Deposits	51,173	50,900	41,218	+ 24	Savings & Loans**				
Demand	12,418	12,450	12,096	+ 3	Total Deposits	53,080	52,319	48,132	+ 10
NOW	4,405	4,452	3,568	+ 23	NOW	2,033	2,031	1,320	+ 54
Savings	17,598	17,442	6,336	+178	Savings	15,647	15,480	8,037	+ 95
Time	17,864	17,655	20,304	- 12	Time	35,725	35,177	38,794	- 8
Credit Union Deposits	2,602	2,551	2,167	+ 20	AUG	39,386	38,992	39,337	+ 0
Share Drafts	242	237	187	+ 29	JUL	3,329	3,250	2,235	+ 49
Savings & Time	2,057	2,023	1,686	+ 22	AUG				
<b>GEORGIA</b>									
Commercial Bank Deposits	21,380	21,129	17,840	+ 20	Savings & Loans				
Demand	6,965	6,795	6,187	+ 13	Total Deposits	N.A.	N.A.	N.A.	
NOW	1,426	1,456	1,197	+ 19	NOW	N.A.	N.A.	N.A.	
Savings	4,770	4,709	1,680	+184	Savings	N.A.	N.A.	N.A.	
Time	9,332	9,199	9,680	- 4	Time	N.A.	N.A.	N.A.	
Credit Union Deposits	1,363	1,344	887	+ 54	AUG	8,156	8,084	8,885	- 8
Share Drafts	72	70	36	+100	JUL	533	501	182	+193
Savings & Time	1,203	1,189	803	+ 50	AUG				
<b>LOUISIANA</b>									
Commercial Bank Deposits	24,903	24,958	22,870	+ 9	Savings & Loans**				
Demand	5,734	5,847	5,883	- 3	Total Deposits	8,882	8,435	7,978	+ 11
NOW	1,373	1,404	1,112	+ 23	NOW	190	178	124	+ 53
Savings	5,317	5,242	2,464	+116	Savings	2,403	2,362	1,263	+ 90
Time	13,007	13,020	13,961	- 7	Time	6,374	5,982	6,620	- 4
Credit Union Deposits	199	196	161	+ 24	AUG	7,723	7,643	7,404	+ 4
Share Drafts	23	23	11	+109	JUL	623	541	192	+224
Savings & Time	194	191	152	+ 28	AUG				
<b>MISSISSIPPI</b>									
Commercial Bank Deposits	11,484	11,550	10,437	+ 10	Savings & Loans**				
Demand	2,398	2,408	2,347	+ 2	Total Deposits	2,543	2,417	2,485	+ 2
NOW	785	819	591	+ 33	NOW	92	91	60	+ 53
Savings	2,420	2,429	744	+225	Savings	506	488	236	+114
Time	6,233	6,228	6,991	- 11	Time	1,976	1,864	2,210	- 11
Credit Union Deposits	*	*	*		AUG	2,020	2,002	2,100	- 4
Share Drafts	*	*	*		JUL	55	49	22	+150
Savings & Time	*	*	*		AUG				
<b>TENNESSEE</b>									
Commercial Bank Deposits	22,259	22,151	20,019	+ 11	Savings & Loans**				
Demand	4,352	4,318	4,363	- 0	Total Deposits	7,303	7,230	6,543	+ 12
NOW	1,652	1,664	1,010	+ 64	NOW	210	202	115	+ 83
Savings	5,001	4,998	2,160	+132	Savings	1,545	1,553	703	+120
Time	11,446	11,399	12,693	- 10	Time	5,603	5,523	5,746	- 2
Credit Union Deposits	879	872	770	+ 14	AUG	5,736	5,720	5,977	- 4
Share Drafts	59	59	46	+ 28	JUL	211	215	104	+103
Savings & Time	829	821	734	+ 13	AUG				

**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 items in process of collection from demand deposits, which 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.



# CONSTRUCTION

	SEPT 1983	AUG 1983	SEPT 1982	ANN % CHG		SEPT 1983	AUG 1983	SEPT 1982	ANN % CHG
<b>12-month Cumulative Rate</b>									
<b>UNITED STATES</b>									
Nonresidential Building Permits - \$ Mil.									
Total Nonresidential	49,130	47,986	46,253	+ 6	Residential Building Permits				
Industrial Bldgs.	5,301	5,108	5,550	- 4	Value - \$ Mil.	63,233	60,878	35,673	+ 77
Offices	12,197	11,929	12,545	- 3	Residential Permits - Thous.				
Stores	6,468	6,179	5,382	+ 20	Single-family units	850.8	825.7	473.6	+ 80
Hospitals	1,903	1,861	1,742	+ 9	Multi-family units	653.3	630.2	403.2	+ 62
Schools	886	882	794	+ 12	Total Building Permits				
					Value - \$ Mil.	112,363	108,864	81,926	+ 37
<b>SOUTHEAST</b>									
Nonresidential Building Permits - \$ Mil.									
Total Nonresidential	7,679	7,454	6,186	+ 24	Residential Building Permits				
Industrial Bldgs.	666	645	736	- 10	Value - \$ Mil.	11,549	11,026	6,482	+ 78
Offices	1,835	1,775	1,323	+ 39	Residential Permits - Thous.				
Stores	1,189	1,129	996	+ 19	Single-family units	174.2	169.7	96.4	+ 81
Hospitals	466	443	226	+106	Multi-family units	143.7	136.3	80.6	+ 78
Schools	168	168	81	+107	Total Building Permits				
					Value - \$ Mil.	19,228	18,480	12,668	+ 52
<b>ALABAMA</b>									
Nonresidential Building Permits - \$ Mil.									
Total Nonresidential	430	425	402	+ 7	Residential Building Permits				
Industrial Bldgs.	20	29	88	- 77	Value - \$ Mil.	384	387	214	+ 79
Offices	58	55	54	+ 7	Residential Permits - Thous.				
Stores	83	78	64	+ 30	Single-family units	7.7	7.6	4.0	+ 93
Hospitals	24	29	26	- 8	Multi-family units	6.8	7.0	3.7	+ 84
Schools	8	9	9	- 11	Total Building Permits				
					Value - \$ Mil.	815	811	616	+ 32
<b>FLORIDA</b>									
Nonresidential Building Permits - \$ Mil.									
Total Nonresidential	3,875	3,743	3,068	+ 26	Residential Building Permits				
Industrial Bldgs.	358	338	365	- 2	Value - \$ Mil.	6,693	6,334	3,947	+ 70
Offices	854	838	641	+ 33	Residential Permits - Thous.				
Stores	661	621	524	+ 26	Single-family units	92.3	89.0	50.5	+ 83
Hospitals	298	287	101	+195	Multi-family units	81.2	76.2	49.5	+ 64
Schools	52	52	17	+206	Total Building Permits				
					Value - \$ Mil.	10,568	10,077	7,015	+ 51
<b>GEORGIA</b>									
Nonresidential Building Permits - \$ Mil.									
Total Nonresidential	1,233	1,186	996	+ 24	Residential Building Permits				
Industrial Bldgs.	173	164	150	+ 15	Value - \$ Mil.	2,243	2,172	1,168	+ 92
Offices	373	342	223	+ 67	Residential Permits - Thous.				
Stores	132	123	100	+ 32	Single-family units	39.8	39.0	22.4	+ 78
Hospitals	26	25	23	+ 13	Multi-family units	23.3	22.3	11.0	+112
Schools	28	27	19	+ 47	Total Building Permits				
					Value - \$ Mil.	3,476	3,358	2,164	+ 61
<b>LOUISIANA</b>									
Nonresidential Building Permits - \$ Mil.									
Total Nonresidential	1,209	1,163	878	+ 38	Residential Building Permits				
Industrial Bldgs.	47	54	85	- 45	Value - \$ Mil.	1,009	976	604	+ 67
Offices	406	402	258	+ 57	Residential Permits - Thous.				
Stores	122	123	158	- 23	Single-family units	16.6	16.6	9.8	+ 69
Hospitals	78	54	28	+179	Multi-family units	14.4	13.7	8.1	+ 78
Schools	65	63	25	+160	Total Building Permits				
					Value - \$ Mil.	2,218	2,138	1,483	+ 50
<b>MISSISSIPPI</b>									
Nonresidential Building Permits - \$ Mil.									
Total Nonresidential	190	186	167	+ 14	Residential Building Permits				
Industrial Bldgs.	7	6	13	- 46	Value - \$ Mil.	288	260	154	+ 87
Offices	17	16	43	- 60	Residential Permits - Thous.				
Stores	38	37	38	0	Single-family units	4.7	4.5	3.1	+ 52
Hospitals	18	18	2	+800	Multi-family units	3.8	3.0	2.1	+ 81
Schools	8	8	1	+700	Total Building Permits				
					Value - \$ Mil.	478	445	321	+ 49
<b>TENNESSEE</b>									
Nonresidential Building Permits - \$ Mil.									
Total Nonresidential	742	752	674	+ 10	Residential Building Permits				
Industrial Bldgs.	61	56	36	+ 69	Value - \$ Mil.	933	898	395	+136
Offices	127	121	104	+ 22	Residential Permits - Thous.				
Stores	154	147	111	+ 39	Single-family units	13.2	12.9	6.6	+100
Hospitals	22	30	46	- 52	Multi-family units	14.2	14.1	6.2	+129
Schools	6	9	9	- 33	Total Building Permits				
					Value - \$ Mil.	1,675	1,650	1,069	+ 57

## 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

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. % CHG.		OCT 1983	SEPT (R) 1983	OCT 1982	ANN. % CHG.
<b>UNITED STATES</b>										
Personal Income (\$bil. - SAAR)	2Q	2,709.1	2,650.5	2,556.1	+ 6	Agriculture				
Taxable Sales - \$bil.		N.A.	N.A.	N.A.		Prices Rec'd by Farmers				
Plane Pass. Arr. 000's		N.A.	N.A.	N.A.		Index (1977=100)	136	136	128	+ 6
Petroleum Prod. (thous.)	OCT	8,670.0	8,680.1	8,657.5	+ 0	Broiler Placements (thous.)	73,681	77,027	73,277	+ 1
Consumer Price Index 1967=100		302.6	301.8	294.1	+ 3	Calf Prices (\$ per cwt.)	56.80	56.10	58.30	- 3
Kilowatt Hours - mils.	AUG	207.7	192.6	183.6	+13	Broiler Prices (¢ per lb.)	29.3	33.8	25.5	+15
						Soybean Prices (\$ per bu.)	8.32	8.28	5.06	+64
						Broiler Feed Cost (\$ per ton)	237	240	203	+17
<b>SOUTHEAST</b>										
Personal Income (\$bil. - SAAR)	2Q	326.8	319.5	306.4	+ 7	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Prices Rec'd by Farmers				
Plane Pass. Arr. 000's	AUG	4,282.6	4,310.2	4,100.7	+ 4	Index (1977=100)	120	123	120	0
Petroleum Prod. (thous.)	OCT	1,399.5	1,400.0	1,384.5	+ 1	Broiler Placements (thous.)	28,559	29,386	28,012	+ 2
Consumer Price Index 1967=100		N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	52.35	52.35	53.80	- 3
Kilowatt Hours - mils.	AUG	34.8	31.6	33.8	+ 3	Broiler Prices (¢ per lb.)	28.2	32.9	24.2	+16
						Soybean Prices (\$ per bu.)	8.34	8.43	5.20	+60
						Broiler Feed Cost (\$ per ton)	227	229	196	+16
<b>ALABAMA</b>										
Personal Income (\$bil. - SAAR)	2Q	36.2	35.5	33.9	+ 7	Agriculture				
Taxable Sales - \$ bil.	JUL	27.5	27.2	26.9	+ 2	Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	SEPT	105.8	115.9	96.1	+10	(Dates: JUL, JUL)	1,057	-	1,095	- 3
Petroleum Prod. (thous.)	OCT	52.0	52.0	54.0	- 4	Broiler Placements (thous.)	9,577	10,011	9,257	+ 3
Consumer Price Index 1967=100		N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	50.3	52.2	52.8	- 5
Kilowatt Hours - mils.	AUG	4.6	3.9	4.7	- 2	Broiler Prices (¢ per lb.)	29.0	30.5	23.5	+23
						Soybean Prices (\$ per bu.)	8.25	8.45	5.02	+64
						Broiler Feed Cost (\$ per ton)	240	240	215	+12
<b>FLORIDA</b>										
Personal Income (\$bil. - SAAR)	2Q	122.0	118.8	113.4	+ 8	Agriculture				
Taxable Sales - \$ bil.	OCT	72.1	71.4	66.6	+ 8	Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	AUG	2,039.2	2,083.1	2,019.5	+ 1	(Dates: JUL, JUL)	2,933	-	2,853	+ 3
Petroleum Prod. (thous.)	OCT	55.0	57.0	72.0	-24	Broiler Placements (thous.)	1,810	1,882	1,702	+ 6
Consumer Price Index - Miami Nov. 1977 = 100	SEPT	162.9	160.8	156.1	+ 4	Calf Prices (\$ per cwt.)	57.3	55.9	54.9	+ 4
Kilowatt Hours - mils.	AUG	9.9	8.9	9.2	+ 8	Broiler Prices (¢ per lb.)	28.0	34.0	23.5	+19
						Soybean Prices (\$ per bu.)	8.25	8.45	5.02	+64
						Broiler Feed Cost (\$ per ton)	255	250	205	+24
<b>GEORGIA</b>										
Personal Income (\$bil. - SAAR)	2Q	58.2	56.6	53.5	+ 9	Agriculture				
Taxable Sales - \$ bil.	2Q	40.4	39.9	38.8	+ 4	Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	SEPT	1,418.7	1,648.3	1,294.0	+10	(Dates: JUL, JUL)	1,408	-	1,486	- 5
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Broiler Placements (thous.)	11,490	11,719	11,412	+ 1
Consumer Price Index - Atlanta 1967 = 100	OCT	304.9	303.9	297.8	+ 2	Calf Prices (\$ per cwt.)	48.9	48.6	49.4	- 1
Kilowatt Hours - mils.	AUG	5.7	5.5	5.2	+10	Broiler Prices (¢ per lb.)	27.5	33.5	24.0	+15
						Soybean Prices (\$ per bu.)	8.36	7.82	5.13	+63
						Broiler Feed Cost (\$ per ton)	220	220	184	+20
<b>LOUISIANA</b>										
Personal Income (\$bil. - SAAR)	2Q	45.9	45.3	44.7	+ 3	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	SEPT	241.7	279.3	234.5	+ 3	(Dates: JUL, JUL)	615	-	690	-11
Petroleum Prod. (thous.)	OCT	1,207.0	1,207.0	1,166.0	+ 4	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Consumer Price Index 1967 = 100		N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	53.6	54.4	55.2	- 3
Kilowatt Hours - mils.	AUG	5.7	5.3	5.9	- 3	Broiler Prices (¢ per lb.)	29.0	35.0	26.0	+12
						Soybean Prices (\$ per bu.)	8.43	8.22	5.29	+59
						Broiler Feed Cost (\$ per ton)	290	280	245	+18
<b>MISSISSIPPI</b>										
Personal Income (\$bil. - SAAR)	2Q	20.8	20.4	19.8	+ 5	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	SEPT	32.1	38.4	29.1	+10	(Dates: JUL, JUL)	939	-	987	- 5
Petroleum Prod. (thous.)	OCT	85.5	84.0	92.5	- 8	Broiler Placements (thous.)	5,682	6,024	5,640	+ 1
Consumer Price Index 1967 = 100		N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	52.9	52.6	58.6	-10
Kilowatt Hours - mils.	AUG	2.5	2.3	2.4	+ 4	Broiler Prices (¢ per lb.)	28.5	35.0	25.5	+12
						Soybean Prices (\$ per bu.)	8.36	8.64	5.30	+58
						Broiler Feed Cost (\$ per ton)	195	210	180	+ 8
<b>TENNESSEE</b>										
Personal Income (\$bil. - SAAR)	2Q	43.7	42.9	41.1	+ 6	Agriculture				
Taxable Sales - \$ bil.	OCT	36.9	36.5	33.1	+11	Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	SEPT	146.5	161.5	140.8	+ 4	(Dates: JUL, JUL)	964	-	924	+ 4
Petroleum Prod. (thous.)	OCT	N.A.	N.A.	N.A.		Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Consumer Price Index 1967 = 100		N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	50.6	50.3	51.3	- 1
Kilowatt Hours - mils.	AUG	6.4	5.7	6.4	0	Broiler Prices (¢ per lb.)	26.0	31.5	23.5	+11
						Soybean Prices (\$ per bu.)	8.28	8.74	5.14	+61
						Broiler Feed Cost (\$ per ton)	225	215	171	+32

**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. R = revised.



# EMPLOYMENT

	SEPT 1983	AUG 1983	SEPT 1982	ANN. % CHG.		SEPT 1983	AUG 1983	SEPT 1982	ANN. % CHG.
<b>UNITED STATES</b>									
Civilian Labor Force - thous.	112,197	113,578	110,546	+ 1	Nonfarm Employment- thous.	90,833	89,599	89,562	+ 1
Total Employed - thous.	102,366	103,167	99,851	+ 3	Manufacturing	19,126	18,880	18,811	+ 2
Total Unemployed - thous.	9,830	10,411	10,695	- 8	Construction	4,293	4,304	4,109	+ 4
Unemployment Rate - % SA	9.3	9.5	10.2		Trade	20,627	20,684	20,501	+ 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	15,276	14,845	15,401	- 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	19,929	19,948	19,179	+ 4
Mfg. Avg. Wkly. Hours	40.7	40.2	38.9	+ 5	Fin., Ins., & Real Est.	5,490	5,548	5,355	+ 3
Mfg. Avg. Wkly. Earn. - \$	363	353	334	+ 9	Trans. Com. & Pub. Util.	5,065	4,356	5,102	- 1
<b>SOUTHEAST</b>									
Civilian Labor Force - thous.	14,710	14,686	14,407	+ 2	Nonfarm Employment- thous.	11,547	11,367	11,308	+ 2
Total Employed - thous.	13,350	13,279	12,976	+ 3	Manufacturing	2,202	2,183	2,158	+ 2
Total Unemployed - thous.	1,360	1,406	1,432	- 5	Construction	652	651	648	+ 1
Unemployment Rate - % SA	9.5	9.7	9.9		Trade	2,737	2,734	2,672	+ 2
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,152	2,057	2,110	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,297	2,290	2,231	+ 3
Mfg. Avg. Wkly. Hours	41.1	40.6	39.4	+ 4	Fin., Ins., & Real Est.	669	669	648	+ 3
Mfg. Avg. Wkly. Earn. - \$	318	310	294	+ 8	Trans. Com. & Pub. Util.	700	644	695	+ 1
<b>ALABAMA</b>									
Civilian Labor Force - thous.	1,740	1,746	1,732	+ 0	Nonfarm Employment- thous.	1,312	1,312	1,306	0
Total Employed - thous.	1,529	1,532	1,476	+ 4	Manufacturing	335	334	333	+ 1
Total Unemployed - thous.	212	214	257	-18	Construction	61	61	59	+ 3
Unemployment Rate - % SA	12.7	12.3	15.0		Trade	267	267	268	- 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	288	294	286	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	217	218	217	0
Mfg. Avg. Wkly. Hours	41.7	41.0	39.3	+ 6	Fin., Ins., & Real Est.	59	60	59	0
Mfg. Avg. Wkly. Earn. - \$	318	311	286	+11	Trans. Com. & Pub. Util.	71	65	68	+ 4
<b>FLORIDA</b>									
Civilian Labor Force - thous.	5,113	5,097	4,888	+ 5	Nonfarm Employment- thous.	3,883	3,787	3,707	+ 5
Total Employed - thous.	4,697	4,677	4,486	+ 5	Manufacturing	477	471	452	+ 6
Total Unemployed - thous.	416	419	402	+ 3	Construction	260	258	248	+ 5
Unemployment Rate - % SA	7.8	8.4	7.8		Trade	1,033	1,032	982	+ 5
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	642	590	617	+ 4
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	933	928	891	+ 5
Mfg. Avg. Wkly. Hours	40.2	40.4	39.7	+ 1	Fin., Ins., & Real Est.	295	294	279	+ 5
Mfg. Avg. Wkly. Earn. - \$	297	295	290	+ 2	Trans. Com. & Pub. Util.	234	205	229	+ 2
<b>GEORGIA</b>									
Civilian Labor Force - thous.	2,690	2,703	2,686	+ 0	Nonfarm Employment- thous.	2,267	2,237	2,208	+ 3
Total Employed - thous.	2,502	2,513	2,482	+ 1	Manufacturing	513	506	502	+ 2
Total Unemployed - thous.	188	191	204	- 8	Construction	108	108	105	+ 3
Unemployment Rate - % SA	7.2	6.9	7.7		Trade	540	540	524	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	434	422	430	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	396	396	377	+ 5
Mfg. Avg. Wkly. Hours	41.6	41.2	39.4	6	Fin., Ins., & Real Est.	122	121	117	+ 4
Mfg. Avg. Wkly. Earn. - \$	295	287	267	10	Trans. Com. & Pub. Util.	148	137	146	+ 1
<b>LOUISIANA</b>									
Civilian Labor Force - thous.	1,919	1,909	1,887	+ 2	Nonfarm Employment- thous.	1,586	1,573	1,606	- 1
Total Employed - thous.	1,698	1,676	1,676	+ 1	Manufacturing	193	192	202	- 4
Total Unemployed - thous.	221	233	211	+ 5	Construction	115	115	122	- 6
Unemployment Rate - % SA	11.9	12.5	11.5		Trade	367	367	369	- 1
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	309	302	305	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	308	306	305	+ 1
Mfg. Avg. Wkly. Hours	41.0	39.6	40.5	+ 1	Fin., Ins., & Real Est.	80	81	80	0
Mfg. Avg. Wkly. Earn. - \$	408	391	392	+ 4	Trans. Com. & Pub. Util.	124	119	129	- 4
<b>MISSISSIPPI</b>									
Civilian Labor Force - thous.	1,068	1,062	1,073	- 0	Nonfarm Employment- thous.	795	777	795	0
Total Employed - thous.	947	929	957	- 1	Manufacturing	207	205	203	+ 1
Total Unemployed - thous.	121	132	116	+ 4	Construction	39	40	42	- 7
Unemployment Rate - % SA	12.0	12.6	11.5		Trade	163	163	163	0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	181	168	180	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	123	120	123	0
Mfg. Avg. Wkly. Hours	40.8	40.5	38.6	+ 6	Fin., Ins., & Real Est.	33	33	33	0
Mfg. Avg. Wkly. Earn. - \$	276	270	249	+11	Trans. Com. & Pub. Util.	39	37	40	- 3
<b>TENNESSEE</b>									
Civilian Labor Force - thous.	2,180	2,169	2,141	+ 2	Nonfarm Employment- thous.	1,704	1,681	1,686	+ 1
Total Employed - thous.	1,977	1,952	1,899	+ 4	Manufacturing	477	475	466	+ 2
Total Unemployed - thous.	202	217	242	-17	Construction	69	69	72	- 4
Unemployment Rate - % SA	10.2	10.5	11.5		Trade	367	365	366	+ 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	298	281	292	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	320	322	318	+ 0
Mfg. Avg. Wkly. Hours	41.1	40.8	38.8	+ 6	Fin., Ins., & Real Est.	80	80	80	0
Mfg. Avg. Wkly. Earn. - \$	313	306	282	+11	Trans. Com. & Pub. Util.	84	81	83	+ 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.

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